



“Natco Pharma Limited Q3 FY2018  
Earnings Conference Call”

February 07, 2018



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**Moderator:** Good day ladies and gentlemen and welcome to the Q3 FY2018 Earnings Conference Call of Natco Pharma Limited, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to Mr. Malik!

**Deepak Malik:** Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for the Natco Pharma Q3 FY2018 Earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman & CEO and Mr. Rajesh Chebiam, Vice President - Acquisitions, Institutional Investor Management & Corporate Communication. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

**Rajesh Chebiam:** Thank you, Deepak and welcome everyone to Natco’s conference call discussing our earnings result for the Q3 of FY2018, which ended December 31, 2017. Before we begin the call as a disclaimer during this call we may be making certain forward-looking statements, which are predictions, projections or statements about future events because forward-looking statements inherently involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. Let me also state that the material in the call with the exception of the participant questions is the property of Natco and it cannot be recorded or rebroadcast without Natco’s expressed written permission.

Earnings details, the Company is pleased to announce its results for the Q3 FY2018 wherein the company recorded consolidated total revenues of Rs.573 Crores for the quarter ended on December 31, 2017 as against Rs.685 Crores during the same quarter last year. The decline in revenue compared to the last year’s quarter was predominantly due to large stocking quantities that we sold to our marquee partner of generic Oseltamivir during the last year’s period, which was to a lower extent in the quarter that just ended. The company is very pleased to show strong earnings during the quarter in spite of the laws of exclusivity for the generic Oseltamivir in the USA market.

Recently we successfully launched several new products in the USA market that included generic versions of Glatiramer Acetate and Oseltamivir suspension, Liposomal Doxorubicin



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and Lanthanum Carbonate and we continued to believe in strong growth in the ensuing quarters.

The net profit for the period on a consolidated basis was Rs.217 Crores as against Rs.195 Crores same quarter last year showing a growth of 11.5%. As a broad guidance for FY2018 our guidance from the revenue numbers are about Rs.2100 Crores and the PAT level we expect Rs.700 Crores for the financial year.

I will pause here and will start taking questions before we get into other details.

**Moderator:** Thank you very much we will now begin with the question and answer session. The first question is from the line of Ravi Dharamshi from ValueQuest. Please go ahead.

**Ravi Dharamshi:** Congratulations on a good set of numbers. My question is regarding Copaxone. Can you give us some sense of what is the market share trend and what is the pricing trend and why are we not able to gather in more market share on Copaxone?

**Rajeev Nannapaneni:** I think I will just go with the public available data and I think on the 40 mg, I think we have about 15% market share and on the Copaxone 20 mg I think is about 3.5% and the reason for lower market share on the 20 mg is because this pricing strategy I think they are going more exist on the 40s and 20s that for we will have a lower market share and in terms of uptick is more than our expected than we are into the contrary I said we have very pleased with the market shares that we have got because it is a complex generic uptick takes time not something, it is not like a regular generics. So it takes time and I think we are pleased and it is definitely going well and I think we were positive in next few months we should do well. To your question about the price erosion and pricing strategy and all I do not want to answer it because there was some competitive pricing issues. I think Mylan will give more clarify on it because sensitivity involved in and at this time I now taking any questions on the pricing side.

**Ravi Dharamshi:** Is it I mean see other generics we have seen trends where the market share shift is much quicker what is regarding Copaxone on that the market share shifted from this time and does mean that whatever market share we gain is likely to stick with us for a long time?

**Rajeev Nannapaneni:** I think my views is if we look go back to history, I mean even look at the Copaxone 20 even Momenta launched, uptick was slow, but it is slowly consolidated and took sometime for over a period of time if became substantial numbers. It is nature of the products because of the way it is sold, the PBNs and then you need to use app and some amount of promotion so products, which required some amount of promotion the uptick can be a littler slower than fairly straightforward substitutable product.



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**Ravi Dharamshi:** If you allow me, I will have slip in one more question regarding Tamiflu, the flu season this year has been really, really good from the generic point of view so I was wondering if we are going to benefit because of that?

**Rajeev Nannapaneni:** Absolutely I think December flu was just about to take off it, December numbers do not really reflect the intention with flu. I think lot of the revenue upset will be reflected in the January to March quarter that is why I think we have given fairly good guidance that we are going to touch Rs.7000 Crores PAT I think for reason is that we are expecting the Tamiflu numbers to do very well. That is correct.

**Ravi Dharamshi:** Thanks and I will come back for any further questions.

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

**Prakash Agarwal:** Thanks for the opportunity. Good morning to all Sir I just trying to understand is better I mean given that the season has been very strong and you are guiding for a good Q4 how do we look into fiscal 2019 especially as we are yet to ramp up or we are yet to get to the good healthy share of Copaxone and what is that we should look in fiscal 2019 in terms of topline and PAT, some rough guidance would help because I think Tamiflu would not be as big but Copaxone should be much bigger in fiscal 2019 so how should we look into?

