



“Natco Pharma Limited  
Q4 FY2018 Earnings Conference Call”

May 24, 2018



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

**MANAGEMENT: MR. RAJEEV NANNAPANENI – VICE CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER – NATCO PHARMA  
LIMITED**

**MR. RAJESH CHEBIYAM – VICE PRESIDENT -  
ACQUISITIONS, INSTITUTIONAL INVESTOR  
MANAGEMENT AND CORPORATE COMMUNICATIONS –  
NATCO PHARMA LIMITED**



*Natco Pharma Limited*  
*May 24, 2018*

**Moderator:** Ladies and gentlemen good day and welcome to the Natco Pharma Limited Q4 FY2018 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Deepak Malik from Edelweiss. Thank you and over to you Sir!

**Deepak Malik:** Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for Natco Pharma’s Q4 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 and Corporate Communications. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

**Rajesh Chebiam:** Thank you Deepak and welcome again everyone to Natco’s conference call discussing our earnings results for the fourth quarter and the full year of FY2018, which ended March 31, 2018. As a standard disclaimer during this call we may be making certain forward-looking statements, which are predictions, projections or statements about future events because forward-looking statements inherently involved risks and uncertainties, actual 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 cannot be recorded or rebroadcast without Natco’s expressed written permission.

Coming to the earnings details the company is pleased to announce its results with a consolidated total revenue of Rs.2242 Crores for the year ended on March 31, 2018 as against for the last year Rs.2079 Crores reflecting a year-over-year growth of 7.9%. The net profit for the period on a consolidated basis was Rs.695 Crores as against Rs.685 Crores last year showing a growth of 50%. For the fourth quarter ended March 31, 2018, the company recorded net revenue of Rs.788 Crores on a consolidated basis as against Rs.577 Crores during Q4 of FY2017 posting an increase of 36.5%.

The profit after tax on a consolidated basis was recorded as Rs.299 Crores for the quarter as against Rs.176 Crores same quarter last year showing a growth of 70%. The growth in revenue pocket during the year was driven primarily by formulation business in the USA that included niche generic product launches of Glatiramer Acetate, Liposomal Doxorubicin and Lanthanum Carbonate. Additionally generic cost of material sales in the US was a



*Natco Pharma Limited*  
*May 24, 2018*

strong contributor for the company in spite of competition. The domestic oncology formulation business continued to be strong during the year in spite of the macroeconomic headwinds such as impact of GST. This was possible due to some first to launch generic domestic oncology products and continued growth of our existing portfolio products. Now, we will pause here and take questions.

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

**S Padmanabhan:** Thank you for taking my question and congrats on good set of numbers. Sir my question is on Tamiflu last year the same period I remember your commentary saying that a part of Tamiflu has been shifted to the first quarter, I am just trying to understand whether similar thing has happened in the fourth quarter whether there has been some kind of a shift of Tamiflu to the next quarter?

**Rajeev Nannapaneni:** Sudarshan I think as I said last time I will just repeat it again I think we have recognized revenue on accrual basis so what will happen is some portion of the Tamiflu profit has been recognized in Q4 and some of it will also be recognized in Q1 of March 2019.

**S Padmanabhan:** And any idea how much would that be; would it be like 50:50 or what would be the magnitude of the profit?

**Rajeev Nannapaneni:** I do not want to say that I will give you a general guidance, so in that it will be included.

**S Padmanabhan:** And Sir second question is I would also like to understand the dynamics on both 40 mg and 20 mg of Copaxone and also if you can give some clarity with respect to how are the other molecules like Acetabine and Doxil how they have also contributed for the US business?

**Rajeev Nannapaneni:** As you have seen Copaxone is doing well I think the 40 mg has done very well. We have got nearly 15%, 16% margin sale. The ramp up has been slow, but it is the nature of the product I think you have seen in the past even with Momenta and Sandoz, it takes time I think even Momenta took almost a year to get a significant market share. We are on track and we are happy. I think the benefit of Copaxone we will see it over the next few quarters. The benefit we see now is also there, but I think we will probably see a greater benefit as time goes by as for Copaxone and in terms of profits as I said they have not done so great I think it is fairly eroded, we have about 7% to 8% market share, but it is nothing, it is not a large number, which makes us used to. Regarding the other one, the Lanthanum has done well because we are the only generic on that and Doxorubicin also has done well. So the top



*Natco Pharma Limited*  
*May 24, 2018*

four performers in the US have been these four products Copaxone, Tamiflu, Doxorubicin and Lanthanum Carb.

**S Padmanabhan:** One last question from my side if I am looking at the India business both oncology and non-oncology, if you can give some clarity especially with respect to hepatitis C I think we were supposed to, we have launched the combination and the last two years has been very good for us as far as traction in this business. How do we see this hepatitis C franchisee both in India and as we launched this hepatitis C in emerging markets do we see probably the erosion or the pace of growth coming down in India to be captured by the emerging markets and also some thought and clarity on the oncology space how that is expected to go for us?

