



“Natco Pharma Limited  
Q1 FY2019 Earnings Conference Call”

August 09, 2018



**ANALYST: MR. DEEPAK MALIK - EDELWEISS SECURITIES LIMITED**

**MANAGEMENT: MR. RAJEEV NANNAPANENI – VICE CHAIRMAN &  
CHIEF EXECUTIVE OFFICER – NATCO PHARMA  
LIMITED  
MR. RAJESH CHEBIYAM – VICE PRESIDENT -  
ACQUISITIONS, INSTITUTIONAL INVESTOR  
MANAGEMENT AND CORPORATE COMMUNICATIONS –  
NATCO PHARMA LIMITED**



*Natco Pharma Limited  
August 09, 2018*

**Moderator:** Ladies and gentlemen good day and welcome to the Natco Pharma Limited Q1 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Deepak Malik from Edelweiss. Thank you and over to you Sir!

**Deepak Malik:** Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for the Natco Pharma’s Q1 FY2019 earnings call. Today we have with us the senior management of the Company represented by Mr. Rajeev Nannapaneni, Vice Chairman & CEO and Mr. Rajesh Chebiam, Vice President - Acquisitions, Institutional Investor Management and Corporate Communications. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

**Rajesh Chebiam:** Thank you Deepak. Again welcome everyone to Natco’s conference call discussing our earnings results for the first quarter of FY2019, which ended June 30, 2018. As a standard disclaimer during the call we may be making certain forward-looking statements, which are predictions, projections or statements about future events because forward-looking statements inherently involved risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements, so also stating 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.

Coming to the earnings details for the first quarter of FY2019 that ended on June 30, 2018 Natco had consolidated total revenue of 574 Crores as against 449 Crores for the last year same quarter reflecting a year-over-year growth of 28%. The net profit for the quarter on a consolidated basis was 181 Crores as against 94 Crores approximately last year same period showing a growth of 93%. During the quarter, we had strong sales driven through domestic business wherein we had good growth in oncology segment and the hep C portfolio sales stabilized from the prior quarter. Export business contribution from our generic products of Liposomal Doxorubicin and Lanthanum Carbonate remain strong. We are hopeful of continued growth of generic Glatiramer Acetate as well.

I will get on to the split for the segmental revenues for the quarter. From a revenue perspective for Q1 these are approximate numbers 67 Crores of API total out of that 61 Crores were exports. The domestic formulation total was 191 Crores, oncology 91 out of it,



*Natco Pharma Limited*  
*August 09, 2018*

non-oncology brand pharma is 74 Crores and third party miscellaneous is 24 Crores. On the export formulation front, we had a total of 236 Crores for the quarter wherein the profit sharing/service income portion was about 210 Crores. I will pause here for now. We will take questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

**Aditya Khemka:** Thanks for the opportunity. Rajesh Sir, just a couple for you, firstly on the US plant, how Mylan has slashed the list price and on yesterday's call Mylan said that he ramp up in market share is slower than what they had anticipated for Copaxone just wanted to know your thoughts on the same, please?

**Rajeev Nannapaneni:** I think lots of things are already in public domain. The slashing itself does not really have much impact as you know it is only gross to net adjustment, I do not think it has too much impact. The market share as you are aware in the mid 15%, 16%, starting 17% see our expectation is that it will improve over a period of time until we just had to be patient with these complex generics. I think our expectation is that it will improve over a period of time and we will be able to see good benefit of that in the next financial year. However, I think this will be important for us, but I think I like to give it a little more time and I think it should get better.

**Aditya Khemka:** Fair enough and in this quarter did we realize any profit share from Copaxone?

**Rajeev Nannapaneni:** Splits were not doing Aditya for comparative reasons we decided not to do a split especially for the big products. I think what I like to say is that we have an arrangement with Mylan and our profit share from Tamiflu from last year after adjustments have come through, I think those contributed the majority of the profit.

**Aditya Khemka:** Fair enough and lastly on Revlimid, so this Dr. Reddy's pursuing the IPR for the 2022 patent if I am not wrong, how do you see that playing out and how is your interest protected by your settlement with the innovator?

**Rajeev Nannapaneni:** I think we have already said this public domain. We had certain amendments to our hand that we needed to do so we have already done it. We have already filed those amendments recently. We are hopeful that we should get approval by in the next few months, hopefully by end of this financial year we get the approval, so it should be a good thing to have and regarding the outcome of court cases and all we will see I think it depends on how it goes,



*Natco Pharma Limited*  
*August 09, 2018*

but as I said in the past if somebody else launches then under certain circumstances I think we can also enter the market I think, we will open it when we had to face that event.

**Aditya Khemka:** That is it from me. If I have more questions I will get back in the queue.

**Moderator:** Thank you. We have a next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**S. Padmanabhan:** Thank you for taking my question. My question is around the domestic business, last year we have seen the hepatitis C franchisee drifting downwards, one is if you are looking at the business excluding this hepatitis C, how do we see the growth rate continuing and what is the outlook that you have for hepatitis C franchisee, if you can also give a bit more colour on the launches in the emerging markets, which we have?

