



“Natco Pharma Limited  
Q4 FY2019 Earnings Conference Call”

May 28, 2019



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**Moderator:** Ladies and gentlemen good day and welcome to the Natco Pharma Q4 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to you Sir!

**Deepak Malik:** Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for Natco Pharma’s Q4 FY2019 earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman & CEO and Mr. Rajesh Chebiyam, Vice President, Acquisitions, Institutional 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 Chebiyam:** Thank you Deepak. Welcome everyone to Natco’s conference call discussing our earnings results for Q4 and the full year of FY2019 as Deepak just mentioned.

As a standard disclaimer during this call we may be making forward-looking statements, which are predictions, projections or statements about future events because these statements inherent the involved risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. The material in this call with the exception of participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco’s expressed written permission.

We have published the earnings details, but just to highlight the earnings the company has recorded consolidated total revenue of Rs.2225 Crores for the year ended on March 31, 2019 as against Rs.2242 Crores for the last year. This reflects a slight decline of less than 1% year over year. The net profit for the period on a consolidated basis was Rs.642.4 Crores as against Rs.695 Crores for the last year showing a decline of 7.6%.

For the Q4, which ended on March 31, 2019, the company recorded net revenue of Rs.486 Crores on a consolidated basis as against Rs.788 Crores during Q4 of last year. The profit after tax on a consolidated basis was recorded at Rs.120 Crores for the quarter as against roughly Rs.300 Crores the same quarter last year.

As per our press release and what we had stated although the revenue it has been flat year over year, the marginal decline in profit was primary due to a write off of our Oseltamivir



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inventory by our marketing partner in the US. The flu season in the US was also below our expected demand resulting in write offs of this inventory, which is valued roughly at \$5.5 million.

On the domestic front in spite of intense price pressure that we have seen in Hep C portfolio, the company has seen growth in the oncology segment. Thank you all and we have also given the revenue split in our press release, so if there are any questions please let us know. Let us open up for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shashank Krishnakumar from JM Financial. Please go ahead.

**Anmol Ganjoo:** This is Anmol Ganjoo. Rajeev during the last conference call you had said that Copaxone contribution will dramatically increase and whatever we should lose on products like Tamiflu that should get replaced going forward that clearly does not seem to have happened this quarter so I just wanted to know your thoughts and what changed with respect to expectations?

**Rajeev Nannapaneni:** No I think it is just a mismatch because sometimes we tend to have an inventory that is already there in the bag. Our market share has increased. Our order for Glatiramer has increased. You will definitely see the benefit of the higher market share and increased volume in FY2019 and 2020, so nothing has changed Anmol. I am very positive and going forward for the year first thing we need to understand two things here. The dependence we had Tamiflu earnings, which were there for the last two financial years, so that is why whatever growths that we have had, so going forward next in this year Tamiflu will completely vanish. We will replace that with Copaxone and from ROW revenue so that is what we intend to do and we are very positive about this year. We think we should be able to grow our revenues by about 7% to 8% and also our profits should also go up by 8% to 10% compared to 2019 March, so I am very optimistic on it.

**Anmol Ganjoo:** Just trying to understand the accounting treatment of this profit share bidder basically what is the lag that we should work with because there is clearly a breakdown in terms of correlation of what we see in terms of market share as Mylan talks about it and the way it is recorded?

**Rajeev Nannapaneni:** Sure. The way it works with Glatiramer was I think we were paid a milestone and the next set of profit share would have been triggered only when the milestone would have passed and we have passed the milestone, so we will have normal profit share. I think the initial



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payments were driven by milestone. Now it is linked with sales, so I do not think you will see that accounting issue that we had in the previous year because accounting earlier it was an outright milestone so that is the difference, but you will see more in consistent revenue from Copaxone starting from this financial year.

**Anmol Ganjoo:** That is helpful. My second question is on the focus markets for FY2020 and some of the focus initiatives you have been talking about diversifying revenue to different geographies so what is it in terms of product catalyst, etc., that we should be watching out from an FY2020 standpoint?

