“Natco Pharma Limited’s Q4 FY16 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen. Welcome to the Natco Pharma Limited Q4 FY16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a remainder, 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 like to hand the conference over to Mr. Rahul Solanki. Thank you and over to you sir.

Rahul Solanki: Thank you and good morning everyone. On behalf of Edelweiss I welcome you all for Natco Pharma's Q4 FY16 earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni - Vice Chairman and CEO and Mr. Rajesh Chebiyam - VP (Business Development & Corporate Affairs). I now turnover the call back to the management for the opening remarks and then we will open it up for Q&A. Over to you sir.

Rajesh Chebiyam: Thank you Rahul. This is Rajesh. Good morning everyone. Welcome to Natco's Conference Call discussing our Earnings Results for the Q4 FY16 and also the Full Year Annual Results which ended March 31st 2016. The standard disclaimer before discussing our results: - We like to state that we might be making certain forward looking statements during the call because forward looking statements involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such statements. Let me also state that the material in the call with the exception of participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco's permission.

So now moving on to the earnings details, I think the momentum of earnings picked up well for the company during the final quarter of FY16 helping us meet our guidance given for the year and surpassing well over 1000 crores of revenue for the first time. The company recorded an aggregate of 1152 crores in consolidated net revenues for the year ended as against 840 crores for the last year with a year-over-year growth of approximately 37% in the topline. The net profit after tax on a consolidated basis was recorded as 155 crores for the year ended March 31st, 2015 as against 134 crores for the previous year. What we do need to note though is during the previous year that is FY15 we had a onetime decrease in profit on account of extra ordinary charge of 15 crores due to a legal settlement and also there was an adjustment due to deferred tax reversal with a liability of 31 crores. So if we actually adjust for these two items then true reflection of our increase of profitability is roughly about 31% year-over-year. For the Q4 ended March 31st 2016 the company recorded a net revenue of 408 crores on a consolidated basis as against 204 crores during Q4 of FY15 posting an increase of about 100%. The profit after tax on a consolidated basis was recorded as 60.2 crores for the quarter. The key driver as we mentioned in our press release for the accelerated revenue growth was the company's Hepatitis C portfolio products in the domestic Indian market.

Now would like to spend few minutes on the segmental breakdown. For the Q4 of FY16 on the API front we had roughly around 39 crores, domestic 4 crores export 35 crores for the formulation on the domestic front Oncology did 70 crores, pharma segment did 104 crores, the third party did 49 crores. So, a total domestic 223 crores. Exports for the quarter did 105 crores. On a full year basis if I look at API, API did 163 crores, domestic formulation did 633 crores, the split is Oncology was 252, pharma 253 and third party 128. This was an increase of almost 152% compared to the previous year. On the export front we did 230 crores for the year. Again this includes the profit sharing. This is roughly about 30% increase over the previous year.

Now the guidance for the year; we believe based on the base business we expect 1350 crores. On the PAT level, 175 crores. Specifically, this does not include the other upside with the company hopes for like the Tamiflu and Budesonide. So the base business does include increase in Hepatitis C portfolio.

So now I would pass it on to Mr. Rajeev for other comments and your questions.

Rajeev Nannapaneni: I am ready to take questions, so we can start right away. Thanks.

Moderator: Thank you. Ladies and gentlemen, we will begin the question and answer session. We will take the first question from the line of Mitul Mehta from Lucky Investor Manager. Please go ahead.

Mitul Mehta: Sir you just mentioned the guidance for the current year, in Q4 we have already hit about 60 crores of PAT, of course that includes some of Venezuela. So does it look like on a lower side that is one and second is if you can just explain us the nature of delays in some of your launches because we are still grappling with the 483. So would that result into any sort of delay because if we go on record in some of our previous calls, our target action date for Entocort was April, that seems to have pushed to June and what has happened is that in the interim lot of companies we know have got approval and the same case goes to Bendamustine also. So if you can help us to understand that also?

