



“Natco Pharma Limited
Q2 FY2019 Earnings Conference Call”

November 06, 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**



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Moderator: Ladies and gentlemen good day and welcome to the Natco Pharma Q2 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to you Mr. Malik!

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

Rajesh Chebiyam: Thank you Deepak and wish you all a very Happy Diwali festival and welcome to Natco’s conference call discussing our earnings for the second quarter of FY2019, which ended September 30, 2018.

As a standard disclaimer, I would like to state that 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 imply by such forward-looking statements. Let me also state 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.

Regarding the earnings details for the second quarter of FY2019 that ended September 30, 2018, Natco had a consolidated total revenue of 583.5 Crores as against 432.2 Crores for the same period last year, this reflecting a growth of 35%. The net profit for the period on a consolidated basis was 181.6 Crores as against 84.4 Crores same period last year showing a growth of 115%. The formulations business continues to be stable and strong both domestic and export front.

We will pause here and will take your questions in terms of split and other details.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.



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Prakash Agarwal: Thanks for the opportunity and congratulation on good set of numbers. Just trying to under the quarter better, so last quarter we had mentioned that there has been some delay in recognizing Tamiflu profit share, is margins holding up are better because of that or it is also function of Copaxone market share increase and would Copaxone sales would have been better versus last quarter? Thank you.

Rajeev Nannapaneni: I think the margin is partly reflected, some of it is reflecting some of the delays recognition of the Tamiflu profit of the last flu season that answers your first part of your question. In terms of the base offtake for this coming flu season it is too early my friend. I think we have stocked all the quantities. I think the flu has not taken off as yet and I think we have to keep in mind that it is not be as good as last year because last year the flu was very intense and less competition last year. This year I think we should see more competition, but again the extent of the flu season cannot be judged, I think we will have more clarity about this flu season may be in the next quarter earnings.

Prakash Agarwal: Sir comment on Copaxone sales would that have improved quarter-on-quarter both in terms of pricing and volumes?

Rajeev Nannapaneni: We are doing steady and we are doing well. I do not want to do a split, but we were doing well. I would say that it is there in the public domain. I think the market share has increased a bit, it has gone from 15% to nearly 20%, so which is good, I think it took a while, it took almost a year to reach that stage, but I like what we are seeing, I think things are getting better and I think the same momentum is kept up, I think we should able to see good value in the coming quarters.

Prakash Agarwal: Lastly any thought on revising the guidance, we are half way through and we have Tamiflu?

Rajeev Nannapaneni: No, I do not want to change anything on the guidance Prakash, I think we are stick to what we have said in the past and again I have also said it depends on how the flu this year is going to be. I have assumed a very conservative flu numbers, but the actual number we will know in the next few months, but I am not changing the guidance.

Prakash Agarwal: Okay, sure. Thanks and all the best. I will join back the queue.

Moderator: Thank you. The next question is from the line of Ravi Dharamshi from Value Quest. Please go ahead.

Ravi Dharamshi: My question is regarding the buyback, I just wanted to understand what is the thought process and we did a QIP when we were anticipating Copaxone cash flows to come through and we



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wanted to secure our balance sheet and everything, but now we have done for 250 Crores kind of a buyback seems a little large, why do we want to return the funds to shareholder and also just for clarification his promoter group planning to participate in the buyback?

Rajeev Nannapaneni: I think what I want to tell you is that compare to the surplus that we have budgeted I think surplus is larger than we have thought and I think as of September 30, the total cash sits in our books right now is about 1365 Crores and we have about 221 Crores of debt that includes bill discounting, so we are in a better cash situation that we originally budgeted, I think some of the surplus has been returned back and my idea of keeping the cash for future R&D and for any acquisition in the future remains and it is only a way of just returning some of the surplus that is how I look at it.

Ravi Dharamshi: Okay, I mean we should look at as a dearth of opportunities to invest for the future?

Rajeev Nannapaneni: I do not think so, otherwise it is a very modest number also, I would believe 250 Crores sort of a cash holding of 1365 Crores is a reasonable return back, but at the same time it is covered by it is more or less the surplus that we are generating in our operations, I do not think it has to be looked at that we are giving back cash because we do not see any opportunity, I do not think I would like to interpret it that way.

Ravi Dharamshi: Right and just one more question on Copaxone, Mylan in its concall recently mentioned that they were hitting 25% and 30% kind of market share also in the incremental, so is that something that you concur, what is your data point suggesting and if you can throw some light on why is Momenta Sandoz not able to gain any kind of market share?

Rajeev Nannapaneni: I do not know what they are doing my friend, but I do not want to answer about them. I think we are doing well, I think Mylan cut prices very aggressively. Finally they are seeing some traction, I think we are happy that it is moved, I think it was stuck at that number for a long very time, I think the quantity that we are selling of the product reflects the market share that we have, so I am happy and I am hoping that they can improve their market share further and I think we will see a benefit of that next year.

Ravi Dharamshi: Great. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.

Ashish Rathi: Rajeev, just wanted to checked on the oncology basis in India as to how we are clocking that, last time I think you were indicating that we were going through a lot of launches and niche



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products formula in our pipeline coming into our books after launching them on our side and an aspiration number of around 800 odd Crores in the next three, four years to be possible let us say 350 odd Crores in FY2018, where are we tracking this?