**Rajeev Nannapaneni:** This financial year, there are three revenue drivers. One is that India business I am expecting will grow by about 15% to 20%, so the second driver will be Brazil, so Brazil did not do well for many years, so we had some very good launches this year and so that should drive earnings and we are expecting some approvals and then Canada also we are anticipating a couple of launches and a couple of favourable settlements. If they all come through we should do well I think that is our estimation, so these three focus markets together we are expecting about 30% to 40% growth so that is what will drive earnings this year.

**Anmol Ganjoo:** I have more questions. I will get back in the queue. Thanks.

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

**Samir Shah:** Good morning. I have two questions. One is you said that next year we are expecting profits to grow this is excluding Tamiflu right?

**Rajeev Nannapaneni:** I am assuming that my friend. It is exactly. What I am telling you today is that even though there is no Tamiflu, we are expecting not any meaningful numbers from Tamiflu even though that number is not there our earnings will increase based on our assumption, our domestic market and from the ROW business and from Copaxone.

**Samir Shah:** So Copaxone basically from what I understand is so say this quarter profit if we normalize the inventory write off will be Rs.140 Crores to Rs.145 Crores, so that makes it Rs.600 Crores whereas this year's PAT is Rs.665 Crores, so we have upgraded our Copaxone estimates because of Dr. Reddy's delay is that correct understanding?

**Rajeev Nannapaneni:** I have upgraded my earnings based on two assumptions. One is that based on what Mylan has predicted because lot of these Copaxone market share is driven by annual contracts, so



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based on the commitment that we got from Mylan on the volumes, we are comfortable with these numbers that is one assumption I have made. The second assumption I have also made is that the ROW business should really do well driven by launches in these three markets, so those are the two major factors that is driving.

**Samir Shah:** The settlement that you alluded to win for Canada that is also included in this numbers or that will again be over?

**Rajeev Nannapaneni:** I will not get into specific market and specific launches.

**Samir Shah:** But that will be over and above this?

**Rajeev Nannapaneni:** I will not answer that question. I do not want to talk about the business strategy, but I assume that if all of them come through we should do well.

**Samir Shah:** Understood and Revlimid what would be the status of Revlimid approval have we replied to the queries?

**Rajeev Nannapaneni:** We have replied on all the FDI questions. We believe we should get I think only the REMs is pending, so we should have an approval. I am very confident that we should have an approval shortly.

**Samir Shah:** Alright. I will come back in the queue for more.

**Moderator:** Thank you. The next question is from the line of Herin Dedhia from PM Securities. Please go ahead.

**Herin Dedhia:** Good morning Sir. Thank you for taking my question. My question is recently Lotus Pharmaceutical had an out of court settlement with Celgene for Revlimid is there any market share loss for Natco?

**Rajeev Nannapaneni:** No. Again I am going with what is there in the public domain. They got a launch date in the US, which is much after us, so I do not think there will be any loss. I think that is my understanding based on what is there in the public domain.

**Herin Dedhia:** That is all. Thank you.

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



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**Nimish Mehta:** Thanks for taking my question. A few questions. One, we have I think a possible launch of Tarceva where I guess two companies have launched, so when are we likely to launch?

**Rajeev Nannapaneni:** We have a tentative, so the other guys are running their 180 days. Teva and Mylan have 180 days right now. I think the launch date I subject myself to correction I think it is at the end of the year. I do not remember the exact dates, so that answers your first question. The second question is what my expectations are; I do not have too much expectations on that Nimish. I think US generally where you are one among the many I do not have much expectation. I do not think it will have a meaningful impact on the earnings.

**Nimish Mehta:** The other thing I wanted to know correct me if I am wrong we have a settlement also on Sovaldi right now?

**Rajeev Nannapaneni:** We have, but it is very far away and it is a very small product. I think the Sovaldi tablets themselves the whole market is in the combination and I think sale is if I do not remember exactly it was below \$100 million. I cannot recollect what the number is. As the sale launch date is also quite far again I do not recollect what the date is it is quite far, so again it is a small launch it is not a material launch that is why we have not announced the settlement. It is part of the routine.