Rajeev Nannapaneni: First question was the guidance conservative? See the guidance assumes no upsides from the US. I have not taken any launches in the US. So I remain conservative on that front. I have not taken any Venezuela upside on guidance also because of the nature, they are all tender driven, right? So I do not want to build that into the guidance. So that is why we have been conservative. We can thread back discuss about each opportunities. So what I believe will happen in each of the opportunities and what the risk are and what the issues are. So the 1350 guidance is just based on the base business, just driven by the domestic portfolio and what we believe is driven by base orders that we have right now. The upside as Rajesh was saying, we have discussed, there are many of them, but I think we particularly mentioned Tamiflu and Entocort. So let me get into the other issues that you raised and then we will come back to the pipeline.

One issue that you raised was that we have been delayed and this could be related with the **(Inaudible) 8.59**. I do not believe that the approvals have anything to do with the **(Inaudible)**. I mean let me go one by one. First of all, let us start with Budesonide. Budesonide had a target action date of April and FDA has asked us certain questions on Budesonide. Our API supplier had to give some data and which took some time to generate. So from what I understand those questions were answered in May. So those were answered and I think if this information request that came and we were able to close this, so I expect that that we should get an approval in Q2 which is the July to September quarter it looks possible based on the way we replied and let us assume we take about two months to answer, that answers Budesonide.

The second question that you had was the upside was Tamiflu. So Tamiflu approval cannot happen before patent expiry. So we already have it tentative. So the approval can only happen after the patent expiry which is in August. So that is second part of the question.

Third is Bendamustine. Bendamustine launch date is quite far away. People are getting approvals and we also anticipated we should also get an approval. There were some queries and we were taking time to answer those queries. But I think we are on track and I think we should get an approval sometime this year and the most important question was on the 483. We do not think the 483 are major, they are minor. We have already answered them and I think I am positive that we should get our EIR for both the facilities, both at Chennai API facility and our Kothur facility.

Mitul Mehta: For Entocort we are going to source API from third party, those queries did come. Now, were you anticipating such queries and if there are any other queries that have come for your future pipeline which are for immediate launch if you can help us to get the clarity on that because what is happening is that of course there is no denying to the fact that we have had delays on several products. So just to kind of understand?

Rajeev Nannapaneni: Most queries you can anticipate and you can prepare the data. Certain times the queries tend to be complex. If the queries say something like you do this test and come back or you do a 90 day-stability and come back, you cannot answer the query until the 90 days is done and the way FDA is works is unless you answer all the question you cannot summit the data. They just ask you 10 questions, unless you have answer to all the 10 questions, if you have answers for 8 questions then you cannot submit the data. You have to have answers to all the 10 questions, only then you can submit. That is how FDA works and to anticipate certain queries yes, we always build that in. But certain times what questions the other guys will ask you do not know, right? And in terms of lot of people getting approval that is not true with respect to Budesonide. Only other company that got approval is Actavis. The other prior approvals are Teva and Mylan. Now Teva and Actavis are merging. So on a net basis there is no impact for us in terms of approval because it is the same company that got the approval which is being merged.

Mitul Mehta: And lastly Copaxone, were there any sort of observations at the **(Inaudible) 12.37** because the formulations filling is going to happen there. So, any kind of observation that have come?

Rajeev Nannapaneni: I am not aware of anything, personally I am not aware of anything. I will look into it. But what I understand there are no issues. I think everything is cool.

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

Nimish Mehta: If you can just breakdown our Hep C sales in terms of how much is our brands and how much is through P2P that would be helpful.

Rajesh Chebiyam: So for Q4, our brand did 107 crores. Hep C 54, Ledi and Sofu about 40 crores and Dacla about 13 crores. Third party did 33 crores. But the third party may not be repeated at the same level because there are some and eventually Mylan and Cadila are moving out but for the launch they have taken. The brand business is what is more sustainable and which we see I think the way this quarter is going I think we are doing very well. For the year limits, because the year we did over 243 crores on our brand and 98 crores on the third party.

Nimish Mehta: So on the brand are we selling it through largely hospitals or because it has become I think if I were to take this 100 crores run rate for the quarter which means the annual brand of almost 400 crores which is larger than the largest brand in India why is that we are not able to see that in any of this AIOCD or IMS data? Any particular data?

Rajeev Nannapaneni: I think everything what we do never change in IMS because of this specialty nature of the pharmacy, if we look at even our Onco sale I think I do not remember the last time I checked IMS, it shows the sale as 40-50 crores even though our brands have done 250. The reason is most of these sales are done through specialized distributors and specialized hospitals and the way IMS works is they do retail sampling and most of the common brands like antibiotics and all are sold through retail shops. Our products are not sold through retail shops. I think that is where the problem comes from. So the samples may not truly represent the real nature of the business.