**Rajeev Nannapaneni:** The overall domestic business has done well. Domestic this year has couple of issues, one was the GST implementation kind of some numbers in the June quarter, the second is the way they are stating the numbers, earlier years we used to include excise duty, now we are not including excise duty because of varying economy is done excluding excise duty because GST is not included in the sale number, so that kind of shows a slight decline, but overall we have seen a decline in the hep C portfolio that has been reflected in the earlier quarters. Now I think the decline has stopped, the thing now we are having a run rate last quarter we did about Rs.58 Crores in a domestic branded hepatitis C, quarterly wise we are doing around about Rs.70 Crores a quarter, so that is a run rate that we are comfortable with. It is going up and down I think we see it now stabilizing once the ROW start picking in I think it should stabilize at a slightly higher number, but that is probably around the stabilized number.

**Moderator:** Thank you Sir. We have a next question from the line of Ravi Dharamshi from ValueQuest Investment Advisors. Please go ahead.

**Ravi Dharamshi:** Thanks for taking my call. My question is regarding the cash flows, so we have the QIP money raised has been put in the bank and will be generating a lot of money from Copaxone cash flow this year and Tamiflu also, so what exactly are we thinking about utilizing that cash, we have not even given a dividend this year, so what are the thoughts on that?

**Rajeev Nannapaneni:** I gave a dividend Ravi. Here we gave a dividend of almost to be very precisely we gave Rs.181 Crores dividend this year, which is about 26% of our last year's PAT, so we gave two dividends one after first quarter earnings and second one after the third quarter earnings, so total we gave a dividend of Rs.8.25, so I think 26% of our PAT is what we gave, so about Rs.155 Crores in dividend and Rs.26 Crores in dividend distribution itself. In terms of utilization of funds, the cash balance as of March 31, 2018 was Rs.856 Crores, so



*Natco Pharma Limited*  
*May 24, 2018*

if you really look at it I think we used the QIP money through some capex and paid on some of the small debts that we have had. In terms of utilization we believe we will be earning about Rs.350 Crores to Rs.400 Crores in capex this year and also similar amount of dividend we will give in 2019 and in terms of cash utilization we believe we are just keeping the cash tranche for an acquisition or a large business idea. As of today with the way business plan is being executed I do not think we will be spending more than Rs.350 to Rs.400 and most of it will be funded. The capex and the dividend will be funded through taxable that is why we will look at it.

**Ravi Dharamshi:** What is the status on the Vizag plant we still are showing quite a large number of our capital and working capital WIP?

**Rajeev Nannapaneni:** It is not closed, but in another two-and-a-half to three months we will be able to close the plant. Our idea is by August, September we should be able to complete the plant, so by September we should be online that is our expectation.

**Ravi Dharamshi:** Just one last question from my end. What is the status on Revlimid in terms of our approval and what is your reading of the situation regarding what is happening between Celgene and Dr Reddy?

**Rajeev Nannapaneni:** I can speak about approval. In terms of our approval we had some queries we have got all the data has been generated, so we are submitting to the FDA now, so if all goes well we should be able to get an approval by end of this year or early next year. Our settlement date stands March 22, 2019. Reddy's and all I am watching definitely where you are, so nothing to say that.

**Ravi Dharamshi:** Thank you.

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

**Nitin Agarwal:** Rajesh, can you help us with a split of the business as you normally give for the quarter and may be for the year also?

**Rajesh Chebiyam:** On the API business, I will go for the quarter Q4 first. The API domestic 8.2 Crores, API exports 51.5 Crores, formulation onco, which also includes a small element of CND business is 82.8 Crores, formulations brand non-onco, which is hepatitis C there is 62.4, formulations third party is 13.3 Crores, so the total formulations domestics for the quarter



*Natco Pharma Limited*  
*May 24, 2018*

was 158.5 Crores and formulation exports, which includes the profit sharing as well is 492 Crores.

**Nitin Agarwal:** Would you be able to help us with the full year number also about these things?

**Rajesh Chebiyam:** Sure, the full year API gross revenue is 285 Crores, domestic formulation 720 Crores and exports formulation is 1041.

**Nitin Agarwal:** Secondly on the business how should we look at the business over the next when we take a two to three-year view this year we have got Copaxone or there is some amount of Tamiflu that will come through in the year, so two things, one is how do you see Tamiflu in the new season given the fact that the multiple new approvals, which have come through and how do we grow beyond Tamiflu and Copaxone over the next couple of years?

**Rajeev Nannapaneni:** Sure, I think Nitin in terms of future wise I think we are projecting a very base growth of about 8%, 10% on topline and on bottomline this is the base numbers, I am assuming that Copaxone ramp up takes time, I am also assuming that Tamiflu upside is gone for the next, even we assume the work we still think we are able to grow by 8%, 10% and that is for March 2019, and about 2020 and 2021 I think I have been saying this for the last 12 months as a strategy we have decided to focus more on ROW markets, India, Brazil and Canada, these are three launches, so we believe that there will be significant ramp up in 2020 from these three markets with a strong focus on India, Canada and Brazil and in Canada we have done almost \$15 million topline with very good profits and Brazil is losing money, but we have got 6 to 7 filings where we are trying to be the first generic in Brazil for certain items, so all these ramp up will happen in 2020 and we are able to sustain what we are doing in 2018 and 2019 into 2020 because of our focus on ROW.

**Nitin Agarwal:** Thanks. Best of luck.

**Moderator:** Thank you Sir. We have next question from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

**Dhires Pathak:** For hep C third party revenues can you share that for the quarter?

**Rajeev Nannapaneni:** Total third party revenues for the year, we do not do a split of hep C and all.

**Dhires Pathak:** Branded sales you gave hep C Rs.58 Crores domestic branded?

**Rajeev Nannapaneni:** For the quarter you are saying?



*Natco Pharma Limited*  
*May 24, 2018*

**Dhires Pathak:** For the quarter I am saying, so Hep C generally give a breakup sometimes between domestic brand, third party emerging markets?