**Rajeev Nannapaneni:** I think I have said this in the past that we are emphasizing a lot on emerging markets in India. I think we have publically announced quite a few launches that we have done in the last few months where we are first time generic in India. I you look on a Q-o-Q basis, I think last quarter our domestic was doing about 191 for this quarter, Q-o-Q last quarter we did about 160 Crores or so, so this is a significant improvement, so I think it is two things here, one is the hep C dip has stopped, which is very good news and we see our strong launch is contributing to this and especially the combination products soap plus Tesla Velpatasvir have done extremely well and even in the oncology segment we had some very good launches and in Posaconazole was one good launch we have had and overall I think I am very bullish about this portfolio, I think we should do very well and on the emerging market I have some good news, I think first time we got two approvals in Brazil for two of our oncology products of which one of them is first time generic in Brazil, so these two products should help us breakeven after a period of seven years I think first time breakeven. Our expectations that we will break it definitely in the December quarter, so the Brazil and sub was giving us a cash loss or including R&D of about 25 Crores a year, so that will be stopped and that is another good news that we have had and on emerging markets we have started a subsidiary in Philippines and as I said in the past I think these countries is what India, Brazil, Canada, and ROW is what is going to drive our earnings and I think we are investing in assets in frontend and R&D in these markets.

**S. Padmanabhan:** As far as the US market is concerned we have seen lower than expected sales, I probably not giving exact number, but has there been any kind of delay in booking profits with the partners or has there been higher than expected price erosion if you can give some colour on that?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** I think see what we have done my friend; we are very conservative when we book our numbers. I do not like to book a number again take a charge back on it, I think we always book money on accrual basis. I do not like to book on sale, I think we are probably different from most people that is one difference. Second is in the profit shares that we got in the last flu season we have not booked all of it in June because there are some adjustments that are there. Substantial portion of profit is still there, which we are going to book in the subsequent quarter not in this quarter that is one of the reasons why slower, so which means that Q2 will be very good as well, generally Q2 tends to be pretty lean for us because it is not in flu season, it is right in the middle so it tends to be lean, but it will not be lean because of the fact that some of the profit has been deferred into the next quarter because of those adjustment issues. I still believe and I know for sure that we have done very well and I think the benefit of that would be shown in the next quarter. I think you have just been conservative because we just wanted to understand the extend of the chargeback and now I think we have a grip on what the number is so I mean conservative on book less in this quarter, but I think whatever residual is there we will book it in the subsequent quarter.

**S. Padmanabhan:** Thanks a lot. I will join back in queue.

**Moderator:** Thank you. We have a next question from the line of Rashmi from Anand Rathi Securities. Please go ahead.

**Rashmi:** Thanks for taking my question, just wanted to know related to other income it seems to be very high this quarter does it include any one off or anything else?

**Rajeev Nannapaneni:** I will read through other income, about 20 Crores came from export benefits and service income that is a recurring item there is nothing unexpected there and about other income also we had about 35.7 Crores of which 14 Crores or 15 Crores came up from the foreign exchange fluctuation, both receivable on March 31, 2018 and if you restate those receivables as on June there is a 14 Crores difference, I think that was one component and about 20 Crores has come from the cash deposits that we have had as an interest income.

**Rashmi:** Sir, do you maintain your guidance of sales 2400 Crores to 2450 Crores or you want to change it that after the Q1?

**Rajeev Nannapaneni:** Now I have changed that thing, I think guidance is based on what we believe the business is going to be and as of today I think we are okay with the guidance and as I said I have added two caveats to it, I think we want a market share of Copaxone to improve by end of the year and I am also hoping that the Tamiflu will have a significant collapse and I have estimated a certain amount of estimated collapse whatever we made our estimated collapse of about



*Natco Pharma Limited  
August 09, 2018*

70% to 80% of what we have meant, so if those pan out I think those numbers seem okay so those are two caveats I would like to add to the guidance.

**Rashmi:** And lastly can you just give a split on hepatitis C business during the quarter what was the total sales and how much it came from domestic and export?

**Rajeev Nannapaneni:** Rajesh will do that.

**Rajesh Chebiyam:** Rashmi for the quarter on the domestic brand sale we had 69 Crores, third party we had roughly about 9 Crores, export was about 4 Crores.

**Rashmi:** Thanks. That is it from my side.

**Moderator:** Thank you. We have a next question from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.

**Vishal Manchanda:** Thanks for taking my question. On Nexavar, just wanted to understand if you have settled the litigation there and can we expect a launch in FY2020?

**Rajeev Nannapaneni:** It is a tricky question what you asked. I will answer the easy part. We have settled it. We actually have launched it, which is already in the agreement, so that is a good news.

**Vishal Manchanda:** Just wanted the launch date, what is launch date is?

**Rajeev Nannapaneni:** No, that is a tricky question. We are not supposed to reveal the launch date. It is not anytime it is somewhere in the distant future, the date will reveal not at this time it was borne by confidentiality they did not want us to reveal the launch date.

**Vishal Manchanda:** But it is after FY2020 or it is in FY2020?

**Rajeev Nannapaneni:** My friend do not trap me that, I will be evaluating the agreement, so we will tell you when we have to, so I think this is borne by confidentiality that we honour our confidentiality. Two things I will confirm we have a launch date, date certain launch, two the matter is settled.

**Vishal Manchanda:** With this quarter had substantial contribution from Tamiflu suspension or it was negligible?

**Rajeev Nannapaneni:** I said I do not want to comment on the contribution, it has an impact yes, it is from both capsules and dispersions.