Rajesh Chebiyam: Many of this are not empaneled with the AIOCDs.

Rajeev Nannapaneni: And the other thing is lot of these distributors do not like to share their number because they do not want to show how much turnover they are actually having but the retail product because it is more spread out, the data is more reliable. It is problem with the way they do the data.

Nimish Mehta: Understood. But we are selling it directly to the hospitals or through distributors?

Rajeev Nannapaneni: There are specialized distributors and specialized hospitals, correct.

Nimish Mehta: The other thing if you can just let us know on the Kothur plant 483, so when did we send the last update and what is the action plan there? Have we submitted any action plan there?

Rajeev Nannapaneni: Everything was submitted. I think as soon as the auditors happen immediately within 15 working days we have answered them and we have given our action plan and corrective plan. So we have answered everything.

Nimish Mehta: According to you the action plan is over from your side?

Rajeev Nannapaneni: Absolutely, what we are supposed to do we have done everything and we anticipate that we should get it cleared, I think that is our expectation. We think that is minor in nature and I think it should be done.

Nimish Mehta: And finally if you can just let us know the R&D expenditure for the quarter and for the full year that would be helpful?

Rajeev Nannapaneni: I think I do not have for the quarter; for the year is what I understand is about 70 crores.

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

Ravi Daramashi: My question is regarding the capital work in progress. So there is a substantial increase in that number to about 211 crores. If you can just throw some light on what that is exactly and when do we expect the Vizag plant to start?

Rajeev Nannapaneni: The capital works includes the Vizag plant. We are doing substantial amount of capital expenditure right now. So the capital expenditure is of 2-3 nature. One is we are expanding setting up of Greenfield in Vizag and so I think there is about 40 crores in capital in progress in Vizag. So 26 crores we have spent this year and about 13-14 crores in land acquisition. So about 40 is what the capital work in progress there and we anticipate that the Vizag facility should be ready by end of this financial year by before March 17. That is our expectation and the other major capital expenditure that we have done is we have refurbished the line for the Oseltamivir launch. So we spend about 25-30 crores on that and then we completed the pre-filled syringe line facility, we are starting validations on that. So basically we are doing substantial amount of capital expenditure and so that is why lot of capital work in progress is showing.

Ravi Daramashi: Okay and just one more question. What is the rate of filing that we are witnessing? Any guidance on that front for FY17 and if some update on the status for Vidaza and Doxil?

Rajeev Nannapaneni: Last year we did 4 filings in the US and this year we anticipated about 6-7 filings. Among the filings that we have done we have publically disclosed all the filings but I think one filing that

we did last financial year is Doxil and in terms of timeline of launches, let me just layout major launches that we are expecting in the next 12-18 months. So some of these launches could happen in this financial year, some of them based on regulatory approval could slip into the next financial year. So first one is Tamiflu. We have a settlement date. So we expect the launch in this financial year and all of these are not put in the guidance. So just want to put that out in the table as well. The second big one that we are expecting is Budesonide approval. So we have some minor queries. So we have answered them. So we expect if everything goes well an approval in next quarter hopefully. The third big one we are expecting is Copaxone. That has been there since last year. But we have answered all the pending queries. So we are hopeful that we can get an approval in this financial year. The fourth major one, we have received CRLs on Bosentan. So we are answering them by the end of this month. So once the CRL is answered. We anticipate and we are not able to judge on the approval timeline as yet but I am hopeful that will happen this financial year and Azacitidine I think the review is still ongoing so it is hard to give timeline for Azacitidine and on Doxil also it is too premature to say any guidance for the launch time. It's too premature; too early days right now and the last one that we expect approval in this financial is Lanthanum Carbonate also in this financial year. We had some CRL questions, we have answered that as well. So in addition to Tamiflu, Budasonide and Copaxone we are adding Bosentan and Lanthanum also to the mix that we anticipate approval in this financial year.

Ravi Daramashi: Any update on the Gleevec in Europe or US?