Rajeev Nannapaneni: I think we have publicly announced in a press release where we stated the sales of domestic, I think we did 193 Crores last quarter, so we are in that 800 Crores range. I think on the split I think Rajesh has a data.

Rajesh Chebiyam: So Ashish the specific split is oncology we did about Rs.97 Crores for the quarter and 79 Crores on the non-onco brand Pharma, which is predominantly Hep C brand and we are just shy of Rs.2 Crores on the C&D and the third party miscellaneous we had about 17 Crores, which kind of totals approximately to 194 Crores for the domestic formulations.

Ashish Rathi: I am sorry I do not think my question has been across clearly, my question is not in context of quarter at all. I am asking for a more longer-term outlook on the oncology business for the company where we are at about 350 Crores?

Rajeev Nannapaneni: We were very happy. I think we have had a very good growth. I think compared to last year this whole portfolio I think will grow about 15% to 20% this year, so I think it looks good and it has a run rate of about, as Rajesh was saying it had a run rate of 96 Crores last year, so annualized it is doing more than 400 Crores, so they are very solid, strong business, highly profitable business and with the portfolio that we have and the pipeline that we have I think the portfolio should do much better I think, it is growing at a 15% to 20%.

Ashish Rathi: You have 30 odd products right now correct?

Rajeev Nannapaneni: Correct, yes.

Ashish Rathi: What is the kind of launch pipeline, three years out from here how many products would be we targeting at as a portfolio?

Rajeev Nannapaneni: I think as we said that in the beginning of the year, I think we targeting about 12 to 15 unique launch the year, I think we are on target on that.

Ashish Rathi: The portfolio we have is it like backward integrated for us or do we actually source it from third party manufactures for oncology?

Rajeev Nannapaneni: Certain products we do it ourselves and certain products we go for third party, it depends on the molecule and the situation.



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Ashish Rathi: And when you say third party you also source formulations or it is probably the API and the formulation completely made ourselves?

Rajeev Nannapaneni: Sometimes, mostly we would like to do it ourselves, but sometimes like Laurus is a very good partner of ours, so there we source API from their, so it depends on the product, it is depends on the opportunity and the product. If our supplier is able to put us in the first day of launches we go with supplier. If we think that we can be first then we will do it ourselves.

Ashish Rathi: And last bit to understand the market share, which we would have to say in the India oncology market?

Rajeev Nannapaneni: It is very tricky honestly because it is a very poorly captured data oncology, I can only say it anecdotally we would believe, I am making an educated guess, I think we will probably have about 15% market share of the rupee amount in the market about 15%.

Ashish Rathi: Thank you so much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Thanks for taking my question. Rajesh, firstly if you can provide the split for this quarter in terms of revenue?

Rajeev Nannapaneni: You want the split of the quarter. It is in the press release my friend, just look it upon on the website, is there already, but I think Rajesh will run through it quickly.

Rajesh Chebiam: Sriram, so it is in our press release actually we gave the breakup this time and the domestic formulation total was about 194 Crores for the quarter. The exports including profit sharing is about 248 Crores. API total domestic plus exports 67 Crores then the other operating, other income everything includes is about 54 Crores, subsidiary revenue of 221 Crores giving approximate numbers over here.

Sriram Rathi: Okay, got it and are you disclosing the profit share for the quarter?

Rajeev Nannapaneni: We are not doing the split my friend, we are doing export income as export plus sales of export we showing it as, so we are not doing the split of the profit share, so the combined number is what I just gave it, it is 248.



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Sriram Rathi: Okay, got it and secondly when you mentioned that you are keeping the cash for the future R&D and potential acquisition, so in terms of R&D if you can update further, what are the plans in all because I believe that for the US you mentioned earlier that for investments we will not increase significantly from here on?

Rajeev Nannapaneni: I think we are doing well. I think we have good set of pipeline. I think we are increasing the run rate, I think the next 12 months you will about 10 to 12 filings, we are very confident we will able to do. I am hoping we will get at least two or three sole FTF type of products but again as and when we get them we will probably share that information with you guys, but I think I am very bullish. I think the way I am looking at this business is US, the competitive portfolio there is no money to be made, do the niche, hard to do generics, there is good money to be made, do those and focus on the RoW and our own sub business, I think that is the way you look at the world and as I said in the past India and US used to be key part of our business, we added Brazil and Canada, I think now we will look into add China, so we are trying to keep in my way, the way I look at it is, if we do in India, US, China, Brazil and Canada I think pretty much covering I think 75% to 80% of the value of business today. The only market as you are probably missing out is Western Europe, but as a strategy we decided not to do in Western Europe, so I think covering all the key place.

Sriram Rathi: Okay, got it. In terms of potential acquisition which market on Indian emerging market is what we are targeting?

Rajeev Nannapaneni: All the companies are after sale as of today in the market, but the way I look at it is there is no value trying to buy front end US generic business, because I do not think this is the great value, this is my personal opinion I know something whom I defer with what I say I do not think this is much value, I think it is better to invest your money in building a niche interesting than actually to spend your money on it. I am not very bullish on US generic for acquisition personally.