**Rajeev Nannapaneni:** I think I agree with your question, Prakash that 2019 will be bigger for Copaxone and because we will be getting more market shares; however, in 2019 I do not want to predict right now. I want this year to close. I will give you some rough guidance may be when we close to this financial year. At this time, I do not want to give any guidance from it. For now I will give you guidance for 2018 so I think we fairly conservative, I do not want to jump and I can tell you what is the number I think by 2019 I have, by May I think I will have more clarify with 2019 is going at this time I do not want to do it.

**Prakash Agarwal:** Understood and some kind colour on the likely competition on fiscal 2019 if you could throw some light given the fact that Reddys is being moved back but Sandoz, Momenta can come mid CY2018 so is that fair assessment that at least one more player can come in 2019 or you expect two players?

**Rajeev Nannapaneni:** I expect two players. I think with I spoke with Mylan on this issue. I think our understanding is that we should expect somebody in the first half of this year and somebody else in the second half of this year. I think in our model we have assumed two generics in the calendar year 2018.



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**Prakash Agarwal:** Market share would remain sticky is what we understand I mean since you have taken a longer time, the others would also you have to grow through the same grind of participating in these tenders and stuff like that?

**Rajeev Nannapaneni:** I mean it will take time absolute, I think if we look at in hindsight we never expected that will have run on this product. Right now we are running, it is fifth month of the run. So if it looks like at least six months you are having run on this product actually it is minimum about even more depending on the never the next competitor comes in so this itself is very good start to have on a complex product as well. I think we are tremendously pleased and I think we are very excited about what will built in the time and I think we will give more clarity on the numbers and I think Mylan will give more clarity when they call happens I think it is going to happen sometime this month from what I understand.

**Prakash Agarwal:** Okay and lastly on the use of cash, you raised some money what are the plans and what you already executed on that Rs.915 Crores?

**Rajeev Nannapaneni:** I think as of now we have not, most of the money is in the bank. I think we have not spent any of the money as of now what we have done is we have been paid off some of the short-term loans that we had. As of end of December we are sitting on about Rs.805 Crores of cash and deposits and all cash equivalents and so on and so forth. So what we are going to do as of now as I said in the past that we want to use it for other complex generic ideas so we are actively investing in those so I think that is where we are.

**Prakash Agarwal:** So this money largely used for US complex and this we had earlier plants talked about in India and ROW work?

**Rajeev Nannapaneni:** Both US and India, I think it is most India, US complex generics and India branded generics. That is what we said.

**Prakash Agarwal:** Organic or inorganic?

**Rajeev Nannapaneni:** We will come back to you.

**Rajeev Nannapaneni:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.



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**Abhinav Ganeshan:** Good morning Sir. Congratulations on a great set of numbers and thanks for taking my question. Could you just throw some color on the domestic Hep C business how is it shaping up in terms of volumes as well as margins?

**Rajeev Nannapaneni:** I think volumes are steady as well, I think the challenge that we had one of the reasons why we had in decline is look at Q3 of 2017, our domestic sale was about Rs.218 Crores, but Q3 of FY2018 our domestic sales has dropped to Rs.165 Crores, but some of sale drop is also counted because of the differences between how the numbers are presented. Earlier we used to include excise exclude VAT. Now we are not including excise or VAT because of the GST regime so but however, there is a drop from 218 to 165 and primarily drop is because of the Hep C sales. I think we have seen a drop of about 35% to 40% in our sales. Not volume wise but nevertheless because of the pricing pressure and market issues, but I think some of it will be able to salvage, we are expecting some launches in South East Asia we are very close to approval in Indonesia, we are very close to approval in Philippines, I think we can make up some of the difference, but there is certainly slight decline in trend.

**Abhinav Ganeshan:** Fair enough Sir. One more just question if I can slip on in is just what about the Visakhapatnam facility for oral solids, when that would be up?

**Rajeev Nannapaneni:** The tablet non-cyto line is ready right now. I think we are doing machine validation. I think we should be ready in about two months and the plant should be ready to go for the first execution in another two months we are ready yet because we are still doing machine configuration and we are also building a line for the cyto line, cyto oral so that we could do a derisking of the cyto portfolio also so that plant will take till September so there is two phase, phase I should be done in two months and phase II should be done in about eight months.

**Abhinav Ganeshan:** If again slip in one followup on that one so what is the cyto oral what would be the market that we are targeting the market size?

**Rajeev Nannapaneni:** Market means we have a lot of oncology filings primarily the biggest is from the LME side, that and another mixed products that we have so is a fairly large business I mean how much market will make and all that is all depends on over product and how it does, but on top of my head, I cannot tell you number but we are looking at the oncology portfolio.