Rajeev Nannapaneni: Gleevec I think we have filed it about 2 years ago and I think we have received a CRL on that also. But as of now it will be hard to give any guidance from the launch. I think it will be too premature Ravi, I think at this time I cannot give the guidance.

Moderator: Thank you. We have the next question from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: Just two questions from my side. When you give this guidance of base business 1350 crores, this is assuming what number in FY16? If you assume similar base in FY16 and what number that will be?

Rajeev Nannapaneni: I am not able to understand the question. Can you say that in a different way?

Rajesh Kothari: You said the base business guidance is 1350 crores for FY17, what is like-to-like number you would like to put for FY16?

Rajeev Nannapaneni: Like to like means last year it was 1150, right? See what happened last year was; I think the only thing that we have not assumed is Venezuela. I think it is the same business. The like to like business is, I think may be if you understand me correctly the increase of revenue is driven primarily by Hepatitis C. Other than Hepatitis C we have not put anything else in the guidance

because all of them are linked with the USFDA launches. So what I laid out to you is about 5-6 approvals that we are expecting in this financial year based on whenever FDA approves us but we have not put any of those in the guidance and one more thing I missed in the guidance was the Armodafinil launch. I think our anticipation is that will have a launch in December. I think in June or July I think Mylan has 180 days, end of 180 days is in December I think. So we are anticipating the tentative will convert into full approval in December. So that is another one we are anticipating in 17 months and we are not giving any projections on any of the US launch. We are just saying that these are the filings that we have and these are the approvals that we are anticipating.

Rajesh Kothari: Sir just a small request from my side if you can just put your presentation on your website because we have not got your recent presentation because all pharma terms, you know sometimes not easy for everybody to understand pharma you know, so many products.

Rajesh Chebiyam: Sure. Fair enough. We have an existing presentation with pipeline. What we will do is we will put the latest financials and updates.

Rajesh Kothari: Yes, please. Just put it before conference call that will be useful.

Rajesh Chebiyam: We usually have the product but again they are all subject to approval and patent litigation, right? So it is hard to judge the timeline. But we can put out all the filings to our public, it is good.

Rajesh Kothari: If you can just put before conference call next time that will be useful for us to understand it better.

Rajesh Chebiyam: Sure. I respect that. Thanks.

Moderator: Thank you. The next question is from the line of Afzal Mohammed from Karvy Stock Broking. Please go ahead.

Afzal Mohammed: This quarter other expenses went up by 93%, so what are the other expenses?

Rajesh Chebiyam: That is primarily driven by the Hep C related Laurus profit sharing. So we have a partner for API supply and Gilead royalties also.

Rajeev Nannapaneni: In that particular quarter I think Laurus has paid a profit share of 23, for the year we paid them 50 crores but hat particular quarter was about 23 crores. That is probably one of the reasons. Then Gilead royalty is also there and few other commissions that we have booked. Primarily these two are the major ones.

Afzal Mohammed: Do you expect the profit share to continue with Laurus Labs of Hep C sales increase or decreases?

Rajeev Nannapaneni: Yes, I think the way the agreement is structured, yes. The profit share will continue and I think if you see the numbers also Q4 have seen a jump in the Hep C numbers, right? So now the run rate of Hep C has increased from now the brand run rate we see about 120-130 a quarter and a P2P business about 15. So every quarter we should see about 140-145 crores, 140 on the higher side and 125 on the lower side, in that range. So now that sale is going to be nearly if you annualize the sale is about 500-550 crores. So it is almost a 50% increase over last year sale. So last year it was about 343-350 so obviously the numbers were increased and because the brand is doing better the profit share expense would be higher because the profitability of the brand is more.

Afzal Mohammed: And sir when do you expect the economies of scale to reflect in the margins from the Hep C portfolio?

Rajeev Nannapaneni: I think we are seeing more benefit now. Sofosbuvir APR prices dropped dramatically by half. I think we have renegotiated our contract with Laurus. So some benefit of that we are seeing. We probably see it more in Q2 and Q1, some benefit you are seeing half of Q1 we are able to see but again it kind of nets-off a little bit because there is always pressure in the front-end also in terms of pricing. So Hep C is more like 30% margin business but it is revenue driven. So more volume you do, we were able to do like say 500-600 crores a year then you can see 30% free cash. So that is the advantage with Hep C.