**Nimish Mehta:** Understood and lastly on Revlimid again please correct me. We understand there has been a settlement with Apotek as well is that right and if yes then what do you think is the outlook for the competition moving ahead?

**Rajeev Nannapaneni:** In the US you are talking about?

**Nimish Mehta:** Yes?

**Rajeev Nannapaneni:** Again as I told you, we have a good settlement, which allows us to enter early in the market and we also understand that the other generics will be much after us. I think that is my understanding. I think our earning positions continue to be strong and these settlements only reinforce the fact that we will have exclusivity and we should do well.

**Nimish Mehta:** The Apotek settlement is also likely to be similar to that Alvogen settlement is what we understand?

**Rajeev Nannapaneni:** Again I am not privy to everything that happens, but this is my interpretation. I think settlement wise the other competitor is only reinforces the fact that they will come much



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after us and that we will have a period of exclusivity, which where we will make super normal profit. I think that is our expectation.

**Nimish Mehta:** Just to take it a little forward we also know that Teva has actually reduced the value of Revlimid asset that they acquired for **(inaudible) 14:19** precisely because of the settlements? They probably are expecting lower than what earlier were expected as profits on this asset whereas we are still?

**Rajeev Nannapaneni:** I do not know what they are expecting. I think they expected a multiyear. I think if I read that article they expected multiyear exclusivity.

**Nimish Mehta:** That is not true understood.

**Rajeev Nannapaneni:** I think we never spoke in that manner I think. We were always very conservative. We said there will be a period of time where we will be exclusive. I do not think we expect it will be the only generic for four to five years. I think that was a mismatch there, but that is their interpretation of what it is, but again I tell you for a company of our size I think even a short duration of exclusivity are a huge bonanza.

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

**Kunal Randeria:** Good morning. Sir firstly I just want to understand for this quarter why do we have such high gross margins despite lower profit share?

**Rajeev Nannapaneni:** Why do we have such high gross margins in spite of the fact that we have lower profit share you are saying right?

**Kunal Randeria:** Yes?

**Rajeev Nannapaneni:** I think it is just the nature of our business my friend. I think two things have happened. If you look at the numbers we do not have too much supplies of Tamiflu this quarter, so typically what happens with Tamiflu is we bill and then we wait for the profit to happen so there was no billing and there were no profits, so therefore that got removed. The second thing is generally our nature of business is fairly high gross margins. Copaxone contributes high margin, which is also reflected in the earnings and our domestic oncology is fairly high margin. Our API business also is fairly high margin, so it is just the nature of our business. In spite of not having any results still we did quite well and we have two to three other products there we have limited amount of competition.



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**Kunal Randeria:** My question was more like since we have booked mainly (inaudible) 16:25 for Copaxone in this quarter and going forward we will be booking the profit share so will the margins go even higher than this?

**Rajeev Nannapaneni:** I think as I said I think overall what we are projecting is that we will grow by about 7% to 8% and in topline and also we are expecting that our profits also should grow by about 8% to 10% from where we are today. We are making two assumptions my friend that Copaxone should do well for this year based on the demand that Mylan has projected. Two I am also assuming that the ROW should also do well based on our launches and other expectations that we have from these three markets.

**Kunal Randeria:** My second question is on about how your cardio diabetes division is performing, so you had launched Valsac, which is a fairly limited competition kind of product and the market is growing fairly fast and I guess you are injunctioned on Brilinta so what is your outlook for this year and so far as per your expectations and how do you see this business panning out in the next two to three years?