Sriram Rathi: Lastly on the Revlimid we are expecting tentative approval by end of this year?

Rajeev Nannapaneni: We have tad in this financial year, but again we do not know if you get more queries it might get dragged, but as of today we have tad in this financial year.

Sriram Rathi: Thank you so much.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.



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Ashi Anand: Thank you for the opportunity. I know you are probably answer this in the past concalls, just on Copaxone just wanted your understanding, now it is almost a year, what were the kind of reasons that market share yields were slower than expected and would this actually act as an entry barrier on ability first to protect market share when your competition does come in, so therefore would it be a longer kind of we will have a longer tail in terms of our profitability or do we believe that as competition comes we will also to deal with market share?

Rajeev Nannapaneni: I think the way I look at it is I have exactly opposite view. It is a very unusual business. We are giving very good discount. I do not think the price is an issue at all, I would believe that our discounts are much better than TEVA. I think that is my understanding. The discounts as good as we can get. The challenge is the way the reimbursement is done. I think there are incentives for people who have higher gross price and our gross price, because the incentive structure in the US market that is what is inhibiting our ability to get higher market share; however, I think Mylan has done a very good job in spite of all the difficulties. We have gone past, what I understand about 20% market share. It is fairly good number and I think my sense is that we are doing well. I am hoping that it will improve over a period of time and that will help contribute next year, but I am not too worried. If the question was if a new generic coming in will that change the way we are doing things? I do not think even a new generic comes in I think price is not an issue at all, I think this is actually playing the contrarian. I think it is not a price issue, it is more about trying to get market share from TEVA. I think that is the bigger challenge.

Ashi Anand: And essentially TEVA is free to give incentive gain very strongly? TEVA has really played the incentive gain very strongly and that is what we are seeing?

Rajeev Nannapaneni: That is what my understanding, I think from what my interaction with Mylan. This is my understanding. As I said we are contrarian I am saying. Most times when the new generic comes in, there is pressure on the existing generics you know what I mean that you all have revised prices, but here what is happening is the exact opposite. I think even though we are giving a lower price, but innovator continues to whole market share, because the where we incentives are structured in US.

Ashi Anand: Just to understand this aspect a bit better, how possible it is for us as a generic player to actually go in at an incentive gain rather than discount pricing we really do the best in terms of getting incentive structure right, is that an option for us as a company for us or for Mylan or is an innovator really better place to play that can?

Rajeev Nannapaneni: I am not as knowledgeable to answer that question. I think in this question is better directed at Mylan. From what I understand again I do not want to say something, I do not know enough



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about, generally innovator's gross prices seems to be higher than our gross price, and I think this is incentive people get for having a higher gross price, but again I do not want delve into it, because I do not know about it, this question is better directed at Mylan.

Ashi Anand: Thanks Sir. That was very helpful. Secondly on Hep C, how has growth been in this quarter and what is the outlook as and last quarter we mentioned that has bottomed out, so what is really outlook on this?

Rajesh Chebiyam: Broadly as we said last quarter as well we see a stable numbers from Hep C. The last Q4, Q1 and sequentially now Q2 in fact we have slightly better numbers for Q2 for Hep C. Our brand itself is roughly around Rs.74 Crores compared to about Rs.69 Crores in the prior quarter. So we have seen that level of stability. We expect this to go on like this for now.

Ashi Anand: Just ask one quick last question. On Revlimid, I just wanted to confirm do you have exclusivity with the Revlimid?

Rajeev Nannapaneni: We are first to file. I do not want to answer the question especially, but we are obviously getting approval in 30 months; however, we have a settlement date which allows us to enter early, so I think the best way to address that question.

Ashi Anand: Excellent.

Moderator: Thank you. The next question is from the line of Roshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Roshan Padmanabhan: Thank you for taking my question. Sir, my question is around probably the next six months and probably the next couple of years, as we move towards higher base, I mean the second half even Copaxone was starting in at the higher base and also the other Tamiflu being higher base in the previous year, what are the kind of milestones or what are the kind of triggers that you see probably which can drive earnings, because second half is where we actually saw J-curve in terms of numbers and second is can you also talk a bit more about the US business with respect to the erosion and with respect to the competitiveness and probably our strategy because you did mention a lot about emerging markets, so how are we looking allocating resources and time probably moving more resources towards the emerging markets and what kind of benefits do we see, what is the timeline that we see from here?

Rajeev Nannapaneni: I think the way I look at the future is and you should understand two things that we had a good flu season last year, so I think we should probably see a decline in the flu earnings and Glatiramer I think as the market share keeps increasing, we should able to see good future



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with time. I have been a strong advocate for the last couple of years that we should move away from trying to put so many resources in the US actually focus more on emerging markets. So I think as of now as what we are publicly stated our subsidiaries are doing about, if include subsidiary revenue and our domestic sales, it is about little less than Rs.220 Crores, I want this number to go up to a larger number. I want this number to about let us say Rs.300 Crores, Rs.350 Crores in the next few quarters, so that whatever decline if you see in the US is getting offset by these markets and I am investing a lot of my money in Brazil, Canada and India in terms of biostudies and launch strategy. This is where we are putting our money and we continue to put money in the US, but only for the niche hard to do generics where I think we have an early advantage entry or there is a complexity otherwise I am not very keen on doing many ANDAs in US. I believe that doing commodity ANDA once in a while you could get lucky with a shortage, but it is a horrible business I do not think there is much money left in the US. Again this is my personal view, I think a lot of you might disagree but this is how I look at it.