**Rajeev Nannapaneni:** So I think what we will do is of the hep C split you want. Hep C 58 Crores what we have said is hep C, total for the quarter was Rs.70 Crores, 58 is domestic.

**Dhires Pathak:** Have you given any colour in terms of how much was Copaxone contribution?

**Rajeev Nannapaneni:** We are not doing that strategically because of comparative reasons I stopped doing this for the last couple of quarters.

**Dhires Pathak:** Alright. Thank you.

**Moderator:** Thank you Sir. We have next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

**Kartik Mehta:** On the guidance, so with one of the companies from India not being in Copaxone for entire FY2019, would you assume that 10% profit growth for FY2019, which you are guiding is a very, very conservative number and in terms of upside how do you look at this because for the entire year it might be that there will be only two players, is my assumption right? Thanks.

**Rajeev Nannapaneni:** I am assuming again very conservative numbers, I am assuming the next flu season will be very comparative and I will not able to repeat the numbers and second I am assuming that the Copaxone ramp up will take time, 8 to 10 I would like to be conservative Kartik I think will it be better than 8 to 10 I think I can make the judgement as the year falls I do not want to say it right now Kartik, but let us work with the worst case scenario that I am comfortable saying 8% to 10% things are very conservative, if there is anything better we will see how the future unfolds, as of now I do not want to comment beyond that.

**Kartik Mehta:** Sure and one question on the way you guys hedge and I am not asking for any exact numbers for Copaxone from you, what I am asking is that how do you hedge this particular asset now that there is certainty of revenues, does the weak rupee help you, do you keep it unhedged, do you hedge more in terms of the way you realize, is it after a quarter, is it after two quarters, how do you account in the book?

**Rajeev Nannapaneni:** We do not hedge, when the money comes, the day when it comes we exchange, we do not hedge, everything is left open.



*Natco Pharma Limited*  
*May 24, 2018*

- Kartik Mehta:** And the last if I may just squeeze in, one is in terms of the milestones for Copaxone it is fair to assume that would be realized somewhere in FY2019 right because you will have some milestone number beyond which?
- Rajeev Nannapaneni:** I cannot get into the agreement I think all the milestones are considered and the guidance on giving of 8% to 10% based on the arrangement that we have with Mylan, the milestones will be met and on a very conservative way I am assuming 8% to 10% growth on base numbers.
- Kartik Mehta:** Thanks.
- Moderator:** Thank you Sir. We have a next question from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.
- Kunal Randeria:** Good morning, I just want to understand how this Hep C market in India is evolving because a partner reporting a sharp quarter-on-quarter jump, we have not reported a corresponding jump, just I wanted to understand what is happening here is the price erosion over and what are your thoughts for the coming year?
- Rajeev Nannapaneni:** What has the partner done he has reported or not reported?
- Kunal Randeria:** He has reported a sharp quarter-on-quarter increase in Hep C sales.
- Rajeev Nannapaneni:** Again it is where he stocks and all because sometimes we buy raw material, but I can only speak about myself, I do not talk about other people, I think I told you, I think I will reiterate it again, I think we used to have a stable number of 110, 115 earlier, we have dropped to 70 Crores a quarter now and that is the number, it looks in the last few months that has been the number as of today. I think that is where we stand on the Hep C.
- Kunal Randeria:** The progress in international markets, Southeast Asia?
- Rajeev Nannapaneni:** We are hoping for some opening in certain market, I think Indonesia has been due for an approval for launch sometime, Philippines has been due for an approval, there is no generic in Indonesia and Philippines, so we are hoping we will get a breakthrough, so these are two big markets we are hoping, so if that comes through then I think we will be able to see some movement and we also have a good portfolio. We are trying to launch other products as well, so I think it should improve.





*Natco Pharma Limited*  
*May 24, 2018*

**Kunal Randeria:** And just one last P&L question, employee expenses have jumped very sharply, so is it a fourth quarter phenomenon or just some one-off, some provisions?

**Rajeev Nannapaneni:** Yes sure, I think what we have done is to be very precise I think we had a very good year for large size company, so we rewarded our employees. So we rewarded, there is a onetime charge of Rs.20 Crores that we took in this quarter because of all the support that we got from our employees, we gave them a onetime bonus, so that was about Rs.20 Crores for this quarter and there was a rule change where Government had said that employees have to receive gratuity amount, which was Rs.10 lakhs has been capped to Rs.20 lakhs now, so that led to a onetime charge of Rs.10 Crores and then we have general ESOP expenditure, I think ESOP will continue on March 2018 and March 2019, so that is the way of I think post March 2019, so these are three major contributors.

**Kunal Randeria:** Thank you.

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

**Ranvir Singh:** Thanks for taking my question. One on Copaxone just indicative in this Q4 Copaxone revenue has been higher than Q3?

**Rajeev Nannapaneni:** I told for comparative reasons we are not disclosing the nature of our contract with Mylan and revenue share and all that, we are not disclosing, we are giving only a large composite number, Mylan requested us not to do it and I am going with that.