Afzal Mohammed: And seeing **(Inaudible) 26:38** market share and domestic market what number would that be?

Rajeev Nannapaneni: What is the market share in the domestic market you are saying?

Afzal Mohammed: Yes.

Rajeev Nannapaneni: I will believe again, again I had no way of validating it because there is no IMS I can use to validate. I think we are probably the largest brand. All our three brands are probably the largest selling products in the market.

Afzal Mohammed: And how many countries the product registration has been filed currently for Hep C?

Rajeev Nannapaneni: Afzal, we have filed in 40 countries and we have received the permits for approval from 8.

Afzal Mohammed: And do you expect export sales to start this quarter sir?

Rajeev Nannapaneni: We have been having some small export sale. I think we anticipate once we get approvals may be by the end of the year I think slowly it will start picking up. As of now I think may be over

$3-4 million is what we are expecting in the export sales in this financial year, but as things pick up by end of the year as we keep getting more registrations and I see this business growing quite nicely. But what we did I think is India has done very well for us. I do not think I will be able to see the same scale in outside India. It is highly unlikely. So India will probably represent 70%-80% of our Hep C sales, I think going forward that is why.

Afzal Mohammed: How about in FY18, exports?

Rajeev Nannapaneni: Right now hard to give number and all Afzal because it depends on how things go. But what I can tell you for sure is by FY18 we should get most of the registration in most of the countries, at least the key countries. Then we can able to see some traction from there. But again it is all subjected how good your partner is and how the other guys are doing but the other guys will also catch up now because everybody is now filing quite aggressively. So the sort of head start we have in India I do not think we have in the export market unfortunately.

Afzal Mohammed: And how you see the Brazilian API sales?

Rajeev Nannapaneni: That has been bit slow. That has been one of the reason why API sales has dropped because of the currency issues and lot of political issues in Brazil as you might have seen because of the political crisis in Brazil. So the things have been not been that great in South American countries especially which are commodity driven.

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

Nitin Agarwal: What would be your Venezuela sales for FY16?

Rajeev Nannapaneni: We have not yet split but I think we have an outstanding of about 45 crores in Venezuela, I think net impact.

Nitin Agarwal: As of end of year?

Rajeev Nannapaneni: End of March 2016 I think. We have received some in advance and we have taken that over the balance sheet and some is booked as commission. So we are removing that as the risk. So 45 is the exposure that is there on the balance sheet which we think is still good because we got paid so far and the only difference between other people and us is that we are doing a dollar supply we are not supplying in Bolivares. We are supplying directly to the government.

Nitin Agarwal: Secondly on the filing that you have made in US this year while not getting into the details, can you give us a rough idea of the kind of filings over there, any first-to-files in those or what kind of opportunities have you done in FY16 filing?

Rajeev Nannapaneni: I think out of the four we have disclosed one I think, Doxil is the only one we have disclosed. Of the other 3 that we have filed I think all three are Para-IVs of which I think one was first-to-file and one is Para-IV with somebody else already has a first-to-file and other one is also complex generic where we are not the first-to-file but the tough product to make and all of them will have a sale of about $2 billion or so, all of them put together in branded sale.

Nitin Agarwal: And none of them are generic right now?

Rajeev Nannapaneni: I stand corrected. It is about $3 billion in sale and none of them are generic and all launches are depending on the launch date are all staggered between '18, '19 and '20 based on obviously approvals and legal outcomes.

Nitin Agarwal: And secondly you did mention about the filings that you expect in another 12-18 months but are there any specific opportunities from our time perspectives that can come through in FY18 beyond the ones you listed out? How should we see growth in '18 really on the high base that Tamiflu will end up creating this year?

Rajeev Nannapaneni: The major one is going to be obviously Tamiflu and obviously I said Copaxone is there and then we have Bosentan, then I said Lanthanum Carbonate and then hopefully by then we will have some clarity on Azacitidine and may be some clarity on Doxil by then and then we have Armodafinil and then we will also have some clarity on Copaxone 40 something that we need to watch out for. So we have all the pipeline filings. Again they are all subjected to regulatory approvals and legal outcomes and I think there is where we see as of today and also we think that our domestic business also we are looking to add another segment something which we are thinking about. So that also you can offset some, but some of the high base sale that we may have in Tamiflu based on how things go there.