**Rajeev Nannapaneni:** I think we have been always aggressive with patterns Kunal, so I think sometimes you do face a reverse. I think both these launches unfortunately we got injunctioned. Valsac we were able to launch for a period of time, but however we could not continue to supply the market. Both these cases are pending at Delhi High Court. We are hoping that we will get a favorable outcome in these cases and I think our strategy of going after patents will continue the way what we have done in the past so we have good set of launches that we lined up for this financial year as well as exciting or even more exciting than Valsac, so I think our strategy continues and I think it is fair, sometimes you are successful and sometimes you are not successful, but you do not shy away from a fight, so that is how it is and we are ready for the next set of launches and I think we are very optimistic that we should do that.

**Kunal Randeria:** Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

**Vishal Manchanda:** Good morning and thanks for the opportunity. Could you break up the domestic formulation change into oncology formulation in HCV and cardio diabetes?

**Rajesh Chebiyam:** Total domestic formulations we had Rs.735 Crores for the whole year. You want the quarter as well?





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- Rajesh Chebiam:** For the Q4.
- Rajesh Chebiam:** We will do it for the year. For the year, the oncology is about Rs.397 Crores. Brand Pharma is about Rs.246 Crores, C&D is Rs.8 Crores, third party Rs.84 Crores.
- Vishal Manchanda:** Also if you could help on the export sales can you break that up into profit share and basically the transfer timings sales?
- Rajesh Chebiam:** The total exports itself is about Rs.136 Crores for the year and our Rs.750 Crores of profit sharing service in combination.
- Vishal Manchanda:** One more on the rest of the world markets could you provide some colour on what are the launches, so basically how many launches are we expecting in Brazil and Canada and so far have we got approvals in line with our expectations or these have been getting delayed also?
- Rajeev Nannapaneni:** I think these three markets we are expecting launches. India is expecting about eight to 10 launches this year. Brazil we are expecting about three to four launches. Canada also we are expecting about three to four launches that is the major one.
- Vishal Manchanda:** All of these would be limited competition?
- Rajeev Nannapaneni:** I think that is what our expectation is. Yes that is our expectation.
- Vishal Manchanda:** Last time you said we can anticipate \$4 million to \$5 million for launch for Brazil so we can maintain that expectation?
- Rajeev Nannapaneni:** I think different products have different outcomes. Obviously it is less value. I do not want to give away which product and all because that gives away comparative advantage, but overall our expectation is the portfolio should do well and these products are primarily in the area of oncology, so that is the way to answer that question.
- Vishal Manchanda:** What is the current base revenue in Brazil and Canada?
- Rajeev Nannapaneni:** Canada this year I think we did about Rs.96 Crores and Brazil we did about Rs.33 Crores.
- Vishal Manchanda:** Rs.33 Crores?
- Rajesh Chebiam:** Rs.33 Crores is Brazil; Rs.96 Crores is Canada, and Rs.735 Crores India, so these are three.
- Vishal Manchanda:** Thank you very much.



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

**Nitin Agarwal:** Rajeev your growth guidance for FY2020 is a positive surprise, in your assessment what could be the risk to this guidance if any on the downside?

**Rajeev Nannapaneni:** Downside would be one is we have Copaxone generic happened sooner than we think one. Second is the emerging market expectation that we have from Canada and Brazil there is an approval delay or adverse patent issue then that could have some impact.

**Nitin Agarwal:** Copaxone in your assumption right now no more generic coming through for the year no other generics?

**Rajeev Nannapaneni:** I have assumed in this model that nobody will come till end of this calendar year till December. I have assumed that. Again we are all making expectations. Again I am only making forward looking statements based on what we believe would possibly happen, but I am playing out all this and stating all the caveats that is our expectations yes.

**Nitin Agarwal:** Perfect and secondly Revlimid for us begins to kick through from FY2022 onwards, FY2020 is what you sort of laid out how should we look at FY2021, do you have any colour at this point in terms of how it could do versus FY2020?