**Abhinav Ganeshan:** Okay.

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



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- Charulata Gaidhani:** Can you give us breakup of bulk chemicals and formulation onco?
- Rajesh Chebiyam:** For the API gross revenue for the Q3 Rs.81 Crores, domestic had Rs.8.8 Crores and API exports Rs.72.3 Crores. The domestic formulations oncology, which also includes slight element of CND were Rs.84.8 Crores, formulations brand pharma non-onco is Rs.68.5 Crores, formulations third party about Rs.12.5 Crores so the total domestic formulations about Rs.166 Crores.
- Charulata Gaidhani:** There is no profit sharing income?
- Rajesh Chebiyam:** Profit share income is Rs.254 Crores out of Rs.570-odd Crores that we have booked, profit share income that we got finally from Copaxone, Tamiflu, and Doxorubicin and Lanthanum these were the major drivers to the profit share, Rs.254 out of the total revenue that we booked as far.
- Charulata Gaidhani:** Okay and how much was formulation export?
- Rajesh Chebiyam:** Rs.35 Crores.
- Charulata Gaidhani:** Okay and service income?
- Rajesh Chebiyam:** That is included in Rs.254 Crores that is profit sharing income so we are not doing breakup of product by product for comparative reasons, but the total amount of profit shares/service income is Rs.254 Crores.
- Charulata Gaidhani:** My second question pertains to Hep C do you think Hep C will revive in terms of pricing or you see the business at current level going forward?
- Rajeev Nannapaneni:** I think it will probably hold up at this number and to see growth we probably need new approvals otherwise we probably hold up at this time. I do not see dramatic increase in the domestic well I think just tried to have understanding with our sales people I think what they feel is that the sell is intense right now so it will take sometime to ease so I do not see much growth provide unless of course we have some breakthrough in export market.
- Charulata Gaidhani:** Okay and if you could throw some light on the type of treatment in Hep C the way it has been changing, the type of treatment in ARV, are you seeing a decline in volumes in ARV?



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**Rajeev Nannapaneni:** We do not do ARV, we do only hepatitis C, which is ARV, is considered the retroviral, which is for HIV. We do not have portfolio, which as of today for HIV, we only have for hep C.

**Charulata Gaidhani:** Very sorry.

**Rajeev Nannapaneni:** No problem.

**Charulata Gaidhani:** Fine, thank you.

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

**Kunal Randeria:** Good morning. Thanks for taking my questions. Couple of Copaxone: does this revenue include purely product sales and profit thereof or does it include any milestone payments on approval or something and second question with Copaxone would be TEVA had said in his last conference call that it had secured some 60% volume through contract with payers and TBMs, so does it actually mean that at the moment you have competing only in 40% of the market and the market is likely to open up once these contracts TEVA has over?

**Rajeev Nannapaneni:** I do not want to take this question. I think Mylan will answer those questions and I think as I said we do not want to review in the actual profit share that we received on this product for competitive reasons, so I think as I said the total revenue of which in the 254 it is including a good portion, which is coming from Copaxone, I think Mylan can answer that question.

**Kunal Randeria:** Then on cardio and diabetes division is not tracking as per expectations and you can give some colour on how we expect the next year to unfold?

**Rajeev Nannapaneni:** I think we have very good launches in 2018. I think we have launched in other product in last quarter, the product called Dabigatran that we have launched, the first generic on Dabigatran, so that also is doing well. Now I think as a run rate on cardio is now about Rs.70 lakhs to Rs.80 lakhs a month. So again it is an up division, so it will take sometime to build up, but in the near future I expect this division should do extremely well.

**Kunal Randeria:** Thank you.

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





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**Ranvir Singh:** Thanks for taking my question. I am not sure whether I missed, are you giving this breakup of revenue in terms of that oncology hep C or B2B business?

**Rajeev Nannapaneni:** We just gave it. We have put on the website my friend, just look it up again.

**Ranvir Singh:** Okay and secondly on Copaxone, your US business what do they have been sales without Copaxone, so x-Copaxone revenue?

**Rajeev Nannapaneni:** Sorry my friend, I think we do not want to answer that question, so just for competitive reasons because both I think because the sensitivity is involved in this I think Mylan will answer the numbers on Copaxone and at this time I do not want to answer that question. As I said we gave a gross number of our servicing cum cash profit shares I think I want to leave it that.

**Ranvir Singh:** Okay, but it is a sense I think earlier participants also discussed that in Copaxone, is there any front loading type of sales therein this quarter going forward you see sales geared up more from this level?

**Rajeev Nannapaneni:** I do not want to answer that question. I think the sale will be consistent that is all I can, the coming quarter you will see consistent profits coming from the product and I think very bullish about the next few quarters and we see consistent revenue stream coming from this plant.

**Ranvir Singh:** Fine. At a gross margin level, the contribution has substantially been Copaxone is fine, but what I wanted to understand that is there any profit booking of sales made in last quarter like Tamiflu and that has come in this quarter Sir?