Roshan Padmanabhan: And with respect to hepatitis C launches in the other markets and other emerging markets, do you see that in a way that can actually contribute and kind of address some kind of the base effect which would probably play out in the next couple of quarters or so?

Rajeev Nannapaneni: Not really I think Hep C is only one part of the thing, among the portfolio we had Hep C represents only one aspect of our portfolio. I think and more bullish on the other products of the ANDA. For example I am very bullish on our oncology pipeline or MS pipeline in Brazil and I am very bullish on our oncology pipeline in Canada, I am very bullish on our oncology and cardiology pipeline in India, so we are trying to diversify our portfolio, we have good resource base now, so we are spending money on R&D in these markets, so we are trying to diversify therapeutic areas, but just to go back to your question, we are probably spending 60% to 70% of our money on the emerging markets and India and may be spending about 30% of our money in the US earlier I think the ratio was probably the other way round. We are probably spending 70% of our money in US and 30% on the other way round, but we have invested in these.

Roshan Padmanabhan: Just a little bit more on the US market say two years earlier FY2015 or FY2016, the kind of market that we have seen is we see a lot of Indian companies as well as in the US are making fair amount of ROEs even the guys who do not have a very strong or big emerging market focus, so now if you are looking at across the board, there are a fair amount of return ratios have come off, it is not specifically for Natco as such, but what I am trying to understand is do you think that it can still go to about plus 20% return ratio or do you think something that can never happen and probably even if it improves it can go move something around mid teens going forward. So is there a change?



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Rajeev Nannapaneni: It depends on the strategy. It is unfair to say how much money we will make it. It all depends on your strategy. I think my sense is that you will have higher return ratio to be continue to do a niche hard to do portfolio. We try to do more commodified portfolio then we are going to have a very low ROE, so even once in a while to bring out a nice smart product, but you have another ten dogs with you in the portfolio, you are not going to make much money overall, so my view is focus on the niche and your ROEs will continue to be good, if you what you call do more commodified portfolio and most of your filing end up being commodities and I think ROEs will be low. I will go onto the next person. Thanks.

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

Ranveer Singh: Thanks for taking my question. Related to Copaxone, I can understand the Sandoz for some reason is not getting their market share, but what I wanted to say despite this increase in market share, on revenue front it does not seem that proportionately that has increased, so my assessment is am I right in my assessment or do you see revenue is actually going up because you are giving combined number, so difficult to understand which part has actually done well, so can you help me to understand?

Rajeev Nannapaneni: We are not supposed I think as far as confidentiality and for competitive reasons we are not explaining. I think I have answered that questions indirectly, what we have said the price erosion has been fairly good and I think we have gained more market share and the benefit of that I think we will see over a period of time that is the best way I can answer that question.

Ranveer Singh: Okay, fine and on product side what I see that for Gleevec can you give me any status where we are in?

Rajeev Nannapaneni: We have a tad in this financial year. We are expecting approval, for Gleevec in Europe we have already launched, in Canada, we have already launched, US is the only that is pending, but even if we get an approval, I am not very bullish honestly. I do not think it will be an item which will make a significant amount of revenue, which will make much of a difference even if I know we are pending our approval I would like to have the approvals, but if you want me to make an earnings projection on it I would say that it does not much to be made on that.

Ranveer Singh: Okay and similarly on Bosentan is the drug cleared?

Rajeev Nannapaneni: Bosentan is over, provided because it was first day of launch, but again we have a tad in this financial year, but if we are getting dragged because of the ramp, so we will see honestly, we



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get a first day of launch then we might get lucky, but otherwise I am not very bullish on Bosentan either.

Ranveer Singh: Okay, on domestic front also in Hep C I see that things are getting stabilized, so reason is that competition has now stabilized or only our share we have been able to maintain it or you see that volume of take has actually increased, so what actually is playing out?

Rajeev Nannapaneni: Volume offtake has been stable. I think the pricing is stable. I think the business has settled down and I think that is my personal view.

Ranveer Singh: Going forward this level will sustain or see even higher or some uptick there?

Rajeev Nannapaneni: I do not think it will change. I think it will sustain. I think that is the sense I have. I think consistently for the last three quarters we have been stable so I think giving us a hint that I think going forward as well as I think our sales guys are saying it will be stable. That is my understanding.

Ranveer Singh: Okay fine. That is it from my side.

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

Kunal Randeria: Good morning. My first question on this cardio-diabetes division so our monthly run rate has been around Rs.50 lakhs-Rs.60 lakhs for quite sometime now so I just want to understand what is happening here, are we stuck with litigation in key products so we are unable to launch products or not getting enough traction in exiting ones?