*Natco Pharma Limited*  
*August 09, 2018*

- Vishal Manchanda:** But is it fair to say the larger contribution came from Copaxone during the quarter?
- Rajeev Nannapaneni:** My friend, I cannot answer that question, I said during the year these two will be dragging the earnings I have told you that.
- Vishal Manchanda:** Thank you.
- Moderator:** Thank you Sir. We have a next question from the line of Prakash Agarwal from Axis Capital Limited. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity and good morning to all. First question on the India business so cardio metabolic the initiatives that we have taken in terms of adding more products, so where are we and what is the target we are looking for two to three-year perspective?
- Rajeev Nannapaneni:** I think the portfolio should do well. I think we have been very aggressive in the portfolio. We have some very good launches lined up. I think right now the run rate of the portfolio is about 50 to 60 lakhs a month, so it is not a large meaningful number as of today. We took an aggressive position of one particular product called Ticagrelor, I think you have probably read that in the news, so we want to launch and we got injuncted, our hearing is ongoing, so we have not launched it because of the injunction. We are hoping we will get a positive verdict this year, but again these were the court order, so we are hoping that we will get that close shortly, so I think three of us have been injuncted on this Natco, Micro and Dr. Reddy's. These are all there in the public domain so the hearing is ongoing. If that comes through I think cardio should do very well because that is a huge product. This is only the innovator and innovator's authorized generics in the market so I think 150 to 170 Crores market so that is one is there, so products like this we have quite a few ideas, I think we will plan it as time goes by.
- Prakash Agarwal:** Any target you have in mind for the next three years?
- Rajeev Nannapaneni:** I think it will be substantial now. I think I have given a general target for the domestic portfolio, I think what we feel is that this portfolio should grow around 15% to 20% every year on the base that we have.
- Prakash Agarwal:** And Brazil you said you had two approvals during the quarter, so where are we in terms of dollar, million currently and three years target and would it include products like Vidaza, Dacogen and your Copaxone for future?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** We were working on different products. I do not want to give away the pipeline at this time. We were working on different products, so I think from the portfolio that we have. We anticipate that the Brazil upside will probably take about in the next one-and-a-half to two years, my expectation on Brazil was strongly contribute to our topline and bottomline. As of now it losing money I think first things first, I think breakeven starting from December quarter, I think that is the feeling I have based on the two launches that we have and we also have some good products in the pipeline, which we are anticipating approval, so if those come through then I think we should see a substantial jump in earnings, but it will take couple of years in my view at least one-and-a-half to two years.

**Prakash Agarwal:** What is size today?

**Rajeev Nannapaneni:** Size right now I think quarterly run rate of that I think it is about 8 Crores a quarter.

**Prakash Agarwal:** And one can expect substantial jump in that?

**Rajeev Nannapaneni:** Yes, we will see a substantial jump and I think we had a onetime write-off there, so but having said that I think as I said the cash loss will be arrested and I think we will be in the money starting from the December quarter I think that is our expectation.

**Prakash Agarwal:** Understood and lastly on the US, what is the R&D run rate we are doing and what is the kind of filing we are doing for the quarter full year and what kind of approvals we are expecting?

**Rajeev Nannapaneni:** I think once we have spoken about I think R&D spend as per balance sheet is about 7%, 7.5% we are still target to be between 6% and 8% Prakash, so that does not change. So about 7.5% it was the last year number and in terms of US launches I think two, three we have spoken about in the past. I think Bosentan is one, I think we have tad date shortly I think do not hold me to it, but I think shortly in the next two, three months subjected to FDA approving us. We have a tad also on Imatinib, so that also I think is around in the September-October region both of them are in that, but tad does not mean that we will get an approval, but that is the tad that we have subject to us answering all the questions and FDA being satisfied, so those are the two launches that we have in the US right now, we have to launch this.

**Prakash Agarwal:** In the filing, we did any filing for the quarter and what is the filing target for the year?

**Rajeev Nannapaneni:** The filing target remains around 7 to 8 my friend, I do not think we are targeting more than that. I think we will try and look at more complex generics and interesting products. We





*Natco Pharma Limited  
August 09, 2018*

hear something good, I think hopefully we have targeted some FTFs, so I think hopefully if we are FTF and then we are through I think we will probably make some announcements based on obviously hitting the goals, but we are targeting at least two, three FTFs this year.

**Prakash Agarwal:** Thanks and all the best.

**Moderator:** Thank you very much Sir. We have a next question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

**Sriram Rathi:** Thanks for taking my question. Just one question this is on the profit sharing you mentioned that some part has been deferred is it possible to give some kind of indication is it substantial or more than 50 Crores or less than that something like that?

**Rajeev Nannapaneni:** Could you say that question again, I did not catch it?

**Sriram Rathi:** Specifically, the profit sharing amount you mentioned that some part has been deferred because of the conservative policy, so just want to get an idea?

**Rajeev Nannapaneni:** No, I do not want to say any number, you will hear it in the Q2 numbers, I will not say anything right now. As I said earlier, it will be a good number. I think we should be able to do well that is all I can say.

**Sriram Rathi:** Sure. Thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Thanks for taking my question. Rajeev, on FY2020 is there anymore we obviously did speak about it in the last call, but is there anymore colour that you can help us in terms of FY2020, what is the FY2019 can play out or if there are any incremental developments that happened since last few months?