**Rajeev Nannapaneni:** No my friend. I have answered that question already. The Tamiflu profit we have booked, but the extent of your profit has not been reflected in the intensity of the flu season. As I said few minutes ago lot of Tamiflu revenue and profit will get booked in this particular quarter. You will see better numbers this quarter, because the intensity of the flu has been more in the January month.

**Ranvir Singh:** Fine, thanks a lot Sir.

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



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**Karthik Mehta:** With Rs.500 Crores of profit in FY2017, and Rs.700 Crores has been guided in FY2018, would it be fair to assume that this incremental 200 Crores is largely on account of Tamiflu, which is what would drive with the fourth quarter?

**Rajeev Nannapaneni:** I think largely because of Tamiflu, Copaxone, Doxorubicin and Lanthanum and these four major drivers of growth.

**Karthik Mehta:** So Copaxone will be relatively for less than three, four months in FY2018 right through, so if one has to look at it for this Rs.200 Crores and I know you said you would not give guidance for FY2019-2020. Would it be fair to assume that the erosion that you have in FY2019 at the end of fourth quarter in FY2019 for Copaxone that will be reasonably steady state? The reason I say this is if there are two approvals in product like Copaxone, FDA process for approving the third generic may not be on priority or is there understanding completely wrong?

**Rajeev Nannapaneni:** I cannot speak of what FDA will do Karthik. I will tell you this much. What we believe is the market share will become more solid in 2018-2019, because it takes time to build market share and you will see a good steady state revenue that will build in the FY2019 numbers and obviously Tamiflu will taper off after the March quarter, because that is the nature of the product with season, but again I do not give a specific number on 2019, because I want more clarity on where we are. We need to know where we stand. So I will probably do it when we do our next earning call, we will give clarity and give out all the scenarios on what would drive the earnings.

**Karthik Mehta:** I understand the difficulty, so would it be fair to assume that if there are three players in Copaxone. It is a fairly decent competition that?

**Rajeev Nannapaneni:** I mean to answer your question indirectly we have assumed three competitors in our model.

**Karthik Mehta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

**Cyndrella Carvalho:** Thanks for taking my question. Sir just wanted a colour on the domestic space, how would be looking at the onco and hep C given that considering if one or two approvals come by in the hep C side because DPCO scenario like if you could help us provide some more colour here?



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**Rajeev Nannapaneni:** Let me answer DPCO has no impact on sales, because the price that they are fixing and the price that we are selling is much below the price they have fixed so I have no concern about the DPCO and in terms of the onco space, I think onco is doing well while we had three good launches this year and so we have program on this. I think one was Pomalidomide which is the first generic in India, Carfilzomib was the another drug we have launched for multiple myeloma, both for multiple myeloma, both we are first generics in India. Recently we launched a smaller product, it is not a big sale product, but niche product called Melphalan injection in India for bone marrow transplant. So we are fairly comfortable where we are and I think the only concern I have in domestic is the fact that the hep C has dropped, we need to address that issue. The way you would address that is come up with new launches instead of make up for the difference. The cardio, gastro and onco should do well and so these three segments we have planned about 20 launches in the financial year 2018-2019 or the current year 2018, so this should drive that we earnings.

**Cyndrella Carvalho:** That is very helpful. We see a good basket for our domestic space on the onco and cardio and so just to understand from beyond FY2019 this basket should help us take care of the hep C erosion what we have seen, so that fair understanding?

**Rajeev Nannapaneni:** In terms of capital allocation I think we are spending more than 50% of our resources in India and we are putting a lot of emphasis in India because once we build a good brand business, the stickiness of the business is very strong and we have to deal with as there are no less regulatory issues in India than abroad, so it is a better business, so that I think to build a strong domestic franchise.

**Cyndrella Carvalho:** Sir just a colour on the US pricing, how do you see the scenario few of your peers are indicating that pricing scenario is bottoming out. We are having a quarter with four keys exclusivities, running but apart from that how do you perceive any changes that you feel or it is the way what we had said last quarter?

**Rajeev Nannapaneni:** Prices are bottomed out. I agree with that statement, but the challenges in our portfolio, I can only speak about myself, I do not want to speak to other people. If you look at our balance sheet other than five products that I have mentioned I do not think we really make money in the US business, even though we have about nearly 20 approvals including what is made by the 30 party size we do not make money and 15 products and the products where we have seen there are four, five generics absolutely no money and that scenario has not changed honestly at least I speak for ourselves. The way to go on the US you continue to do we hard to do generics and try to get into the situation where



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the supplier products either supply chain issue or you do product which is niche otherwise there is no money in US. This is at least my perception.

**Cyndrella Carvalho:** That is quite helpful Sir.

**Moderator:** Thank you. We will move to next question, which is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Thanks for taking the question. When you look through now over the next year, year-and-a-half qualitatively how do you see different pieces, which pieces do you see the business will drive, so will be the key drivers for us going forward, how do you qualitatively look at the business outlook?