Rajeev Nannapaneni: Kunal, I think I will answer that question. Basically what is happening is that I am looking for couple of being jackpot launches, which would take this Rs.50 lakhs, Rs.4 Crores – Rs.5 Crores a month and one we have publicly stated we tried to launch there is a product called Ticagrelor where there were no generic except for innovator and Sun who is the authorized innovator. The market for that if I do not room with exact numbers are fairly large market I think 150 to 200 Crores. I do not remember the numbers, but something in that range, but unfortunately regarding injunction, so court order we have been reserved. The courts has reserved the judgment on that in October so we are expecting a verdict on January so if any movement has to happen on that is probably one product we need to have clarity on so we hopefully will get some clarity by January and we are working on another two-three ideas, which could generate that sort of sales. I think will hear about it when we launch. We do not do model where we launched what everybody has I think we will try to launch something



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unique. So when we tried launch something unique the challenge here there is also risk of either the approval has to come, the second risk is the legal risk because you are probably challenging a party, so I think these are the reasons why I think we have not had a great show on those numbers but I am very optimistic. I think pipeline list good I think something should work, I think 2019 will see a nice pop, I think my personal view I think have few ideas, but I think something will happen in 2019.

Kunal Randeria: That is good to know and secondly just want to get your thoughts on China so lot of companies now speaking of entering China so just wanted to know your thoughts how easy or tough it is to enter over there, and is there a entry barrier and do we as a company enter with some of our bigger products like Copaxone or Doxil and is it easier to replicate those US or EU dossier in China?

Rajeev Nannapaneni: I think my understanding, Kunal and I again only time will tell again I am cautiously optimistic and I do not want to say overtly optimistic. What China has done is what I understand is introduced new rule that you have an approval in western country, they will fast track your Doxil to file that in China so I think if you look at portfolio of companies who has approved in western markets like the US, Indian companies obviously probably forefront in the numbers of approval in the US and China obviously is a very good market and has a great opportunity. So I think idea here is that if you file this on the fast track basis I think will get some break through. We have few filing pending and the intent to file product so we are bullish but I will said it is cautiously optimistic because this new rule change but if you get a hit in China, you get pretty nice numbers. I think there is no doubt like that if we get one product to succeed I think the sale numbers would be as good as good US launch or as a solid India branded launch. The question is the portfolio that you are filing will that achieve? Again as I said we are cautiously optimistic, but again we have to see proof of the pudding is meeting as say so I think next two years, but we are working on it I think we are bullish and we are working on it.

Kunal Randeria: If I again squeeze one more Sir Copaxone is my understanding okay that lot of the contracts that are up for renewal now and the new contracts will be effective January 1, 2019?

Rajeev Nannapaneni: I think whatever I was told yes I think some contracts are up for renewal by end of this year and will probably hear something next year, but I think again this question better directed at Mylan and it will be unfair to answer that question. This is what my understanding is. As I said for the purpose of the NATCO I think as the market is keeping increasingly I think we should see good value in our earnings next year.

Kunal Randeria: Thanks for taking my question.



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

Nimish Mehta: Thanks for taking the question. A lot of my questions have been answered. Rajeev, a couple of question in the overall strategy, you mentioned that Brazil is where you are investing quite heavily, but if we look at other companies experience in Brazil, a few have actually dedicated few decades, including the largest company like TEVA but none of them has been able to really make an impact on their own expense also it is very hard to get talked at so what is that we are doing so differently in Brazil so that we are pretty hopeful about good scale up there?

Rajeev Nannapaneni: Good question Nimish. There are two things I have done differently. I think I have struggled in the last five to six years. I will be the first one to admit. I think we have not done any great shake for the last five to six years. We have done two to three good things, one is I have new partner in our business. He was a partner of Mr. Arun Kumar of Strides so they sold that and you are familiar. This gentleman comes to Alsamar Almeida, Mr. Arun Kumar's partner in Strides, the business they sold to Mylan once and to Aspen in the past, so I think it is a great guy and one benefit and that is one reason why I am very bullish about it and he has made some changes in our strategy and we have unique portfolio, it was not for the lack of the portfolio I think we have two unique approvals in this financial year that we are launching. I think the value of our Brazil pipeline is probably in 2019, I think I am very bullish I think we have a couple of, as I said two to three products where we will be the first generic and the only generic in the market. I think we should do well, but with the benefit of that we will see in 2019 I think what my bullishness is driven by two reasons, one we have good local partner, two because of pipeline.

Nimish Mehta: This product pipeline that you are referring to will be branded pipeline or it will be generic pipeline?

Rajesh Chebiyam: I say branded generic pipeline.

Nimish Mehta: Branded generic so the way we have in India?

Rajeev Nannapaneni: To a certain market most of the like for the oncology and all it is mostly tender business.

Nimish Mehta: Similarly on the India business as well you have been mentioning that we are going to launch about 15 to 18 niche launches quite a big number at the same time so basically you are not looking at weaker launches, but even in India we see number of potential niche is launches coming down because of the patents and also now with clamp down on combination product and stuff like that so is it fair to assume that most of the products that we will launch will end



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up in second litigations in India because that is only the way I see you are launching new products I mean niche product?

Rajeev Nannapaneni: I will correct. See combination issues never bothered as because it never did any of these combinations. Our portfolio is always so unique that never had to go through this combination route. If you want niche, there is only two ways to achieve niche, one is you have to go after the packet or you do something so technologically unique that you will be the first generic, I see only I think the way you can succeed, the way I look at India is at least Natco's DNA and I think this is the way we can succeed so do something so unique that nobody has a product or do go after the packing. I think that is the only way and I have reiterated again I think that is the way forward. Otherwise I do not think you will get good additional launches. Again it is my strategy but other people do differently again I do respect to them but this is how I think we should grow.