**Ranvir Singh:** Just indicative I did not want any number?

**Rajeev Nannapaneni:** I am giving you a gross number, there is a specific request for comparative reasons and we have to respect that.

**Ranvir Singh:** Hep C, what have been sales in export of Hep C products, if you could split between India and export sales of Hep C?

**Rajeev Nannapaneni:** For the year it has been Rs.17 Crores and Rs.2 Crores for last quarter.

**Ranvir Singh:** Quarterly you are saying?

**Rajeev Nannapaneni:** Yes quarter, for the year we did about Rs.18 Crores, Rs.17.83 Crores.



*Natco Pharma Limited*  
*May 24, 2018*

- Ranvir Singh:** Just a clarity for Hep C whether we have Japan also in our agreement geography?
- Rajeev Nannapaneni:** No, Japan is not covered; it is only third world countries.
- Ranvir Singh:** I see Revlimid is a major key factor going forward, can you give some indication if other than Revlimid we have something in pipeline.
- Rajeev Nannapaneni:** I think we have said no. What we have said is we have a whole bunch of launches. See right now, generally asking me what is the launches in the next year specific to Revlimid, we have a whole bunch of files I think playing out in the next few years. I think in the near term I just said Glatiramer and Tamiflu numbers will play a role. I think as the years progress I think we are expecting Canada and Brazil will kick in starting from March 20, 2018 I think where we have won, we have filed from first time generics and later on we have FDF on Lenalidomide, we have FDF on Sorafenib, we have FDF on Bendamustine, so those are the ones. They are in the presentation on the website. There is Everolimus tablet oncology product. These are the big ones in the US.
- Ranvir Singh:** Fine. Thanks a lot.
- Moderator:** Thank you Sir. We have next question from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Thank you for the opportunity. Sir my question is regarding that you mentioned Brazil is one of the focus market going ahead beyond FY2019 so we have seen a few Indian companies seeing surface there, so what gives you confidence that you will do well in Brazil and are you seeing any improvement in regulatory approval cycle timeline there?
- Rajeev Nannapaneni:** I have confidence for two reasons, one is that we got a first approval in Brazil after seven years of setting up the stocks, so we got an approval for Letrozole tablet so it is not a large product, but that is one. Second I think they have changed the rule in Brazil where you have to get Yes or No within one year whether you are going to give an approval or you have to give queries that the fast track things on Brazil and lot of things we have filed, but filed two to three years ago. Finally, we are able to see light of the day so I think that is what gives me confidence and I think I am getting more confidence because some other filings that we have done are first time launches in Brazil. I think the key is as I said in the start of the conversation we have to get these approvals by March 19, 2018 and we have to see the launches in 2020. I think what we need to look out and will may give announcement as we go along when we get major approvals in Brazil that in the next 12 months we are seeing



*Natco Pharma Limited*  
*May 24, 2018*

visibility that will get some approvals first among these big products in the next review of fact.

**Damayanti Kerai:** Again coming back here so FY2019 beyond as you said like India, Brazil and Canada will be our key focus, so does it mean that these markets will be forming larger portion of our overload sales or revenue compared to the US?

**Rajeev Nannapaneni:** My thinking is that whatever we will lose in let us say Tamiflu and all we will able to make it up with these three markets together, India, Canada and Brazil and I think that is the plan and that is what we are trying to execute.

**Damayanti Kerai:** Thank you. That is all from my side.

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

**Sriram Rathi:** Thanks for taking my questions, few questions Sir. First on the Copaxone does the export formulation revenue of Q4 capture the proportionate profit share for Copaxone for the sales until March 31, 2018?

**Rajeev Nannapaneni:** I said I do not want to do the split and all I think the profit share number of Copaxone is included in that number.

**Sriram Rathi:** Copaxone is currently manufactured by us or the Mylan for the sales, which have been done?

**Rajeev Nannapaneni:** I think we have said this in the past, the 20 mg is manufactured at a contract site in India, 40 mg is manufactured in Mylan site in Ireland.

**Sriram Rathi:** Got it and how much Sir the R&D for this year in FY2018?

**Rajeev Nannapaneni:** I think standard 6%, 7%.

**Sriram Rathi:** 6%, 7% of sales?

**Rajeev Nannapaneni:** Yes.

**Sriram Rathi:** Thank you.



*Natco Pharma Limited*  
*May 24, 2018*

**Moderator:** Thank you Sir. The next question is from the line of Kapil Kriplani, Individual Investor. Please go ahead.

**Kapil Kriplani:** Thank you for taking the call. My question is that I just saw the results and the board thing so I just saw that there is board sheet given to one of the PE firm multiples, have they come in through QIP or the promoters have reduced the stake?

**Rajeev Nannapaneni:** No, I think they participated in QIP and QIP happened many months ago as you are aware. Incidentally I think Vivek Chhachhi who represents our investor CX fund has been resigned for its personal reasons and so I think what we needed was, we needed another investor who is a non-independent investor so we look at our portfolio and we identify someone who had a large holding and we have invited the multiples.

**Kapil Kriplani:** Thank you and one more thing this may be you have already answered this, but this Revlimid, which year is we are expecting?

**Rajeev Nannapaneni:** The launch date is March 22, 2019 and earnings will impact on March 25, 2019.

**Kapil Kriplani:** Thank you.

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

**Gagan Thareja:** Can you give some roadmap of the development of cardio-diabetology portfolio for India where do you stand today and how do you see this evolving in a three-year timeframe?