**Rajeev Nannapaneni:** I think one is, India is probably going to drive the business something India where we are putting a lot of resources on. India is one. Two is ROW export business. Three is the uptick on Copaxone. These three are going to be very important for us. We believe with time I think we will get good market share and we get ourselves into a good steady state situation and these three factors will drive the growth in my view in the next 18 months.

**Nitin Agarwal:** For ROW it is largely going to be hep C portfolio take it go into as a market or something more that you see playing out?

**Rajeev Nannapaneni:** The Hep C is a high revenue item so hep C and onco, but hep C is going to be key part to it.

**Nitin Agarwal:** In terms of your plans to file some more complex what base you see some more at what you pace you see incremental complex filings coming through over the next couple of two, three years?

**Rajeev Nannapaneni:** I think these are harder to do, they take about two, three years to work on even if you do at least two complex filing the year, you have done a great job, so it takes time but if you do about two filings are here, you have done a great job.

**Nitin Agarwal:** You are looking at couple of these filings in 2019?

**Rajeev Nannapaneni:** At least one or two we have kind of target for 2019.

**Nitin Agarwal:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Blackrock. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Good morning Rajesh. Couple of questions on hep C franchise and so currently whatever revenue is doing in hep C, is that all India or does it include element of exports?
- Rajeev Nannapaneni:** The number that was stated in the call today are only India numbers and we have some numbers on the exports also. I do not remember top of my hand with export numbers.
- Rajeev Nannapaneni:** Export was very minor element like Crore for the quarter predominantly it is domestic.
- Aditya Khemka:** Sure and has the already gotten the approval for the hep C products in Egypt I think that was the big market right?
- Rajeev Nannapaneni:** No, Egypt does not work honestly. Local Egyptian companies are getting most of the business, very difficult to export from here.
- Aditya Khemka:** Have we got approval there I mean are we presented?
- Rajeev Nannapaneni:** We do not file this. It requires local manufacturing, they use a lot of Chinese API and they do not have patents there, Egypt does not work for us.
- Aditya Khemka:** Going forward how much difficult for you to quantify, but let us say your domestic hep C franchise stabilizes where it is that you are indicating too. How much can we exports really add that is over a year or two year timeframe to the hep C franchise only given that you get approval that the market Philippines and all that we are talking of, how much growth can hep C really show if those numbers come through and in domestic do you see further pricing pressure in hep C?
- Rajeev Nannapaneni:** My feeling is that domestic flattened out. We cannot go lower than that. In terms of export I think depends on it is hard to predict, but I am expecting at least about Rs.80 Crores to Rs.100 Crores more from third world markets.
- Aditya Khemka:** Just last one to slip on, it is just an additional question on the same franchise, so you also indicated you may have to launch newer products within the hep C indication to sort of boost the franchise further. So would the additional products that you are thinking of the newer generation products, would they also be partnered with the same confluent that the older generation was partner or do you have separate partner or will it be in house?



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**Rajeev Nannapaneni:** No, we will do it ourselves. We will be planning it ourselves. What is happening with hep C franchise is like the newer combination like Velpatasvir Sofosbuvir combination, all the new prescriptions are going to the newer combination, the older combinations are declining because instead of using two tablets one of focus one is doctor way or the older combination which are not as good as the newer combinations, so the market has moved to the newer combination. The older brands have declined. The decline in older brands has been more than the uptick of the newer brand, so that is where the challenges is from that we are seeing.

**Aditya Khemka:** Thanks.

**Moderator:** Thank you. The next question is from the line of Harisha Kakera from B&K Securities. Please go ahead.

**Harisha Kakera:** Thanks for taking my question. If I missed out on the capex guidance just wanted to know if there is any guidance you would want to give for FY2019?

**Rajeev Nannapaneni:** Our idea is that we think about Rs.400 Crores to Rs.500 Crores in capex every year and that is the idea, but if we up the guidance we will bring it up in the next, but as the way the projects are there I think that is the project that we have.

**Harisha Kakera:** That is all Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.

**Mitesh Shah:** Thanks for taking my questions. I just had one question regarding the hepatitis B recently you received the approvals, how the growth and the looking to contribution and going forward because hep C going down now?

**Rajeev Nannapaneni:** I did not understand your question. Can you say that again if you do not mind?

**Mitesh Shah:** My question is regarding hepatitis B, so in your commentary you did not mention the hepatitis B just recently you got the approval?

**Rajeev Nannapaneni:** Yes I think we have launched Tafnat brand, Tenofovir, we have launched it, I think it is strengthening the portfolio, but scale of revenue that we had in Hep C is not possible in Hep B. I think it is a far more lower priced product.

**Mitesh Shah:** Thank you.



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**Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

**Ayush Mittal:** Good morning Sir. I want to understand about the thought process like you are been doing the QIP also and we are getting very little on the dividend side also wherein we have to pay lot of dividend distribution tax, so?

**Rajesh Chebiyam:** Can you repeat that sorry it was not that clear your question?

**Ayush Mittal:** Can you share your thought process around the increased QIP along with the dividend policy wherein we have been getting on the dividend side and we incur the dividend distribution tax at the company level?