**Rajeev Nannapaneni:** FY2021 I do not want to say anything my friend. Let us see how the year goes and I will give you more clarity based on how the other developments are. As I said in the past 2020 and 2021 earnings are being driven by emerging markets and if the emerging market launches go well then I think we should do well, so for now I think I just want to speak only about 2020 because 2020 is where I have clarity on. I think this is what our expectation is and 2021 also I am very positive. 2021 I will speak about it I think as the year goes, but if you look at it like this Nitin. This year we did about Rs.642 Crores of profit and going forward 2020 based on our expectations we should do about close to Rs.700 Crores and in three years time or two years time by FY2022 our expectations are we should be able to double our profits based on the settlements and the launches that we have. That is the way you want to look at it.

**Nitin Agarwal:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.



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**Kunal Mehta:** Thank you for the opportunity. Rajeev just a single question we had made a filing for Imbruvica so I just wanted your comments on how do you see the quality of opportunity that this molecule presents and I think there are I think a few small and big players who have filed for it around five to six players so just wanted your view on this one?

**Rajeev Nannapaneni:** It is like this. I think a lot of people did not understand what they improve with opportunity. What the innovator has done is he has launched a capsule first, which will be 140 mg capsule. The number of multiple filers that you have heard about are on the capsule who have filed an NC -1, but what the innovator has done is he has have moved all the patients from capsules to the tablet and there are multiple strength tablets 560, 440, 140, and so on and so forth, so basically what he has done is I do not remember exactly, but roughly about 90% of the market has moved to the tablet and here we are the sole player so that is the solution that we have and regarding expectation and all I think it is early days now we just filed it, so I think with time I think we can give you more clarity on what the launch date is going to be, but it is a very good filing. For me the way I look at it, it is my next Revlimid.

**Kunal Mehta:** Sure. That is it from my side. Thank you Rajeev.

**Moderator:** Thank you. The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.

**Hari Belawat:** Good morning Sir. This is regarding this expansion and foray going into agrochemicals last time you had said that you are expanding by about Rs.100 Crores spending what is the status of that because the project is supposed to be completed by 2019 end?

**Rajeev Nannapaneni:** It is on track my friend. It is on track. The facility is being built in Athivaram in Nellore District in Andhra Pradesh and we are building a small technical plant and a small formulation plant for agro and as you rightly said it is Rs.100 Crores investment that we are spending and our expectation is that the facility should be ready by October or November of 2019. I think we are on track.

**Hari Belawat:** Just one more clarification I wanted to know. The company result is segment very good EBITDA margin and profit margins are very good and even there has been a buyback of the shares by the company, but despite all these things this share price has been taking a beating in the market? I know you may not be controlling all these things? The market forces that decide, but in your perception what could be the reason for best performance and buyback of equity shares, why the share price is going down?



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- Rajeev Nannapaneni:** Very good question. I have no answer my friend. I just do not have an answer to that question. I think what I can only tell you are what the prospects of the company and what the strategy of it and share price I think we should just focus on strategy and I think everything has a way of settling down and coming back. I will leave that answer to that. Thank you.
- Hari Belawat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jagannadham from Centrum Broking. Please go ahead.
- Jagannadham:** Taking the same question on the buyback a little forward after spending Rs.150 Crores of buyback still we are having cash and bank balances much higher than the previous year is there any thought process in terms of launching may be one more buyback and is there anything that can be expected?
- Rajeev Nannapaneni:** Not right now my friend nothing. I think we are very comfortable. I think as you have seen we have a cash balance of over Rs.1116 Crores and if you remove the bill discounting our debt is about Rs.314 Crores as of March 31, 2019 and nearly about Rs.140 Crores to Rs.150 Crores we have paid back in the last two to three months, so we are very comfortable I think I will make the point. For now I do not want to do a buyback and we continue to focus on our strategy and we will keep the money for something big in the future.
- Jagannadham:** Sure. Thank you.
- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thanks again for the opportunity. I just wanted to know how are we impacted on the oncology pricing that the government keeps slashing down so do we have any impact because ours is directly to hospitals?
- Rajeev Nannapaneni:** No Nimish we do not have any impact on our earnings. Even though there are dropped prices we have dropped our brands from 30% to 70% to 80% depending on which brand it is, but fortunately we have had not much impact on our brands because this price control has been driven by our net prices. What they have said is if your net price is X the trade margins can be only a percentage of that X so we have had no impact. The impact has been completely on the distribution channel.