**Rajeev Nannapaneni:** It has just started I think last year we did about let me just tell you the number last year. I think it is a very modest start I think it is about Rs.4.5 Crores, Rs.5 Crores last year, but we hope to ramp it up.

**Gagan Thareja:** Secondly you indicating between India, Brazil, Canada the incremental sales should compensate for the last that you have seen in time if you next year, but beyond that can you give us some idea of what scale these three geographies will evolve into or what you aspire to may be in a medium term three to five years' timeframe?

**Rajeev Nannapaneni:** Putting number on earnings in 2020 today I think it is little premature. I think it will give us a little more time and we have more clarity on regulatory approvals and launch plans I think I will have it may be at later part of the year. I think the question was more or less strategic I think we are probably one of the first one to say that we want to deemphasize US. We did



*Natco Pharma Limited*  
*May 24, 2018*

that almost 12 months ago and lot of resources we had spent on these three markets and I think we are going to see a lot of it coming to provision and we are one of the earliest ones to say that we want to derisk away from the US leaving out a big complex launches. I think that strategy is panning out and I think we will see the benefit of that. So I am in the first technology I think 2018 and 2019 heavily US dependent I think what we want to see is by 2020 we want to bring down the US dependency dramatically and I think 2 to 2-1/2 years is enough time to see the benefit of that. 2020 is where I think we see the benefit of time.

**Gagan Thareja:** Finally, if I can ask one more it may be possible to get some idea on the ramp up of some of your critical launches that happen in last year Doxil, Fosrenol and Vidaza where do you see in the coming few months in these products on a competitive stand?

**Rajeev Nannapaneni:** Right now we have not seen anyone fortunately we have not seen anyone I think at a sake of being conservative we will see someone in the next few months for sure, but as of now we have not seen anyone. As of today being fairly comparative product there is nothing to move about, Doxil, Fosrenol and Vidaza.

**Gagan Thareja:** Thank you.

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

**Sree Hari:** Thanks for the opportunity. Firstly, if you share the profit share figure I would like to know that and secondly if I do simplistic exercise of mocking of the profit share and trying to find the base earnings that does not work out so can you please tell what are the cost elements which you are writing out for this profit share?

**Rajeev Nannapaneni:** See I think what happens is because of the business is heavily dependent on the profit share because always historically I do not follow the balance sheet. Profit share represents significant part of our earnings so you cannot separate one from the other. First thing I would like to say because what we do is book sale only at cost plus and we only book profits on an item only after on the accrual basis, so I think that is not a fair way of judging it. Costs are linked to its success, so if you spent more when you make more money so we knew that cash flow is coming, so the prime reason why we wanted to give incentives to employees or that we will need to spend more money on R&D, so it is not a fair way to judge and that is my opinion.

**Sree Hari:** Apart from manpower expenses, how much of R&D would be attributable to this one time element?



*Natco Pharma Limited*  
*May 24, 2018*

**Rajeev Nannapaneni:** R&D tends to be like for example see what you are asking is I can give a very philosophical answer. I do not want to give you a number answer specifically. Let us say you want to make Rs.100 surplus this quarter so then your anticipation so then you are willing to spend at least Rs.20 to 30 of surplus on doing an R&D project, but if you know that you only have Rs.50 surplus then you will say okay fine I will only spend Rs.5 or Rs.6 because you do not want to hurt the cash flow and the capex plan, so you make those decisions based on the extend of your profit.

**Sree Hari:** And what is the profit share for the quarter?

**Rajeev Nannapaneni:** I am not doing profit share split per se, but we are saying composite sale of exports for this quarter has been about 433 Crores.

**Sree Hari:** 433?

**Rajeev Nannapaneni:** Yes.

**Sree Hari:** Thank you.

**Moderator:** Thank you Sir. We have the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

**Kartik Mehta:** How do you see pricing in the US and in terms of India business is it fair to assume that 10%, 11% overall industry growth would actually see you guys to grow about 13% to 14% X versus Y?

**Rajeev Nannapaneni:** I strongly believe to remove the HC portfolio vacillation. I think we will grow by about 15% to 16%, I think very bullish about domestic, lot of our pipeline and R&D rupees have been on domestic, so we will see very good output coming on domestic and domestic is a good steady state business and I think it continue to be bullish. In US, I think Kartik we are in an unusual situation I mean lot of the items where there is heavy competition there is no money to be made and consolidation has really caused a lot of problems in the business. I think we are all hoping again optimistically that somehow that this cannot continue forever, but as of today it looks that and we are hoping that some people have announced that they will leave this product and therefore somehow there will be one product or two products where our position and things will change dramatic I think that is the hope the industry has. I am a little more negative about it. I think you cannot build a business on hope. I think I am a little more I guess I do not know. My opinion is that you cannot do business on hope, I think you need to have a clear strategy and I think if you have a niche smart item you make



*Natco Pharma Limited*  
*May 24, 2018*

money, otherwise you do not make money and that is what you need to go for and if it is not coming through then it will stop and people are optimistically in turnaround, but as of now there are no signs of turnaround to be very honest.

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

**Tanush Mehta:** Good morning. Sir, can you give me the breakup of formulation revenue in terms of exports and oncology?