**Rajeev Nannapaneni:** Dividend distribution policy is which you said, if I understand your question correct, you wanted the dividend distribution policy of the company, is that correct?

**Ayush Mittal:** Yes in reference to the QIP we did recently like at one hand we have been raising money by diluting our equity and on the other hand we have been liberal with the dividend, so we have to incur the dividend distribution tax?

**Rajeev Nannapaneni:** So what is your question?

**Ayush Mittal:** If we do not pay out the dividends we could have avoided the QIP perhaps or we can reduce?

**Rajeev Nannapaneni:** Dividend policy that we have it is about 15% to 20% of our profit, so it is not a substantial number and dilution has to do with first funding capex, so there is two different things, so as the policy we always do 15% to 20%. If the question is we should not pay dividend, not raise capital then it is a policy question, we believe that we should pay about 15% to 20%.

**Ayush Mittal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Premnath Gopinath. He is an Individual Investor. Please go ahead.

**Premnath Gopinath:** Congratulations on launching Copaxone. I would like to understand, now we have a good portfolio in the US market and I would like to understand, so we have launched Copaxone, Doxil and Lanthanum Carbonate, which are like very difficult and also they do not have much competition, so from here on what will be the future pipeline for FY2019 or FY2020, so just give us the rough timeline on the future product?



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**Rajeev Nannapaneni:** I think as a whole we have two launches, which are lined up 2019. I think the two major ones are this is another niche market called Bosentan. It is a cardiology product, which has limited distribution. If we get an approval in the first phase again, it all depends on how we get the approval and we too probably make some good money next year. Imatinib is still pending with FDA, so again fairly competitive now, so I do not know how much money we will make, so those are big launches in the calendar year 2018 then I think around the next set of launches again are around FY2019-2020, so I think it depends on the patent, some of them are linked with patent expiries, so we had some good launches around 2019-2020 and 2021, I think those reasons we have. At this time I do not want to give any guidance on which data, what we are going to launch because it all depends on outcomes on patent litigation.

**Premnath Gopinath:** So Nexavar will it be somewhere in FY2019, FY2020 roughly?

**Rajeev Nannapaneni:** We are not supposed to reveal the data, but we do have a settlement for Nexavar that I can confirm. I am not supposed to reveal the date. That is the terms of the agreement, but it is not right now, it is few years away, but the exact date I think we will come out shortly, but as of now we are not supposed to reveal the date, but I can confirm that we have a settlement, okay.

**Premnath Gopinath:** Okay Sir because I understand that I think some few quarters back you said that the Nexavar sales is more than what the IMS is reflecting and I remember it is roughly around \$400 million, is that right?

**Rajeev Nannapaneni:** You are absolutely correct, in absolute number, I think the sale is about that number and we are first-to-file on that product and we have a settlement and we also have tentative approval that is absolutely correct, but the only question I cannot answer this time the launch date, we will come back to it shortly, but as of now I cannot answer your question..

**Premnath Gopinath:** Thank you very much. Congratulations again.

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

**Prakash Agarwal:** Thanks for the opportunity again. Couple of clarifications actually, so one is on the profit share that we are booking the sales that we make and the profit share there is no lag, so whatever sales we did for Copaxone the profit share is also come in this quarter is that right understanding?

**Rajeev Nannapaneni:** There is lag you are saying, I will tell you what happens in the way we do it, it is not specific to Copaxone, but generally how we do it. If you have Rs.100 of raw material, so we





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put the 20% margin and bill the Rs.100 of raw material as Rs.120 upfront in the present quarter then what happens is when the product is sold, let us say 30 units are sold in Q1 then the profit share is booked only on the 30 units, similarly now the 30 units are booked in the following quarter, we only book profit share for the units, which are distributed by the partner, not on the whole amount, you see what I am saying, so there is a lag, so it is because you sell something does not mean that the profits share gets booked upfront, it gets booked only at the realization of the money.

**Prakash Agarwal:** But, whatever is sold during that quarter is largely booked is what I am trying to understand?

**Rajeev Nannapaneni:** So let us say you book 100 units of inventory and you sell 20 units of inventory we only book profit on 20 units of inventory.

**Prakash Agarwal:** Perfect that helpful. On the domestic side one more clarification in the oncology side with cardio metabolic the growth is still not there, you have been growing 20% plus in that segment, so two questions here what is leading to this softer this thing and secondly we had big plans on the cardio metabolic side, is there some delay there or what are the plans now and what are the MRs that we have into this segment specifically in total?

**Rajeev Nannapaneni:** I think total we have about 300 MRs. I think we have about 80 for onco and 120 for Hep C and 100 odd for cardiology cum diabetology little over 300 FCR. In terms of growth and all yes I think that is part of reason why the growth has not been so strong, mostly it is because of a decline of the Hep C portfolio, but that is the nature of the business.