Nimish Mehta: Okay but so far we only seen more of taking litigation related launches in India, but it is fair to assume that now you will see more of this extremely technologically advanced products which may not invoke to any patent litigations? Is it right to assume?

Rajeev Nannapaneni: That is what I am saying. Let me reiterate again either you have a technology product where the patent is not an issue, it is more of an issue of technology or you go after the packet that the only way you go forward I think the way look at it is that is how we think which we go forward.

Nimish Mehta: Thank you very much.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir just to like understand if any of the products having CGT designation for US modeling?

Rajeev Nannapaneni: I do not know what that means, can you explain what CGT I mean?

Tushar Manudhane: Comprehensive generic terms so basically marketing exclusivity for the products?

Rajeev Nannapaneni: Yes that recently you are talking about that MKR products are in approval where there is fast track is what are you talking about?

Tushar Manudhane: In addition to fast track, there can be some exclusivity because there is no generic players there?



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Rajeev Nannapaneni: I think there was product, I think Carmustine approval recently that is one you are talking about. Amneal got an approval on that product. Do we have such a product, which can get that designation? No. We are focusing on different set of niches, but not particularly those.

Tushar Manudhane: Understood and just coming back to China market potential so what that this regulatory hurdle of course that was one of the major hurdle to CGT but is there any other hurdles to tap this market as such?

Rajeev Nannapaneni: I think this fast tracking word is getting everybody excited honestly I think it is not only per Natco. I think even other companies are taking about this, you are probably aware of this. The fast tracking of products for companies who have approvals in western world particularly the US so I think as I said I am cautiously optimistic. I think I have not received an approval yet so I do not want to say that I made this much money and so on and so forth, but we are very optimistic, yes.

Tushar Manudhane: But the penetration of the execution side is then relatively easier or they also is like to get into through a local partner?

Rajeev Nannapaneni: Like my Chinese for China is to go out for local partner and not to do it myself.

Tushar Manudhane: Thank you Sir.

Moderator: Thank you. The next question is from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.

Krishnendu Saha: Thanks for taking my question. Just a couple observations for Indian portfolio. We have around 420 reps and we are doing largely \$20 million or Rs.70 million to Rs.22 million a year per reps whereas industry sometimes goes from \$8 to \$7 to \$9 whatever so like we have high revenue per reps, I think to that we are expanding our portfolio to an extent we are going to diabetes and CVS and we are adding 20 odd products, so I must trying to understand with the concentrated portfolio right now time these things put together could you pass some comment us through or where we see us ourselves because we are pretty high runrate per MRs right now?

Rajeev Nannapaneni: Where do we see? I am not able to understand your question my friend. You said two things one is that our rep per yield is much higher that is correct. I think hep C, oncology reps do earn much more than your average see like our average earning per month of our reps about Rs.25 lakhs to Rs.30 lakhs person in oncology and hepatitis C portfolio, but oncology is fairly is normal and I think we make only Rs.50000 or Rs.60000 per month, but always is growing



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business. What is your question? Are you saying the sale is higher? Yes, the sale is high. What is your question? I am not able to understand. Can you repeat?

Krishnendu Saha: It is a question and understanding also so as we go ahead let us put in this way, a lot of companies do have a runrate of 8, 9, 10 numbers that is good number, but as we go diversify more to say diabetes, CVS, and so and so forth...

Rajeev Nannapaneni: Will the yield per come down, is that the question like the average yield per man will come down?

Krishnendu Saha: Do we see that yield coming down and adding to that what extra do we add, do we add besides CVSs and diabetes do we add CNS or ophthalmology anything, can throw some light on this?

Rajeev Nannapaneni: I think you have to understand one thing, Rs.25 lakhs to Rs.30 lakhs is an extraordinary number, it cannot be achieved in every segment. I think that has to be clearly understood. Normally in our business Rs.6 lakhs to Rs.7 lakhs per man is considered to be very good. Is your question is that will be able to achieve Rs.25 lakhs in every other new segment that we are entering part, no absolutely not that is not possible. I will be very happy for let us say cardiology guy earns about Rs.5 lakhs, Rs.6 lakhs, Rs.7 lakhs per person I think we have done a very good job. Okay not two businesses are strictly comparable. I think is that answer your question. I think is that answered your question.

Krishnendu Saha: Yes than if I can say ask how many more reps do we expect say in two to three years to be added?

Rajeev Nannapaneni: As of now we are comfortable what we have. We have about 300 odd reps. I do not think about 400. It is about 300 reps and fairly comfortable is the number. With the portfolio that we have, we are comfortable with this rep.

Krishnendu Saha: On question of the US say couple of years down the line one or two years down the line do we think of establishing ourselves as the front not acquiring any means by ourselves or whatever means? Do we have?

Rajeev Nannapaneni: Our own front end ambitions. I think yes. I would believe. We have not pulled the trigger on it. It is always on our mind, I think. I get asked this question in the previous calls as well. The question is have I pulled the trigger on not yet. I have not, but yes, it is something that we think about as well. Yes absolutely we are thinking strongly about it, but I think we have not made the call as of today. In Canada and Brazil and all we have decided to go our front end, but US for historical reasons I have done partnership.