**Rajeev Nannapaneni:** As I told for the export formulation my friend I am not doing the split; I have already told you that. We gave you a gross number of 433 Crores is the formulation sales and I think that answered the question and the domestic one we are willing to split I think we already did the split, I think 158 Crores was last quarter sale for domestic of which 82 Crores was from onco, 62 Crores was from hepatitis C and gastro division and 13 Crores for some third parties.

**Tanush Mehta:** Thank you.

**Moderator:** Thank you Sir. We have next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.

**Kunal Mehta:** Thank you for the opportunity. I just have one question that we have reached settlement with Novartis for Imatinib, so any guidance you can give on the possible launch of the product?

**Rajeev Nannapaneni:** I do not remember the date top of my head, the tad is somewhere in this financial year, but I am not very bullish, I think it is a disaster. I do not think we will make any money. We are not talking too much about it. I think there are already three, four generics, once more than four guys are there finished. I think we launched it, but I do not think it will have any meaningful impact on these things that is my personal view, but I hope I stand to be corrected with time.

**Kunal Mehta:** Just a followup question Rajeev, do you still believe the market is at least in terms of generic side at least 300 million market?

**Rajeev Nannapaneni:** It is not true with oncology drugs is here the volume always is small. If the price is good then it is very interesting, but once the price collapses the whole market collapses and my reading is that it is going to be a tough market. By the time we get an approval I do not



*Natco Pharma Limited*  
*May 24, 2018*

think we will and I am not bullish honestly. I know you are bullish, but personally I am not. If that is the way, but if that is the way it is any product, which has good supply situation where there are four, five generics is very difficult to make money.

**Kunal Mehta:** Thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

**Dhires Pathak:** Canada, you said that the size of the business is 15 million for the full year right?

**Rajeev Nannapaneni:** \$15 million Canadian.

**Dhires Pathak:** What is the size of the Brazil business last year?

**Rajeev Nannapaneni:** Brazil business I think is about 4 to 5 million, but I think my colleague Rajeev is actually pulling it up. It is about 4.5 to 5 million in that region and business loss.

**Dhires Pathak:** And earlier in the breakup you said export formulation 492 then you gave 433, so the difference is that 433 is just US and 492 is total?

**Rajeev Nannapaneni:** No, 433 is profit sharing part of it and 59 is sales, so total our gross amount is 492.

**Dhires Pathak:** Understood. Thank you.

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

**Nitin Agarwal:** Rajeev on Canada and Brazil, your businesses largely would be tenderable businesses or these going to be businesses you will be putting up your field force?

**Rajeev Nannapaneni:** I think Canada we have our own field force, so Canada is our own frontend. I think these two countries we are in the frontend. Brazil is dependent on tender because we are bidding in government tenders and we have filed for products where we have limited amount of competition. Again, this is being the underlining statement as provided we get approval by March 19, 2018 on some of these big products. We will see a reasonable upside in March 20, 2018 I think that is the expectation that we have.





*Natco Pharma Limited*  
*May 24, 2018*

**Dhires Pathak:** Secondly on these numbers on Canada and Brazil they are included in the 492 Crores of sales that you mentioned?

**Rajeev Nannapaneni:** No, they are not that is in the standalone right this shows in the consolidated, difference between standalone and consolidated is a classic example.

**Dhires Pathak:** Thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Dhaval Shah from Birla Sun Life Mutual Fund. Please go ahead.

**Dhaval Shah:** Good morning. I wanted to know on Bosentan we had a target action date possibly somewhere in March is good opportunity for FY2019?

**Rajeev Nannapaneni:** I think we have a tad again in Bosentan in this financial year again.

**Dhaval Shah:** So there were some queries, which came in March right?

**Rajeev Nannapaneni:** Queries, I think there is a tad date. I think they have answered all the questions. Again, I am working from top of my head, so what I can tell you for assurance we have a tad date sometime in this financial year and my expectation on Bosentan is if we get a first wave launch limited number of guys will make money, if we come with everyone else it is finished, I do not think we will make any money. The question is they will come on first wave or not is the question that I am not able to answer, so we will see I think based on, see I am trying to be a little conservative guy because again if I say something optimistic and it does not happen and it does not look nice, so on Bosentan and also we are being very conservative, I am not expecting too much for upside, but I think the upside will only happen provided we are in the first wave.

**Dhaval Shah:** When is the tad, which month?

**Rajeev Nannapaneni:** I do not remember. So I do not want to say something I do not recollect. It is sometime in this financial year, I am not able to recollect, but sometime in this financial year.

**Dhaval Shah:** Second thing is on Copaxone, while we understand that FY2019 you would have fairly good run because competitors have got postponed, but even after another two guys come in what kind of a price erosion would you think the whole thing settle that and what could be recurring pie in Copaxone after four guys are there into the market?



*Natco Pharma Limited*  
*May 24, 2018*

**Rajeev Nannapaneni:** I think even if the four guys are there it is a strong annuity product. I think they will bill it to substitute it is very difficult. The longer the other guys take it tends to be sticky. The extent of the stickiness and all, the amount and all it is hard to judge. I do not want to say something about 2020 I think today at the end of 2018, so we will see which time, but as I said I think we will be very conservative in our guidance. I think we have very conservative numbers and any upsides in the future we will talk about it as we go along.

**Dhaval Shah:** Sure and would you think the same way for Revlimid in terms of being a good annuity as and when it goes generic of course benefit that you will have for the first six months, etc.?