**Prakash Agarwal:** I am talking about the onco line?

**Rajeev Nannapaneni:** Onco line is fairly steady. I think it has grown about 8% to 10% and there is also a lot of disruptions in the last 12 months, we had the GST chaos and then we had the demonetisation chaos the previous year, so if you look at a balance sheet level yes I think on a yearly basis we do not see the growth, but in terms of the actual sale and all it is fairly fallen. It is just that the numbers do not show because of disruptions that we had in the last 12 months.

**Prakash Agarwal:** Your scale up in cardio metabolic Sir?

**Rajeev Nannapaneni:** That is less than Rs.1 Crores, it is not a meaningful number, yet. I think our estimation is that we have good launches this year I think it will become meaningful over a period of time.



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- Prakash Agarwal:** Hep C we will see flatness from here QOQ or we should?
- Rajeev Nannapaneni:** Yes that is the feeling that we get, yes we see flatness from now.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** Can you give me the breakup of India revenues by therapy?
- Rajeev Nannapaneni:** India by therapy you are saying, India domestic by therapy is that what you said?
- Charulata Gaidhani:** Yes.
- Rajeev Nannapaneni:** I think we had given that, but let me just repeat again, so for the Q3 it is just ended, oncology at Rs.84.8 Crores that includes a small element of the cardio division as well. The formulations brand non-onco is 68 Crores with primarily Hep C and third party formulations is about 12.5 Crores half of Hep C I think, predominantly the non-onco portion is driven by Hep C.
- Charulata Gaidhani:** Now my question pertains to India business what type of growth do you see in India business going forward?
- Rajeev Nannapaneni:** I think the idea is that we want to launch some new products, I think the ideas that we want to grow this business about 15% to 20% a year that is the idea we are trying to look at.
- Charulata Gaidhani:** That stands, even because of Hep C that does not change?
- Rajeev Nannapaneni:** I think what we have said is that Hep C there will be a decline this year, I think there are two, three factors are decline this year, one is our Hep C portfolio has taken up good erosion and then we had the substance caused by GST and all, these two have impacted our 12 month numbers for this financial year; however, I think we see that this business can grow around 15% to 20%.
- Charulata Gaidhani:** How much is the institutional component?
- Rajeev Nannapaneni:** I think the business in India portfolio that we have is primarily driven by large corporate hospitals, definitions of institutions are there is multifold. We do not sell much to the government as such. I think most of our sales come from large corporate hospital and they come primarily from the top Indian cities, Mumbai, Delhi, Hyderabad, Bengaluru, Chennai,



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to an extent Chandigarh, Ahmedabad and Kolkata will probably represent 75% because most of the onco treatment happens in these big cities.

**Charulata Gaidhani:** Okay fine. Thank you.

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

**Aditya Khemka:** Just a clarification on what I asked last time, so the new generation Hep C products you are manufacturing yourself and the branding is yours, but the manufacturing is also yours?

**Rajeev Nannapaneni:** That is correct yes except for the API. API comes from Laurus.

**Aditya Khemka:** API comes from Laurus and on the US side, so Copaxone will definitely give you a big boost in FY2019 because it will be a full year impact of the product, but beyond FY2019 do you have enough pipeline for yourself to even sustained the run rate of FY2019 because Copaxone will probably start declining beyond FY2019 right and you will have your Bosentan and you will have a couple of other interesting launches, but would they be relevant in terms of keeping your US sales flat through to FY2020, FY2021 till you get development?

**Rajeev Nannapaneni:** What will happen is I think we have said this in the past, I think 2018 will be good, 2019 will also do good because we will have the full year benefit of that. 2020-2021 you will see some decline, but I think by 2021-2022 I think we have about three or four products where we have exclusivity on about four of five products. I think we will have some clarity on the legal situation, I think we should see. There will be a year and a year-and-a-half of lull that is correct. I think going forward. That is correct if that is the question.

**Aditya Khemka:** Wish you all the best. Thanks.

**Moderator:** Thank you. The next question is from the line of Sri Hari C from PCS Securities. Please go ahead.

**Sri Hari C:** Thanks for the opportunity. Firstly I missed out on the profit share business if you could please repeat that and secondly as regard to the development what is the competition scenario?

**Rajeev Nannapaneni:** I think let us start with the profit share numbers we have already said I think we said that Rs.254 Crores is the amount of the revenue that we have booked in profit share and service incomes that includes all the products. To answer your question, I think what we have is a



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very good settlement, which allows us to enter the market in March 2022; however, the dates can be accelerated in the event, but some other litigant were to get a favorable order, so that is always there, so theoretically, publicly I have know about four or five companies have filed, but we have to see how the legal case plays up and if they enter earlier and under certain circumstances we can also enter earlier, so the launch can be accelerate in the event there will be another generic were to come in under certain circumstance.