**Rajeev Nannapaneni:** I think FY2020 going quite far, I think we will have more clarity on FY2020 by end of this year, but I think the things that we were working on which I believe, which we need to deliver in FY2020 is that Brazil has turnaround substantially, domestic has to do very well and these two on the emerging part portfolio, these two markets will definitely be driver earnings for sure and the third part is Copaxone should do well I think we will give it a little more time and I think as you know Tamiflu benefit that we had we lost it for this financial, but we would not carry into 2020 so Copaxone has to take the flak, so I think that is also



*Natco Pharma Limited*  
*August 09, 2018*

important how Copaxone does, but I know right now it has done alright, but it could have done much better, but I think we still have time because we have the buffer of earnings and other products that we have, but I think Copaxone has to pickup flak in FY2020 I think that will be very important for us for the next year, but we still have another nine months.

**Nitin Agarwal:** On the domestic business, what do you see driving the domestic business because the CND business still reasonably small right for us to create a meaningful delta or do you think it is going to scale up so much over the period of time?

**Rajeev Nannapaneni:** It is like this I gave an example of Ticagrelor for example, we got injuncted obviously certain portion we got injuncted, but if we got the launch for example and would have been one of the two generics on 150 Crores, 170 Crores brand if you are cutting the price for the innovator by half or even more than that and you went to the market you will easily gain a very good share, so we are looking at opportunities like this and I have given an example of one that we did not succeed, but like everything lies you have to try different things, sometimes it works, sometimes it does not, so these are the type of opportunities we are looking at and Ticagrelor is not the only one we are looking at, so the other things that we are looking at other segments so I think we have enough ammunitions to speak, so you have to go ahead and see how it goes, but competitive reasons obviously I am not going to say what products you are going to do because obviously you are going to tell that and obviously you do not open up your strategy.

**Nitin Agarwal:** On the subsidiary business, barring Brazil or there are any other subsidiaries, which will scale up meaningfully over the next year-and-a-half?

**Rajeev Nannapaneni:** I think Canada as well, I think Canada last year did about 50 million Canadian so that has also made money last year, so that has done very well last year, so my anticipation is Canada guys are expecting will get about 20 to 25 million this year as well based on new launches that we have had, so I think Canada is also looking good. Between Canada and Brazil, I think Brazil will be more about breaking even this year rather than to make substantial profit in Brazil. Actually we should see good amount of profit from Brazil in the next financial year I think that is our expectation.

**Nitin Agarwal:** Thank you and best of luck.

**Moderator:** Thank you Sir. We have a next question from the line of Shrikant Akolkar from IIFL. Please go ahead.



*Natco Pharma Limited*  
*August 09, 2018*

**Shrikant Akolkar:** Good morning. I had this question on over the last conference call you had said that Copaxone would remain an annuity product so does that guidance remains?

**Rajeev Nannapaneni:** What product, I did not catch what you said?

**Shrikant Akolkar:** Copaxone.

**Rajeev Nannapaneni:** I am sorry; I did not catch what you said?

**Shrikant Akolkar:** In the last quarter conference call you had said that Copaxone will remain an annuity product for you even despite the competition now when Mylan has cut the prices does that guidance remains?

**Rajeev Nannapaneni:** No, it is an annuity product by any sense. I am not taking those words back. What I am trying to say is that the scale that we expected has not come what I was trying to say. The gentlemen was asking me for FY2020 what is that you have, so what I was trying to tell him was that Copaxone has to improve so that earnings will look good in FY2020, but I also told him that it is taking time, but we have time and that hopefully by next year we were able to get substantial market share, I am not questioning the annuity model of Copaxone, what I am saying is that the scale has to happen where we get, if you want higher profit then obviously it has to improve I think we cannot be at 15%.

**Shrikant Akolkar:** And after the Mylan price cut, what is the likely market share that you and Mylan are expecting going again?

**Rajeev Nannapaneni:** Good question, I have no idea, I think we have been struggling, we have been trying, but as I said we have time, I think we have other things that have worked for us, so fortunately I think we have had time to go through the growing things, critically I think what I believe is that it should get better over a period of time and I think hopefully if we give it some more time I think my view is that we give it few more months and as long as it catches up and improves by next year, I think we are in good shape that is all we can say.

**Shrikant Akolkar:** Alright and just last question, how do you see the US market because you are already of opinion that there is a lot of pressure in US and we are reading from the commentary of some pharma Company that the pricing pressure in US is likely to bottom out soon, so what is your comment on that?

**Rajeev Nannapaneni:** My personal view is US is a very difficult market even today, I mean even if you say the pricing pressure is bottoming out it does not offer a significant upside, I think unless we



*Natco Pharma Limited*  
*August 09, 2018*

have something special or unique, I have said this in the past is that unless you have unique generic or limited competitions is generic it is very difficult to make money in the US that is first part. The second part is that I think all of us have done this for many years. I think essentially if you look at the India pharma model has been that we do great domestic brand and is to a US generic business and this is what drove or drives even now 70% to 80% of every balance sheet. At some level I think you need to sort of relook at that model, I think how you want to do the allocation of resources and in a way look at the model because this has worked for nearly 17 to 18 years I am not disputing that it has not worked and people have not done well, but I think you need to tweak it slightly. In my mind I believe you have to tweak it slightly and you have to do US I am not saying you should not do US it is still the most important market in the generic spaces, but you need to have other things that you are working on, which are equally important, which are out of US geography as well that is the retweak that I would believe needs to be. In my mind I already worked it out in my head I think this is how the businesses is going to be. You have to do US, but you should not overdue US like the way all others have done it even including myself, I am not saying that I am somehow different from others, but I have done the same thing too, but I am saying even in my mind I think we should probably be a little bit away from the US and we focus next more on the ROW and at the same time do some US where you think there is value.