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**Nimish Mehta:** On Copaxone I understand that you are booking substantial increase next year, but what I see is that there are two more settlements just last month and now we are almost five companies that are in the market awaiting the approval and launch?

**Rajeev Nannapaneni:** Which product Copaxone you are talking about?

**Nimish Mehta:** Copaxone so there are two more settlements Biocon and Apotek, which has happened last month if I am not wrong and now we have five companies in the settlement, which settled the product and awaiting launch upon approval, in turn there is not risk on generic regulation?

**Rajeev Nannapaneni:** For now there is no risk. For now, we have launched this nearly a year and a half ago and we are doing well now and I think it is a tough product to make. Eventually there will be generics for everything. That is there, but for now we are okay. My sense is that eventually there will be other generic. I am not going to state that there will not be other generics, which will come with time, but there will be a period of time, which where we will have limited amount of competition and even if another generic were to come you have seen Sandoz has come, but it has not really affected our profits and there is a lot of market share, annual contracts, and marketing promotions, so there are a lot of aspects to it. It is not like a plain vanilla generic, so it is niche opportunity and there is a certain element of it, which will stay for a long time. I am not too concerned and eventually I have always said this in the past and I think we are working very hard to sort of diversify our revenue and even though for example even the Tamiflu has completely vanished and with comfort I am able to tell you that we are able to replace all that we lost in Tamiflu with other products, so I think that speaks to you about our ability to sort of diversify and build a portfolio outside the United States and we have been saying it for many years. I think we are probably one of the earliest to say that US you need to do products in the US, but you need to stick to more niche portfolio and I think for your diversification you need to build on the emerging market.

**Nimish Mehta:** Understood. Just for my understanding again as of now we are at 60% to 70% price erosion on Copaxone?

**Rajeev Nannapaneni:** I do not want to get comparative information Nimish. I am sorry I cannot answer.

**Moderator:** Thank you. The next question is from the line of Vrijesh Kasera from Mirae Asset Management. Please go ahead.

**Vrijesh Kasera:** Vrijesh here. Sir just if you could give out your strategy on?



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- Moderator:** Vrijesh Kasera can you speak a little closer to the handset please.
- Vrijesh Kasera:** Rajeev just wanted to understand your strategy on this agrochemical business, so what exactly we want to do whether we are looking at front ending on the domestic market, export, contract manufacturing, AIs what exactly are we looking at in agrochemical and what is the kind of potential that we see around here?
- Rajeev Nannapaneni:** We feel we have some very niche ideas in agro where there are not too many who are working on. I think these are all first launch in India kind of ideas. I do not want to get into details of what we are doing because again we are giving a strategy away. I think with time we will like to talk to about it. I think we have obviously publically announced that we are doing this and the benefit of these earnings you will not see in the near term. We will not see it in March 2020. We may see something in March 2021, but I think you will see more in 2022 and 2023. I think that is where you will start seeing this benefit of our foray, but I can reassure you again we are focusing on niche limited competition, high technology, high barrier products. We are not looking at agro as a commodity today. You know no net worth company, which always focuses on niche and hard to do stuff. We do not look at it as a commodity play. I know most people think of it as a commodity play, but we are not looking at it as a commodity play.
- Vrijesh Kasera:** Sir should I understand that it would be mainly focus for the Indian market the products, which are not present in India?
- Rajeev Nannapaneni:** Initially I think the business model that we have laid out I think 50% to 60% of the revenue we are expecting from India and about 30% to 40% we are expecting from export market. Export market we will probably do partnerships because we do not have presence outside India. India we are looking at different options, but my gut tells me I think we want to do it ourselves. I think that is where the real value may change. I think when you go front end yourselves is where the real value is and I think our unique selling proposition is from the fact that we are doing a niche portfolio and so let us go for this.
- Vrijesh Kasera:** Other than this capex of Rs.100 Crores how much is the opex that we might have to spend on people and developing the distribution chain and everything?
- Rajeev Nannapaneni:** It is not much. I think my sense is we probably will spend about Rs.10 Crores to Rs.15 Crores a year. I think that is my sense, but that is part and parcel of building a business, so it is not a tremendously large amount, but it is obviously a reasonable amount, but that is how it works. You had to spend money otherwise you do not get anything. We will give the opportunity to someone else.