**Rajeev Nannapaneni:** Absolutely, I think that is how I look at that as well. I think you have seen that time and again with Isotretinoin that Ranbaxy had in the past. You have seen that with lot of the REMS product that has limited restriction in the way its market, so there is a strong annuity element to it. The extent of it only time will tell, but there is a strong element to it. It is not like a (inaudible) 45:23 generics that is for sure.

**Dhaval Shah:** Thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Purvi Shah from Sharekhan Limited. Please go ahead.

**Purvi Shah:** Thank you for taking my question. Sir just wanted to know on the debtors' front for the year and they have increased considerably, so when do we see this normalizing again to the previous level?

**Rajeev Nannapaneni:** You mean in terms of the receivable you are saying that receivable amount you are talking about? I am trying to understand your question; you are talking about the receivable?

**Purvi Shah:** Receivables, yes.

**Rajeev Nannapaneni:** Receivable I think what happened was because we had the upside in March, most of it we have received, we already received the money.

**Purvi Shah:** Sir, the other thing that I like to know about the tax rate, so we expect it to be going forward for the next two years?

**Rajeev Nannapaneni:** We will stay at 21%.

**Purvi Shah:** Thank you sir and all the best.



*Natco Pharma Limited*  
*May 24, 2018*

**Moderator:** Thank you. We have next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

**Dhiresh Pathak:** Just a quick clarification, so the numbers that you mentioned export from 492 that is all US formulation because these are standalone numbers you are mentioning and Canada, Brazil and other markets they are not part of standalone numbers correct?

**Rajeev Nannapaneni:** The 492 predominantly is the US, it also has some non-US sales also, but predominately US.

**Dhiresh Pathak:** And the difference between consolidated and standalone is Canadian business?

**Rajeev Nannapaneni:** To be very precise my friend, I think the subsidiary sale number is 106 Crores.

**Dhiresh Pathak:** But just in terms of the underlying market where it caters to apart from Canada and Brazil is there anything else?

**Rajeev Nannapaneni:** Those are two major subs; I think they make up 99% of the sales.

**Dhiresh Pathak:** Thank you.

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

**Kunal Randeria:** Rajeev thanks for taking my question. Just wanted to get your thoughts on the REMS products because a couple of weeks that the FDA also said that they want to check how these originators are gaming the system do you think that will make a meaningful difference to the REMS products going forward say something like a Tracleer?

**Rajeev Nannapaneni:** Finally, it become simpler to procure that will make a difference and obviously the generic will come much easier to the market absolutely I think and again I am going with what you are saying and what I have read in the first and anything that improves our access is great. I think if REMS products are easily available I think there will be more generic players and that is good for the healthcare system of the country.

**Kunal Randeria:** Thanks.

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



*Natco Pharma Limited*  
*May 24, 2018*

- Ranvir Singh:** Thanks for followup. Sir just a clarity 8% to 10% growth guidance you said about US?
- Rajeev Nannapaneni:** As a company PAT and revenue, 2400 to 2450 Crores and PAT growth of 8% to 10% on the 695 Crores last year.
- Ranvir Singh:** Earlier you mentioned that investment in some complex type of products what we are planning will unfold in two, three years down the line or may be longer period, can you give me little more colour on it where actually we are targeting in terms of?
- Rajeev Nannapaneni:** We are targeting; we do not have any filings as yet. I think we will talk about it, but I think we have stated that we are working on Doxorubicin and Glatiramer type of products. Hopefully we will have couple of filings in the next financial year, I think next calendar year, I think we are targeting couple of filings next year.
- Ranvir Singh:** Sir is that in biological also?
- Rajeev Nannapaneni:** No, in chemistry product, but complex first. As a strategy we are not doing biological.
- Ranvir Singh:** Fine Sir.
- Moderator:** Thank you Sir. We have next question from the line of Amrita Maloo from Dhunseri Investments. Please go ahead.
- Amrita Maloo:** Sir, I have just one question regarding other income, what is the nature of other income the 20 Crores?
- Rajeev Nannapaneni:** Let we see order wise 20 Crores is top of my head, 16 Crores I think it is interest income.
- Amrita Maloo:** That is interest income the 16 Crores?
- Rajeev Nannapaneni:** 20 Crores other income you are talking about is from Q4 you are talking about right?
- Amrita Maloo:** Yes, Q4 only, is it sustainable type of income or this is a onetime income?
- Rajeev Nannapaneni:** 16 is interest income, 4 is from export benefits roughly I am telling you, it is sustainable. I believe because our cash force will increase in the next few months because of the receivable that we are expecting. In fact, it will actually go up in the coming quarter.
- Amrita Maloo:** Thank you so much Sir.



*Natco Pharma Limited*  
*May 24, 2018*

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

**Nitin Agarwal:** Rajeev, on the emerging market, other markets out of US apart from Canada and Brazil or are there any markets that you are looking to open up in a meaningful way going forward?

**Rajeev Nannapaneni:** No, these three are the focus sides. I think I am a big fan of trying to do at one country and doing it well. So basically what we are trying to do in each country is in Canada what we are doing is we are trying to do almost seven litigations in Canada to our front end where we are trying to launch first time generics in Canada. In Brazil, we are focusing again on six or seven products that we are trying to be first time generics in Brazil and trying to focus on the government tender business and India we are focusing on the branded generic business. I think focus on these three and give you 100% with the nice diversified portfolio I think that is a real value.