**Shrikant Akolkar:** Thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Gagan Thareja from Kotak Investment. Please go ahead.

**Gagan Thareja:** Good morning. First question related to Copaxone, what do you think is behind the slower than anticipated ramp up in Copaxone and what do you foresee as the competitive scenario in Copaxone in FY2020?

**Rajeev Nannapaneni:** What is the reason, I think Mylan is for a lot of things familiar, it is available in public domain, I do not want to add anything to that, but just I said I think we are hopeful it will get better. I think our expectations that by next year we should do well. I said I am not worried about the fact that it is not taken off as of now because we have the basket of other products that are doing well, but having said that I think it is very critical for us that it gets better and then we give it time, I think we are still in June numbers right now. I think in the next nine months if it improves I will be very happy. I would just like to give it sometime and see how it goes and also sort of reinforces that even though we are doing a complex generic getting market share is not easy I think let us be honest about it. The conversion is not like the way it happens in a regular generic thing like in tad the conversion rates are much easier and faster.



*Natco Pharma Limited*  
*August 09, 2018*

**Gagan Thareja:** Does your optimism for FY2020 on Copaxone sort of predicate on a certain competitive scenario or as a base case?

**Rajeev Nannapaneni:** I am not talking about competition my friend. I think even standalone also there know, there is not much market share that we have taken. I think we have the first more advantage and I think we are doing well considering the situation. I am still very bullish about it. I think let us not underestimate the value of the aspect of Copaxone, I think it is still for a Company of our sight is still a substantial aspect and the only question how value we will do. I think that is the only question we need to ask ourselves. I think we cannot take away the value that it generates and I think it is a great asset in the complex generic and we have to stay for some time and it is not easy for a new competitor to come in and take market share we are seeing that also, so still I am very optimistic and I am still extremely optimistic, but as I said you know we have to wait so let us see how it goes, but I am still very positively optimistic.

**Gagan Thareja:** The second question in the domestic market what sort of sales post headcount ramp up would you require for fructifying the domestic sales growth ramp up that you have in mind and secondly what sort of fallout do you see from the insurance policy that the government is planning to implement towards October or November this year over a three year or a five-year timeframe?

**Rajeev Nannapaneni:** In India you are saying?

**Gagan Thareja:** Yes, in India.

**Rajeev Nannapaneni:** In terms of the specialty portfolio that we have are sufficient. I do not do GPs or Gynecs or any mass products, which requires me to cover like 10000 or 15000 doctors, all the people that we cover are specialty doctors, so our team force that we have about 300 to 350 people is more than sufficient for the portfolio that we have, so I am not worried about the foot on the ground. Second question that you have on the insurance, look at the insurance I am not very convinced that we will have much impact in our portfolio because insurance is essentially very similar to what lot of the richer southern states have had already for many years like for example state of Andhra Pradesh and Telangana had this program for almost a decade I would say even less than a decade obviously, but for a very longtime and I think a lot of it revolves around hospital reimbursement and low value drug reimbursement not for the portfolio that we have, so I do not think that insurance policy will have much impact on the portfolio that Natco have.

**Gagan Thareja:** Thanks.



*Natco Pharma Limited*  
*August 09, 2018*

**Moderator:** Thank you Sir. We have a next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

**Charulata Gaidhani:** My question pertains to the Hep-C portfolio, what is the type of growth that you anticipate from herein and are you limiting Hep-C only to India or is there a possibility of scaling us?

**Rajeev Nannapaneni:** We have filed in other countries. I think we are anticipating approvals in Philippines and Indonesia, they are the big ones that we are anticipating approvals for. Other than that I think India going to drive most of the earning. I think as of now the numbers are stable. I think that is the best way to put it I mean how the year is going be, I do not know, but I think the way we look at it numbers have stabilized now. I think the dip that you have seen has stopped and now the numbers have settled around the numbers that we have spoken about in Q1.

**Charulata Gaidhani:** But why did this dip happen mainly?

**Rajeev Nannapaneni:** I think dip has happened because of intense price competition and that is what it is and also we are seeing earlier there were entrants, now the entrants have sort of stabilized now, so every generic goes through that spell. I think the best way I can characterize that is like when you enter into a market... when you are first you get very good market share and it ramps up very dramatically suddenly there are about 10 to 15 guys who come and then cracks the market and then suddenly your sale kind of plateaus or dips slightly or drops slightly, which is what happened here as well and eventually what happens is all the other marginal guys leave because they finally realize that there is no money to be made, the top two, three who are there in segment remain and then the brands stabilizes after that. So I think what we have seen is the ramp up and the dip, now I think we are going through the stabilization stage.

**Charulata Gaidhani:** So from next quarter should we see some upside then because I think...?

**Rajeev Nannapaneni:** I do not want to say anything that I will have to take my words back, we will see and I am telling you the way it is. It has dropped so far, now it has gotten better, now we think it will stabilize, now we will see how year plans out, I do not want to say anything, because I do not have an answer for that question, we will see.

**Charulata Gaidhani:** Okay. Fine, thanks.

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



*Natco Pharma Limited*  
*August 09, 2018*

**Kunal Randeria:** So, listening to Mylan yesterday they have seen a bit frustrated with the US Healthcare System and this Copaxone is probably the casualty of this opaqueness in the American Healthcare System, so what are the levers in place that Mylan has to increase the market share besides the price and where you think this price erosion will finally settle?