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Krishnendu Saha: Suppose two years down the line we decide to go so low, do we get those molecules, which are with Mylan?

Rajeev Nannapaneni: No we will not get back. What is Sion we have to honor. I think only for the newer portfolio you have to go by yourself. For the older portfolio you have to honor the contract.

Krishnendu Saha: Specific question with Revlimid if Dr. Reddy was the case what logic can we play out? Do we still launch or we will be launching on the same day how does it happen? Any scenario?

Rajeev Nannapaneni: I think I have answered this question in the past. I think if another litigant whoever enters the market early enough under certain circumstances we get to enter with that generic. Otherwise our launch date as of March 2022, but however it can be accelerated provided another generic enters the market early under certain circumstances. I think that is the position that we have taken in the past. I am not reiterating anything.

Krishnendu Saha: Just one last question on your R&D capability and your science capabilities have you ever looked at things like check points, because PDL1 or something like that? Just asking out of curiosity more so?

Rajeev Nannapaneni: You mean like biotech drugs and all.

Krishnendu Saha: Yes.

Rajeev Nannapaneni: As biotech I have not looked at biotech. We still focus on chemistry price, but not looked at biotech.

Krishnendu Saha: Thank you very much.

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

Sameer Baisiwala: Good morning everyone. Rajeev, how do you see the addressable market for complex generic in the US? Which therapy areas, which dosage forms and are these off patent and on patent some colour would be very useful?

Rajeev Nannapaneni: I think the opportunity complex generic is there in oncology, it is there in diabetology, it is there in MS. We are not doing biotech per se, so our strength will be more on the peptide chemistry or drug delivery. I think that is probably the one that we would focus on. The addressable market is fairly large, Sameer. It is only a question, but getting an approval on



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these products is a lot of work. It takes you quite a few years of work, but the opportunity is there. I think we have an interesting pipeline working on it, but pulling them off is not as easy as you are aware.

Sameer Baisiwala: I mean, hearing you would this be the largest part will be injectables?

Rajeev Nannapaneni: Injectables could make up most of the pipeline yes.

Sameer Baisiwala: In OSD you are not finding to many opportunities is it?

Rajeev Nannapaneni: Once again oral solid you are saying. OSD also we are doing. OSD also we are doing. We are trying to find something unique, but we continue to do. I think our strategy is primarily to do only chemistry Sameer. I think I have said that in the past. This time we will do newer markets and niche products, but currently our core strategy continue to be OSD.

Sameer Baisiwala: One more question, Rajeev. On the profit sharing for the quarter, can we assume that you have this includes for Copaxone full quarter impact at say roughly 15% market share?

Rajeev Nannapaneni: I am not doing a split because the agreement that we have with Mylan forbids us from doing that. I cannot answer that question, but assume some portion of Copaxone and some portion, if there are four to five components in that. One is Copaxone is there, Tamiflu is there, Liposomal Doxorubicin and Lanthanum Carbonate is there. I think these four products drive our profitability. I think that is probably the most I can be open about it and tell you that these drive, but if you ask me for the split and all, I am not willing to do that if you want consistently these four drivers are running.

Sameer Baisiwala: No I am not asking about the split Rajeev to be sure, but Copaxone to whatever extent it is there, it captures the full quarter impact at say 15% market share?

Rajeev Nannapaneni: No my friend. I cannot answer that question because I am borne by confidentiality. We have a structure with Mylan, which I cannot answer.

Sameer Baisiwala: Got it. Thank you.

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



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Prakash Agarwal: Thanks for the opportunity again. Just trying to understand your initiatives on the agrochem side, there is a change in article association if you could highlight a very broad level that would be useful?

Rajeev Nannapaneni: I think in agro, I think as you we are a strong chemistry company and I think as part of our diversification strategy, I think we have identified a couple of small interesting niche opportunities in agro chemistry, so we are still in very early stages at this time. I would not like to say that we have some blockbuster ideas this time, but we are working on some very interesting unique ideas, but it does not dilute our overall pharmaceutical focus, it is just one or two ideas in a larger portfolio, but our core focus continues to pharmaceuticals, but we have found a couple of interesting opportunities. I think that is the reason we have decided to pursue that.

Prakash Agarwal: So would it be fair to say that these are like patent products and would come in a couple of years or it could be near term opportunities as well?

Rajeev Nannapaneni: Prakash, I cannot reveal my strategies, but we are something like that. You can assume something like that.

Prakash Agarwal: Lastly on the capex side so two things one is the capital work-in-progress is about Rs.530 Crores, which is as high as 50% of your fixed asset, so what is sitting there and what is the capex number for the next two years?