Nitin Agarwal: And in terms of the filings are you looking to add any new presentations this year or it is going to be same complex injectable filings or complex oral filings that we are doing this year?

Rajeev Nannapaneni: I think the strategy is still being I think we will do about 5-6 filings and typically 50% of them will be Oncology and 50% will be non-Oncology and mostly complex filings or Para-IV filings, that is what we are listing at. We try to make sure that the filings do not have too many competitors but sometimes 5-6 that we end up file, we anticipate about 2-3 will be fairly competitive and 2 or 3 should be where we will be exclusive, I think that is our expectation.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Bank of America. Please go ahead.

Manoj: Just Rajeev, want to check given the fact that our domestic business is doing an annual run rate of around 600-700 crores and as you have indicated that obviously you are looking to enter may be one more therapeutic area, but just picking up minds on the gastro itself. Given that we

have got 3 products and we have got a strong association with gastroenterologists, do you see potential launches of other products in and around gastro segment?

Rajeev Nannapaneni: We look at all opportunities Manoj, but generally I do not spell out what we do because you do not want to tell what your pipeline is. See generally we only spell out our pipeline where we get suite for the Para-IV and where it is publically known. When you look at opportunities you look at even in the segments that you are already in, so not only we have a strong pipeline in the gastro and oncology with newer launches we are also looking at other segments.

Manoj: And Rajeev, typically again overall opportunity in the Hep C segment in the domestic market given we have around 18-20 million potential people who are affected with Hep C Virus. How do you see the overall scope of this market and what would be the ideal penetration level which you guys are looking may be down the line next 3-5 years?

Rajeev Nannapaneni: I think there are few more brands that are left. I think the one is the Velpatasvir plus Sofosbuvir which Gilead is anticipating approval by June-July. Then we will probably go after generic after the US approval. So that is probably one launch left, a couple of SKUs that we can possibly launch. So there is couple of brands that you need to launch so that you can complete the Hepatitis C portfolio and where do we see the market going, I think the takeoff has been very good initially. So I think we are very happy. The market will be here around many years. Then as you know it is a cure, right? In 2-4 months' people do get cured and they will drop, it is not like retroviral where you continue forever. But I see that the diagnosis is poor and most people who have the Hepatitis C virus get diagnosed 10-15 years after they get affected. So the opportunity is there. I think it is sustainable model but probably stabilizes at some number, what the number is I do not know. It will probably stabilize at some number eventually.

Manoj: And the last question from my side, given the fact that may be over the next 2-3 years as you rightly said, this business will get stabilized and by that time we hopefully should be $ (+250) million kind of overall domestic business, so how do you see that in the long term growth prospect and do you think that domestic business because given the strength of this brand and this particular therapeutic area can really become very big for us in years to come?

Rajeev Nannapaneni: I think of all the businesses that we run Manoj, our favorite is domestic because it is a very stable business. It has an annuity element to it. it has a sticky element to it because branding gives you a tremendous amount of stickiness and regulatory issues are relatively less compared to let us say to the US for example. So that way it is a par superior business and as you rightly said the way things are going we can probably target 1000 crores revenue in the domestic market in the next couple of years. So it is a good business to have and domestic in my view has a lot of potential and we need to have a good pipeline and we need to have a good technology, I think that is the key. You know the way we do things that we do not like do a product whether 100 guys or 20 guys. We try to identify opportunities where there are not too

many guys or there is a patent has challenge or something like that the products that we like to focus on. So I think if you were to identify these opportunities and if you are fortunate enough that there are not too many competitors when you launch these drugs I think the business has potential to grow. I think the growth that we are seeing, 100% growth and all may not be possible as such a high base but if you have a smart portfolio you can grow around 15%-20% every year compounded which is a nice thing to do. I think we are very bullish about domestic and I think lot of the resources we are spending on expanding our domestic CAPEX also, like Guwahati and Dehradun which is where most of our domestic products are made, we are doing significant amount of CAPEX so that we can ramp up in the next few years.

Moderator: Thank you. The next question is from the line of Gagan Hareja from Kotak Investor Advisor. Please go ahead.

Gagan Hareja: First question more related to accounting. Can you give tax rate guidance for the coming year and also the ESOP payouts that will be there for the coming two years?