**Rajeev Nannapaneni:** I do not know honestly. I do not have answer to all your questions, I think broadly what happens is I do not want to get into like what Mylan is saying because it is not appropriate for me to get into. I think the importance of VAT and net is what you are talking about. I think what happens in the US is VAT price tends to be one number and net price tends to be another number, so VAT could be 100, but net could be 50 or 30 or 20 meaning there is a chargeback that people give and insurance companies reimburse as a percentage of VAT. So what Mylan has done is they have dropped the VAT price so that they can put pressure on the reimbursement that is they are trying to do and what Mylan is trying to say is there is an element of layering because of the difference between the VAT price and net price, but see now these are all I do not want to get into whether what it means and all that, but this is what he is saying and this is what they did so I think that is the best way to conclude that point.

**Kunal Randeria:** Because they also said something like despite their product being priced much lower, they are not getting the kind of orders, so that is why they are?

**Rajeev Nannapaneni:** I do not want to get into that debate, I think they have already said enough about it. I told you what the issue is. I think there is a VAT and there is a net price and I think there is a certain amount of layering that is there and you get reimbursed on a certain percentage of VAT and that is how it is.

**Kunal Randeria:** My second question is on Tracleer what is the kind of competition you expect and have you taken a Tracleer launch in your FY2019 guidance?

**Rajeev Nannapaneni:** I have taken it as for approval, but I do not know how much money we will make because I do not what to say anything on it because everybody knows in public domain there are about 8 to 10 approvals so 8 to 10 filers, we have a tag shortly that is there, I am no denying that we do not have a tag, but we should get the approval and we should also hope for that nobody else gets an approval and we have a first mode advantage, I mean those are all very kind expectations to build in, so let us see, I think what we need to look for is two things my friend. I think we should for our approval and hope and pray that no one else is also there, I think our limited amount of competition then maybe we can do something with it. So it is tied up with Lupin, so marketing part for this is Lupin, so let us see, let us get the approval and then we will talk about it.



*Natco Pharma Limited  
August 09, 2018*

**Kunal Randeria:** And lastly what are your plans of commercializing some of your complex products like Copaxone or Doxil in rest of the world market?

**Rajeev Nannapaneni:** I will speak about that. I think we are looking to file Doxil in other markets. We will talk about it shortly. We have done some clinical trial. We will make announcement on that separately. So we are looking at other market as well, yes that is correct.

**Kunal Randeria:** Thanks for taking my questions.

**Moderator:** Thank you Sir. We have a next question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

**Mitul Mehta:** My question to you is your onco portfolio just wanted to know Y-o-Y growth in your onco portfolio and your Hep-C as you have indicated that it seem to have stabilized, but can we estimate some sort of growth in Hep-C or it will move as the way it is and Sir, on your US business, just wanted to get some sense on the doxorubicin as far as market share goes and what is your outlook on that product, is it going to be like a two, three year opportunity or a multiyear opportunity for us as far as doxorubicin goes, just to get some sense on the cash flow?

**Rajeev Nannapaneni:** I think I will start with the Doxil, so Doxil is doing well my friend. I think I do not have the IMS numbers on how much market share we have, but it has been a strong annuity on that product. It is doing well and I am very happy with what we have done with the product, so I think we are extremely happy and it is contributing to significant part of our profit. So that answers Doxil. What is the other one that you said about what was that, oncology year-on-year numbers? I think let me see if I have the numbers. The last year of course it was more of a flattish. We had a 5% growth on the oncology Mitul, but historically we have had around 25% growth for oncology, so this year I think we should do about 15% to 20% that is our expectation, but as of now the first quarter has opened quite well, so I think we are doing well.

**Mitul Mehta:** And Hep-C?

**Rajeev Nannapaneni:** Hep-C, as the lady asked the question, I do not know, it has been such a yo-yo product I mean it ran up very dramatically and then it corrected quite a bit and now it has come back to a certain level now so we will see, I am taking it as it goes.

**Mitul Mehta:** And other question on the Nexavar opportunity obviously you indicated that you have settled it, so is this going to be a REMS product for us just in terms of what is the market





*Natco Pharma Limited  
August 09, 2018*

size because REMS somewhere I was reading it is \$190 million and somewhere it says \$450 million, so if you can just?

**Rajeev Nannapaneni:** I think if I do not want to be quoted, I think just look up their balance sheet, I think it is between the 350 to 450 level I think somewhere in that range.

**Mitul Mehta:** And who is the partner with us for Nexavar?

**Rajeev Nannapaneni:** Mylan.

**Mitul Mehta:** Sir, as far as the suspension of Oseltamivir goes are we Tamiflu, I mean are we going to get something out of it, this season or will be like?

**Rajeev Nannapaneni:** Yes, we will get to the extent of what we get will depend on the competition and how the flu is.

**Mitul Mehta:** Right, great and just in terms of capex are we more or less...?

**Rajeev Nannapaneni:** We are doing well. I think we have planned about Rs. 400 Crores capex this year, we have spent about 100 Crores this quarter.