**Sri Hari C:** So basically what is the kind of free run you expect, the window for free run?

**Rajeev Nannapaneni:** It all depends my friend. I think if we have to have lot of clarity on this. I think one is if there is no one there, you know what the scenario that will be the sole generic that is understood. The question here is what will happen to the other generics. Multiple things can happen, so I cannot sit and speculate. If they agree, if they win a court case, we are getting on a very speculative element, let us get some clarity on court case, I do not want to speculate in a call, it is not correct. Let us get some clarity on the other litigants like Reddys, Cadila, Algorithm, so I think once we get clarity on litigation I think we could probably share some light.

**Sri Hari C:** Thank you.

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

**Ravi Dharamshi:** Thanks for taking my call. I just had a question on Revlimid where are we in the approval process over there and has there been any further development on the court case going on with Dr. Reddy over there?

**Rajeev Nannapaneni:** On Revlimid?

**Ravi Dharamshi:** Yes Revlimid.

**Rajeev Nannapaneni:** I am watching what is going. Not that I am aware of, nothing much as moved on that at this time.

**Ravi Dharamshi:** What is the status of our approvals?

**Rajeev Nannapaneni:** I think we had some queries from FDA, we are answering it right now. Once we answer it I think we should get an approval definitely this calendar year.

**Ravi Dharamshi:** This calendar year we should get?



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- Rajeev Nannapaneni:** Yes.
- Ravi Dharamshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nawal Chadha from Lotus Investments. Please go ahead.
- Nawal Chadha:** Obviously a lot of us were expecting better results it is may be because of ignorance of how the profits are booked, but from what I understand you say that you are going to book 700 Crores profit after tax for this year and if you look at what you have done so far in the last nine months it is about Rs.400 Crores, so you are expecting Rs.300 Crores for this coming quarter or the existing quarter that we are working on, is that correct?
- Rajeev Nannapaneni:** You are absolutely correct, yes.
- Nawal Chadha:** The second question that I wanted to ask you was, you said we have managed to get about 16% of the Copaxone 40 mg?
- Rajeev Nannapaneni:** 14% to 15% that is as per IMS that is correct, yes.
- Nawal Chadha:** We have 14% Copaxone right now, there will obviously be a few more that get approved, but since it is sticky we only go up in our percentage is that correct even though the total amount realized on the sale might go down, but the percentage would move up in time, is that?
- Rajeev Nannapaneni:** I think the idea is that the percentage should move up and I think we should have a good solid base business that we could be comfortable with, I think as I said will get more clarity when the Mylan call will happen that is the idea because it is a complex generic and it is hard to market and it has a good element of steady state revenue, so I think as I said the numbers and all I give more clarity in the next quarter, now if you ask me right now and said this is how much we are going to make in 2019 it is hard to judge, I think for our next call I am fairly sure I think we will have good angle of where we are going.
- Nawal Chadha:** Thanks for keeping an eye out for value everywhere you look at so, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sumit Shah, who is an Individual Investor. Please go ahead.
- Sumit Shah:** First of all congratulation Sir for a wonderful set of results. My question is actually not a question, it is just my thinking, which I would like you to clarify from what I know I am



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doctor myself, so I feel that the Hepatitis C is on its way to plateau now, you have really made the right time of it when it was launched, so I believe in the coming few years hepatitis C may not contribute because it is flattening out, so to come from diabetes and the other division. The Indian onco division especially the CNS drugs and everything, a steady income will be considering 10% to 15% market share of Copaxone from the US and further launches, would that be correct Sir, if I consider that?

**Rajeev Nannapaneni:** I think Hep C will be flat. I think we said that it is fairly competitive, but I think we have a good pipeline for the non-Hep C, I think which was more than offset the loss and revenue on Hep C, so that is first part. Copaxone and all I think the idea is that we were slowly building up the steady market share, I think our view is that we will get into a good position. I think the clarity on the market share and the strategy I think Mylan will shed more light. It is for competitive reasons we are not answering this question. This will be answered by Mylan in the next few days rather.

**Sumit Shah:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Manushi Shah from Research Advisors. Please go ahead.

**Manushi Shah:** I just had one question you said you launched Pomalidomide and Carfilzomib in domestic market, just wanted to understand that these products are patent protected in US. Is it now patent protected in India that how is Natco launched and so everybody can launch or was it a licensing deal with the innovator?

**Rajeev Nannapaneni:** No I will answer that question. Pomalidomide does not have a price patent. Clearly it does not have a patent in India, so we have launched it because there is no patent in India and other generics have also come; however, we are the first mover so we have very good market. Carfilzomib is a little different. There is a granted patent, but however, we have challenged that patent at this time and we believe that the patent is involved so we have launched it even though the patent was granted, but as we said we have a very aggressive strategy where we go after patents.

**Manushi Shah:** Thank you.

**Rajesh Chebiyam:** Thank you very much, everyone.

**Deepak Malik:** Thank you all.

**Rajeev Nannapaneni:** Thank you, Deepak.



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**Moderator:**

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