**Nitin Agarwal:** And in these two markets your portfolio is largely what if, the portfolio that you have developed for US is what you are looking to take to these markets or you create a developing space?

**Rajeev Nannapaneni:** Mostly.

**Nitin Agarwal:** And lastly for FY2018 has there been any interesting filing that you have done in the US any meaningful filing?

**Rajeev Nannapaneni:** Meaningful, I think only one file we had in 2018 and that was Sofosbuvir tablets it is not a big product, I think it is \$50, \$60 million product, but that is the only big one that we filed.

**Nitin Agarwal:** Thank you.

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

**Shree Hari:** Thanks for the opportunity. Just to understand the scalability potential for Brazil and Canada, so the Brazilian business is that entirely tender driven?

**Rajeev Nannapaneni:** Some of it is branded, some of it is tender.

**Shree Hari:** If you can just give an indication about what is the kind of multiple you would be looking at in terms of tender business, for how much you bid last year?



*Natco Pharma Limited*  
*May 24, 2018*

**Rajeev Nannapaneni:** We are in the process of registering products my friend; we do not have any tenders that we bid. What we are saying is two things, one is we got our first approval in Brazil, two we have filed interesting set of products, three they are saying that we are hoping we will get all approvals by March 2019 and we are hoping to bid in March 2020 and what I am trying to say is that we are seeing clarity and we are hoping to see more approvals in March 2019, and once these come in we will be able to see an impact on March 2020.

**Shree Hari:** So, you expect the growth to be driven majorly by the nontender business?

**Rajeev Nannapaneni:** Tender and nontender both together. The question that the first one asked I do not recollect the name was what you are going to do in March 2020 because I do not stand through where it is off. I think the point we are trying to say was that if that were to wear off these three will substitute what they are going to do.

**Shree Hari:** And vis-à-vis we saved the 5 million and 15 million for these two markets any internal targets for fiscal FY2020?

**Rajeev Nannapaneni:** I do not want to say any number right now. I think 2020 we will talk about in late 2019, I do not want to talk about, I think as the year progresses when you are coming in to like end of this financial year I can give you more clarity. I can tell what we are focusing on, numbers and all I think it is a little premature, it all depends on regulatory milestone things, I think once we meet these milestones and once we get clarity I think I will give you more definite numbers.

**Shree Hari:** Fine. Thank you.

**Moderator:** Thank you sir. We have next question from the line of Rajesh Prasad from WealthSpring. Please go ahead.

**Rajesh Prasad:** This question is basically you mentioned that you need to have field force in Canada, so does the Canada generic market work more like Indian branded generic kind of a thing?

**Rajeev Nannapaneni:** No, it does not. When I say field force not like 500 people, not like that. Our office has 10 employees so that is all you need and see what happens just to the benefit of your question will be, North America especially US and Canada they all work on consolidated distribution models, so you do not have to go and promote to the distributor and you get the business, so there are three or four distributors controlled the whole business, so you need to have a field force, you can contact some of and they get a commission out where they cover the smaller pharmacy that is particular to Canada, but most times you do not need too many of them.



*Natco Pharma Limited*  
*May 24, 2018*

**Rajesh Prasad:** And my next question was basically I see Natco's strategy is making the money from the first to file opportunity, but as the first to file opportunity is dry up you either need to move into the complex generics or the specialty space or else what you mentioned you need to diversify the geography so what I hear you say is the geographic diversification and focus on Brazil and Canada as the strategy going forward?

**Rajeev Nannapaneni:** That is correct.

**Rajesh Prasad:** Thanks.

**Rajeev Nannapaneni:** We will take one last question.

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

**Gagan Thareja:** Thank you. Is it possible to understand the addressable market of your filings in Brazil and Canada to some extent you know some colour on therapeutic areas may be the size?

**Rajeev Nannapaneni:** Probably it is the oncology and multiple sclerosis portfolio that we are taking to the market. In terms of the addressable market, I do not want to say any numbers right now. I do not want to talk about numbers right now because we are in early stage where the files or products are awaiting approvals. Once we have clarity on like approvals and launches and I think we will talk about numbers. We think it is large enough, which can give you substantial earnings in March 2020 that is the position. I am saying all three together I think India domestic, Canada and Brazil all three together will able to asset. US is if you get something big is very large and it is very difficult for one territory to cover up what you lose in the year, so that is why I am treating all three together, so all three together strategically can make up for a big loss in the year.

**Gagan Thareja:** From a competitive standpoint Brazil and Canada, generic competition is it relatively lessened in these therapeutic areas for you vis-à-vis US?

**Rajeev Nannapaneni:** Compared to US, if we do a mix portfolio it is relatively less comparative, but market is smaller, but if you have a good smart size in all these three markets and able to execute all portfolios we struck it is not a bad number comparatively.

**Gagan Thareja:** And are the revenue stream is relatively speaking more sustainable than the US market?

**Rajeev Nannapaneni:** I think every market has its own peculiarity, but it is more diversified.



*Natco Pharma Limited*  
*May 24, 2018*

**Gagan Thareja:** Thank you.

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

**Rajeev Nannapaneni:** Thank you everyone and wonderful set of questions. Any clarifications specifically to the points that were discussed please feel free to reach out to us. Thank you.

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