**Mitul Mehta:** So balance 300 will happen in the remaining?

**Rajeev Nannapaneni:** Yes.

**Mitul Mehta:** And any inspections that is awaited by the US FDA for any of our plant in ensuing quarters?

**Rajeev Nannapaneni:** As of now I am not aware of any.

**Mitul Mehta:** Great. Thank you and all the best.

**Moderator:** Thank you Sir. We have a next question from the line of Sameer Shah from Value Quest. Please go ahead.

**Sameer Shah:** So, what is the cash balance that you have on the balance sheet as of now?

**Rajeev Nannapaneni:** As of June 30, 2018, we have total cash balance of 1434 Crores including bonds, shares, deposits, financial institutions everything together 1434 Crores.



*Natco Pharma Limited*  
*August 09, 2018*

**Sameer Shah:** And how are you planning to utilize because on Copaxone and Tamiflu this year also will be generating good cash flows?

**Rajeev Nannapaneni:** And total debt we have is about including foreign bill discounting is 67 Crores and somehow it is advances also, so what we are going to do with the money, I think we are going to spend some on capex, but most of it will be left in the fixed deposit portfolio.

**Sameer Shah:** But how do we plan to use it because that is not generating any yield as of now for us and cash flow will continue for us, so what is our plan eventually, how do we plan to utilize it?

**Rajeev Nannapaneni:** I think we are taking some very interesting bets on some products, I think we will probably use it over a period of time. If you ask me right now will I spend all this money, no I am not spending this money.

**Sameer Shah:** Any particular geography with US you say is not a very lucrative market and India also does not need any much of spends?

**Rajeev Nannapaneni:** It depends on what you are doing know, it is not like, if you are doing like small incremental stuff you do not need, but we have some interesting ideas, which will require substantial capex, but the capex most part will be funded with the cash flow that we have maybe we have to differ a little bit in the cash, but most of the deposits will have target and I think just because you have cash you do not do hierarchy you just do not want to go and buy someone for whatever it is worth, so you do when the timing is right, so I think for now if we do not have a smart idea it is better to leave it like that, I think that is my opinion and I think you do not do subpar investment just because you have the ability to do it.

**Sameer Shah:** Are we looking at Europe or something on that geography?

**Rajeev Nannapaneni:** No, my friend. I am still more to know about ROW and some in US.

**Sameer Shah:** Sir, Copaxone there was some Atoris launch, so what is the status it is still on Atoris launch?

**Rajeev Nannapaneni:** There is a risk in there, but our agreement with Mylan covers and limits our damage, but there is a certain risk is there that is correct.

**Sameer Shah:** When will you get clarity that the risk is off?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** By the end of the year. The appeal is pending right now so once the appeal verdict is through then we will have clarity on that.

**Sameer Shah:** Thank you.

**Moderator:** Thank you. We have a next question from the line of Ranvir Singh from Systematix Shares & Stocks Limited. Please go ahead.

**Ranvir Singh:** Thanks for taking my question. First related to Brazil, in Brazil how is our marketing regiment, we are marketing directly or we have some partners there?

**Rajeev Nannapaneni:** We are marketing directly especially the tenders we are going to do, hospital tenders we are going to do directly and branded I think we are going to do license indeed, but the two aspects to Brazil I think that is the hospital tender and the branded generic space, so the hospital tenders we are going to do it ourself I think that is the understanding.

**Ranvir Singh:** Secondly on gross margin you see despite this quarter receiving lesser profit share, gross margin has been intact, so just wanted to understand this equation what actually contributing there because subsequent quarter then again we will have a bit of profit coming in some third party sale, so do we expect this gross margin to improve or how it works?

**Rajeev Nannapaneni:** Gross margin is based on two things my friend. I think gross margin is based on the product mix that we have that is one. The second part is sometimes we stock material so then the gross margin drops because we are not looking the profit on the raw material like we had would have one quarter let us say it is 100 Crores what is the raw material to our partner with very low margin, but sale accrued on that is not booked, the sale accrued is booked in the subsequent quarter. If you look at it on a yearly basis to take away, we should not look at it on a quarter-on-quarter basis.

**Ranvir Singh:** So, on yearly basis can you give some indication what kind of gross margin we should expect?

**Rajeev Nannapaneni:** I think we have given guidance for that number, I think we will stick to the same guidance that is what it hands up and similar margins that we had like last year. Gross margin changes based on the price erosion as well. If the price erosion is greater than what your anticipation is then obviously the gross margin will drop dramatically so use that as a base and was forward and backward based on how the market is.

**Ranvir Singh:** Fine. That is it from my side. Thank you.



*Natco Pharma Limited*  
*August 09, 2018*

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

**Nimish Mehta:** Thanks for taking questions. Rajeev just a clarification your optimism in Copaxone is based on the fact that you are not taking more competition that is one and second will we see price erosion or we still expect price erosion not to happen in market shares going up, so just wanted to understand?

**Rajeev Nannapaneni:** The issue is not price erosion Nimish. I think Mylan also said that issue is not that of price erosion. We are offering lesser price and I think the issue is the conversion that is what we need an improvement on it. It is not the question of price, the issue of conversion, so I think what I said was that with time if the conversion gets better then we should see some good values what you are saying and while the gentlemen asked me what I told him was we are giving it sometime, so I think hopefully by next financial year we are able to see significant conversion, which will help us with our earnings in 2020.

**Nimish Mehta:** I mean that you expect more competition coming in?

**Rajeev Nannapaneni:** Again I am reading what you are reading, so it is a tough one to get competition anyway even if competition comes getting conversion also is not easy as we have seen that pan out.