Rajeev Nannapaneni: Tax rate I think we will continue to be in MAT. So we believe our tax rate to be around, MAT is around 21%. We do not see an increase of it. In terms of ESOP expense, we have total ESOP expense we have about 1.5 lakhs share before the split. I think the price was around 2200. I am working from memory so do not hold me to it. I think it is about 30-31 crores is the expense. I think the way the accounting stands work, again working from memory roughly I think about 10 crores we have expensed in this FY16 March we will expense another 10 crores or 12 crores I think in '17 March and rest of the 10 crores I think is split over the period of 2-3 years because I think the best thing is over period of 4-5 years. So will be heavy expensing in '16 March and some heavy expensing in '17 March and it will kind of slowdown over a period of time and once all the stock is issued it will increase our equity by I think probably about 0.4% I think. There will be an increase of equity of that once all the investing is done.

Gagan Hareja: Coming on to the second question you have a guidance of 1350 crores of base business sales, is it possible to sort of break it down into your largest segments for Onco, API and Hepatitis C?

Rajeev Nannapaneni: I think he biggest ones will be driven by domestic. I think our domestic were expecting Hepatitis C should do about 500. I think Oncology were expecting to do about 280-300, Hepatitis would be about 480-500 and third party business we are expecting about 65-75. So these 3 will probably drive the numbers primarily and one more thing we should remember, we have sold off the pharmacy in the US. So that we will lose about 100 odd crores in revenue and probably 3-4 crores in profits, so that has been removed from the balance sheet. So the guidance assumes removal of the 100 crores. Henceforth in the future quarters our revenues will be less by about 25 hereafter.

Gagan Hareja: And finally there were some IPR related hearing in the week gone by on Copaxone 40, your opinion on that, if you have managed to form one?

Rajeev Nannapaneni: The PTAB hearing you are saying, the patent?

Gagan Hareja: Yes.

Rajeev Nannapaneni: We always believed that patent is invalid but end of the day you know. But from what I understand they are in public domain, I think the verdict is expected in around next few months on the patent IPR proceedings. So once we hear from them then we can see what happens.

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

Karthik Mehta: You just mentioned in your starting remarks Rajeev that some of your partners, Sovaldi may not be there, I did not get that, can you elaborate that?

Rajeev Nannapaneni: What happened is in the domestic market, Mylan and Cadila and all were buying Sofosbuvir from us initially because they did not have the product initially. As you might know the history of the product, Sofos and Ledipasvir there were only two licenses that were issued at the time of the launch, it was Natco and Hetero manufacturing license, not the license from innovator. So the companies which were not ready were buying from us on a transfer price basis and eventually I think all of them got their own licenses so they stopped buying. That business itself is not a very profitable business. So it is probably a 15% margin business. So by them going away it does not have much impact. But what I was trying to tell you is that, see for example the third party business last year is about 98 crores. What I was trying to tell you is that we may not be able to repeat that number. I think we are saying we were able to do about 60-70 is what I was trying to say.

Karthik Mehta: And so if I have to look at your plans for Sovaldi outside India in some other Asian markets etc, which market would you rate after India as high potential or high involvement, how should we look at this number over the next 2…

Rajeev Nannapaneni: I think our friends are also very competitive, but not going to be easy in these markets. The big markets is really if we look at the Hep C market, India is probably the biggest market with a population of 1.3 billion and then we have Egypt with probably a large market. But Egypt is very hard to penetrate because of Chinese suppliers and Egypt does not have any patent. So I am not very bullish about Egypt, but potentially Egypt is large, so I am not very bullish about us selling in Egypt. So it leaves out markets like Vietnam, Indonesia and South East Asia. I think we have probably the large markets where we are aggressively pursuing our regulatory strategies there and may be Myanmar. So these three countries would represent a large

population and then Philippines is another important market and in Africa I think South Africa would be an interesting market and Nigeria, Ethiopia, I am taking countries in which population which are very large. I am taking about 70-80 million population, like Indonesia would be about 200 million. Myanmar is what 50-60 million. Philippines is about 70 million. Nigeria is again another 180-200 million. Ethiopia is about 80 million. South Africa is about 45-50 million. I think these are key markets but we need to get right.