Rajeev Nannapaneni: I think we have a lot of capex files running. I think 50% of that Kaplan work is our Vizag facility, so I think the Vizag facility should be completed and go online by the end of this financial year, so I am hoping by the end of this financial year, so that again should be capitalized. I think what they are spending on right now, I think primarily we are spending on the Vizag finished dosage factory where we are building ability to do OSD for oncology and non-oncology, so it will have a backup for our primary Hyderabad site and we are hoping to trigger inspection for that early next year and we are spending money on improving our peptide chemistry skills in our Mekaguda in Hyderabad, so we have some complex peptide drugs that we fund for which we need a customized facility so that there is probably some portion of money that is pending on and general capacity expansion in our Hyderabad facility for our oncology line, but the expected launch is in the next few years and in general maintenance capex. The primary three big things are Vizag, the APR Facility Hyderabad and some capacity expansion in oncology tie ups in Hyderabad. These are the three main things that we are spending some money on.

Prakash Agarwal: The capex for this year and next year Sir?



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Rajeev Nannapaneni: I think our budget is about Rs.400 Crores to Rs.450 Crores or so for the year. We have spent half year about Rs.215 Crores, so we are on track.

Prakash Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from IIFL Securities. Please go ahead.

Shrikant Akolkar: Good morning. Thanks for the opportunity. Do you think Tamiflu will equally contribute next year after Roche's new drug approval Xofluza?

Rajeev Nannapaneni: I think Tamiflu has a good market standing. I think the contribution of Tamiflu will come down not because of competition. That is my view because the competition is going to be far more intense this year compared to last year.

Shrikant Akolkar: Secondly what are the key triggers for growth after let us say FY2020 because there will be two or three generics in Copaxone plus Tamiflu? We already know probably may not do well and you are already indicating Gleevec and Bosentan you are not very bullish so what are the key triggers beyond FY2020?

Rajeev Nannapaneni: The three triggers I think in the near-term are I think Copaxone market share improving and in the medium term, which is like around 2021, I think my expectation that Brazil, Canada and India should do well and in the long-term I think we have a whole set if you should take 2021 and 2022 as long-term. Then we have a lot of exclusivities coming in prominent I think Revlimid being the big one, but we have other set of exclusivities for other set of products. I think if we take a three-year perspective, I think US is going to drive the earnings. If you take one and a half to two year perspective I think ROWL will be the driver.

Shrikant Akolkar: Lastly is it possible for you to tell us how many niche ANDAs are under development in your R&D pipeline?

Rajeev Nannapaneni: I think we attempt to do all niche, that is what I tell our guys, but I think we think we will be able to file about 10 to 12. I believe we will pull off even two unique fillings. I think what I am guesstimating in our pipeline is that even if we pull off even one or two unique ones, I think we have done in picture.

Shrikant Akolkar: Is it possible also to let us say because obviously you cannot give what kind of pipeline you are looking at, but kind of size of the molecules that are under development those two specific molecules?



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Rajeev Nannapaneni: We look at billion dollar drugs and we took at \$300 million products. Sometimes during that \$300 million drug is smarter than trying to do a \$3 billion drug where there are 10 guys. You know what I mean. So the upside where you get an upside you cannot really tell as a day when you file. You just have to do a mix of few billion dollar drugs and some niche products, so I think the best way to answer your question is that we are trying to target about 10 to 12 products looking at products ranging from \$150 million and \$300 million to \$250 billion to \$4 billion, but I think after 12 you will probably get a hit on one or two, I think that will probably be so special that it will make a meaningful impact on your earnings. The rest of them you will probably end up with other people and not make so much money.

Shrikant Akolkar: Thank you so much and all the best.

Moderator: Thank you. We take the question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I wanted to know the timelines for Brazil launches?

Rajeev Nannapaneni: We have two unique launches in December quarter, so I think the loss we have almost last quarter we had a Rs.12 Crores loss in our consolidated, so I think that will get mitigated the movement these launches happen. It is going to happen in this quarter and then we have some other good launches maybe around April to June of 2019 where we are going to be the first generic on another product where there is very limited amount of competition, so we are anticipating limited amount of competition, so I think the benefit of Brazil we will probably see in 2019-2020 in the balance sheet. I think 2018-2019 and March 2019 will probably see the cash flow loss reduced in the second half of the year, but the benefit of actually Brazil contributing significantly in earnings will probably see in March 2020.

Charulata Gaidhani: What would be the addressable market size of the launches in Brazil?

Rajeev Nannapaneni: I think it is very hard to predict right now to tell you, but I think expect I think which will enable the new launches we will be able to generate about on base case about 10 million or best case about 15 million to 20 million, but it all depends on how things go. What it does is like a success in Brazil what it does it takes off the loss of the books. It will be about Rs.30 Crores to Rs.40 Crores, so that gets that wiped out and once you are in profits then obviously that starts contributing and Canada and India also does well and so whatever possible loss we might on Tamiflu get compensated.

Charulata Gaidhani: Secondly what is the normal timeline of approvals in China?



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Rajeev Nannapaneni: Again, I have not got an approval so far, so I do not want to make a prediction, but I was told that with the new policy, which allows for fast tracking if you have an approval in a western market you can get an approval within 12 to 18 months that is the milestone.

Charulata Gaidhani: We expect approval in FY2020?

Rajeev Nannapaneni: Hopefully yes I think in the next financial I am hoping to see some China launches also.

Charulata Gaidhani: All the best.

Rajesh Chebiyam: Thank you all. Thank you all for your time and good set of questions. We will publish the transcripts as well in our websites for any future questions. Thank you all 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.