**Nimish Mehta:** One last thing out of curiosity we launch this Pomalidomide and Carfilzomib in the domestic market so are not you constraint by any patent and these will not take clinical trials and I am trying to understand could be the competitive landscape?

**Rajeev Nannapaneni:** See my friend, Pomalidomide and Carfilzomib are generics, so they do not need clinical trial, we need to do bio trials.

**Nimish Mehta:** They do not enjoy any patent production in India?

**Rajeev Nannapaneni:** I understand does not have too many. Now you hold me to it I cannot answer that question. Pomalidomide I do not think there are any patents on top of my head, I stand to be corrected it if I go into it, but I do not think there are any patents of Pomalidomide, Carfilzomib has a patent, but I think we have challenged it and we are running the product.

**Nimish Mehta:** So, anybody who wants to launch will also have to go through the challenge right it is my fair understanding?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** So far we have not been injuncted on Carfilzomib, there is a granted patent on Carfilzomib we have challenged it so far we have not been injuncted.

**Nimish Mehta:** Thanks.

**Moderator:** Thank you Sir. We have a next question from the line of Dilish Daniel from Geojit Financial. Please go ahead.

**Dilish Daniel:** Thanks for the opportunity. Sir, what about the status of Revlimid because since we have the patent in Frenchman so what was the competition is there any chance that we will be launching it earlier than 2022?

**Rajeev Nannapaneni:** Settled it. I think just to refresh you we have settled the product. We have a launch date in March 2022 for limited quantity so we are expecting approval as I said in the beginning of the call hopefully by end of this financial year and about others we will see I think if others come in and some of the clauses will kick in, but we will see how the others do, but our launch date is fixed.

**Dilish Daniel:** Thank you, Sir.

**Moderator:** Thank you Sir. We have a next question from the line of C Srihari from PCS Securities. Please go ahead.

**C Srihari:** Thanks for the opportunity. You have indicated that you expect gains in market share for Copaxone in FY2020, I would like to know if you have penciled in any significant price correction and secondly on the staff cost except for Q4 where it is around 110 Crores it has been in a range so is there any ballpark figure that you can work with and finally was there any impact of the China factors for the raw materials are concerned? Thank you.

**Rajeev Nannapaneni:** I think Copaxone already answered the question. I think what our expectation was. To answer your question on the HR angle I think Q4 had a bonus and ESOP expense so I think that is why the Q4 to Q1 there is a difference in the wages have dropped because we gave a onetime bonus for the employees because we had a good year. In terms of wages going forward I think there has been 15% to 20% increase in HR cost because we have recruited people and general increments that we gave to our employee, it should remain stable as far as our expectation and you have one more question, I think I have missed it.

**C Srihari:** China factor?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** Relatively I think China factor hit the industry very hard. I think it has been less reported and less understood, but especially on some of the products there has been a dramatic increase in raw material price, which has affected the earnings. Fortunately for our portfolio we had impact of one or two raw material supplies, but overall on our portfolio the impact has been less.

**C Srihari:** So, just to reiterate for Copaxone you do not expect a significant price correction in FY2020?

**Rajeev Nannapaneni:** I said it is not about price correction, I answered that question when the other gentlemen asked. It is the question of conversion right, so I think we will see, you are asking me about something that is going to happen in 2020, which is not, if you ask me today I cannot predict what is going to happen in 2020, all I can do is give you what my expectation is in 2020, I think we are hopeful that we will do well. I think that is our expectation. Now, you are asking what is the price erosion that here is, what is the market share that here would be I mean our expectation is that we will get good market share and we get a good price, but however, I think time will tell, that is the best way to answer this question.

**C Srihari:** You do not expect a significant price correction? Thank you.

**Rajeev Nannapaneni:** We will leave it as that.

**Moderator:** Thank you Sir. We have the last question from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.

**Vishal Manchanda:** Thanks for the opportunity. On Copaxone wanted to understand Sandoz is selling the generic version and brand while you are not, so is it that Sandoz has some differences from Teva's Copaxone and that is why they sell under a brand or they would have different reasons for doing?

**Rajeev Nannapaneni:** No, Mylan also has a brand name on it.

**Vishal Manchanda:** So, why it is selling it under a brand name? Does that impact the subsidiary benefit?

**Rajeev Nannapaneni:** No, it does not. It is the generic substitution. It is the way of selling the product, I think Mylan also has a brand. We also have a brand.

**Vishal Manchanda:** So does that lend more sustainability to the business is that the reason?



*Natco Pharma Limited*  
*August 09, 2018*

**Rajeev Nannapaneni:** Possibly I think we believe that, there is some element of promotion involved in it so that is why there is certain stickiness to the business, yes.

**Vishal Manchanda:** Any other reason?

**Rajeev Nannapaneni:** No, that is the best way to explain that.

**Vishal Manchanda:** And on the conversion aspect just wanted to understand is it that since the federal appeal court rolling is pending payers might be going slow on the conversion in case the federal court ruling goes against they would have to reconvert patients to Copaxone?

**Rajeev Nannapaneni:** I do not think so.

**Vishal Manchanda:** Thank you.

**Moderator:** Thank you very much Sir. Sir, we do not have further question that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir!

**Rajeev Nannapaneni:** Thank you very much. Again, thanks for all your questions and we will upload a presentation with the segmental breakdown as well by end of the day. Any questions related to this call, please feel free to reach out to us. Thank you very much.

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