Karthik Mehta: Sure and the last one was on the R&D cost that you have about 70 crores. So you said 70 crores R&D in this year. So over the next 2-3 years assuming that you filing in US was type of 50s that you have done, so what is the number as a percentage of sales or were at 70 crores actually how does that look by let us say by FY18 or '19?

Rajeev Nannapaneni: I think the same number. 6-7% is something we are very comfortable with?

Karthik Mehta: 6-7% of topline?

Rajeev Nannapaneni: Yes.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC. Please go ahead.

Arpit Kapoor: Just on the balance sheet size, the inventory and receivables both have increased quite a bit on a Y-o-Y basis, so why would that be?

Rajeev Nannapaneni: Inventory and receivables you are saying?

Arpit Kapoor: Yes.

Rajeev Nannapaneni: Inventory is increased because of 2-3 reasons. We have built up a lot of inventory for launch of Ledipasvir plus Sofosbuvir, so that was one item and then other item that we have built up inventory on Tamiflu launch. So both these items itself I think represent almost 60-70 crores of the inventory that is there in the books. That is probably one reason and then capital in works that also liabilities have increased. What was the other question you said, receivables right?

Arpit Kapoor: Yes.

Rajeev Nannapaneni: I think the turnover has increased. So that is probably reflective of that.

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

C Srihari: I missed out the sales break down please could you repeat that along with the Q3 numbers and Q4?

Rajeev Nannapaneni: Sales break down between divisions right? What is API, what is formulation, is that what you are saying?

C Srihari: Yes.

Rajeev Nannapaneni: You want it for the year or you want it for the Q4?

C Srihari: I have for the year, I want for Q4 and Q3?

Rajeev Nannapaneni: Can you do it off line?

Rajesh Chebiyam: Please connect with me. Let us go offline since we…

Rajeev Nannapaneni: I do not have all the numbers on hand, so it is better we do it offline and we have done it in the early part of the call. I probably missed that. So if you do not mind, can we do it offline.

C Srihari: In that case I wanted to know the CAPEX?

Rajeev Nannapaneni: Total CAPEX we have planned about 350 crores this year and of which we think will end up spending about 270-280 in this financial year and we anticipate that we will generate enough surplus that we can pay for most of it and I do not this we need to borrow too much. In terms of cash situation, I think end of balance sheet 31st March we have about 105 crores of cash and our debt is about 96, of which about 30-40 crores is bill discounting. So net debt, if we remove bill discount it is about 60 crores and so with the cash flow I do not anticipate we need to borrow, plus we have some additional cash that we got from selling **(Inaudible) 48:51**. So we got an addition of $4 million. So we add that cash and we are probably sitting on cash of about 125-130. So we are fairly comfortable. So I think we should be able to fund it quite comfortably.

C Srihari: So is the breakdown of 270-280 crores possible?

Rajeev Nannapaneni: I will give you the major ones. I do not want to get into threadbare**.** The major one is Vizag we intend to spend about 100 to complete the plant and API facility is we want to spend about 130 both in our Hyderabad and Chennai facility. So these are the 230 and existing facilities I think Dehradun and Guwahati we are doing about 35-40 and Kothur which is our primary finished dosage side we intent to spend 43 and then some miscellaneous items.

C Srihari: So will this take of our needs for the next couple of years?

Rajeev Nannapaneni: This will take care of maintenance CAPEX for this year and the next few years. This business is a continuous CAPEX business, so you just have to keep building facilities. We have done a large CAPEX may be about 2-3 years ago and about 3 years ago when we build the Copaxone plant and the injectable plant I think we did a significant amount of CAPEX and the last two

years we have done only maintenance CAPEX and just small projects we are doing. This is probably a large CAPEX that we are trying to do. This will take care of all filings going into the next 2-3 years, yes absolutely.

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

Rajeev Nannapaneni: As I said this should sake of good order I think our guidance is that we should do about 1350 and we expect these up flows will start rolling in the next few months of which major one we expecting are Tamiflu, Budesonide, Copaxone and then may be later part in the year we are expecting Armodafinil, Lanthanum Carbonate and Bosentan depending on how the regulatory process goes forward. So thank you very much for attending the call and good day and bye-bye.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Edelweiss Securities we conclude this conference. Thank you for joining us and you may now disconnect your lines.