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- Vrijesh Kasera:** Sure.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** I have two questions. One is in FY2019 barring Imbruvica have there been any other reasonable launches in terms of your assessment as you stand?
- Rajeev Nannapaneni:** It is about five to six filings Nitin, but other ones we are not publically announced, so I do not want to say anything, but in due course we will let you know what these filings are. We have done other filings, but there is one that we did where there was like 12 filers so there is no real value on that particular product, so once we get clarity on what the amount of competition on the other filings is then we will probably speak about it. This is the only big high value filings that we revealed and Imbruvica was a big one.
- Nitin Agarwal:** Secondly on the Hep C exports is that still a relevant opportunity for us?
- Rajeev Nannapaneni:** It is still there. We are expecting two to three approvals I think in Indonesia, Philippines and all, so we are expecting something. As of now, let me tell you how big it is. Rajesh how big it is. Do you have the number with you?
- Rajesh Chebiyam:** Export is still small Nitin. For the quarter itself we made about Rs.2.5 Crores. For the year we did about Rs.11 Crores.
- Rajeev Nannapaneni:** Anything else Nitin?
- Nitin Agarwal:** In terms of any serious approvals Philippines and all couple of these countries how big even assuming it falls as per expectation how big can this thing get for you?
- Rajeev Nannapaneni:** I think it is like this. I think domestic is doing about Rs.12 Crores a month, so it is about Rs.150 Crores and then you add that up it is about Rs.170 Crores to Rs.200 Crores range. I think it will stop further decline, but I do not think you will see the portfolio becoming very large like in the past. It will probably be steady state sort of portfolio. This problem with the product or the miracle of this product is secure right so I think once people take it for three months then the number of patients keep dropping, so unless you have new diagnosis it is very difficult to increase market share.
- Nitin Agarwal:** Sure got it. Thanks.



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**Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

**Rohan Advant:** Sir thanks for the opportunity. Sir my question is around some basic understanding of our steady state base business profitability so if I understand Rs.750 Crores is our profit share and PAT for the year is Rs.640 Crores so our profit share has a huge bearing on the total PAT so say if Copaxone is 75, Tamiflu is gone and the Revlimid is yet to come what would be the steady state base profitability or we should not think like that for every year there would be either Copaxone or Revlimid how do you think of it?

**Rajeev Nannapaneni:** I think we are able to replace it with other products. We have reduced dependency dramatical. This year's projection is no Tamiflu of course that is one and the problem is the contribution of profit share it does not just come from only one product my friend. It comes even from other products also. It is not just Copaxone. We have other products with our alliance with Lupin, Reddy's and other partners as well, so it is fairly diversified and what we do is it is because we do not have front end in lot of these markets. We do a lower transfer price and lot of the revenue comes from the profit share. To give away to answer specifically how much we are making in every product I do not want to say that. I want to avoid answering that question, but the dependence on Tamiflu was very large last year and I think this year it is none and now Copaxone also will contribute to a significant part of the profit shares, but however we are trying to diversify our portfolio. That is the best way to put it.

**Rohan Advant:** Just a followup so our profit share goes directly to profits or does it have any cost associated?

**Rajeev Nannapaneni:** Most profit share is just adds to the bottomline.

**Rohan Advant:** Got it. Thanks for taking my questions.

**Moderator:** Thank you. The next question is from the line of Jagannadham from Centrum Broking. Please go ahead.

**Jagannadham:** Just the point on the agrochemicals let us say by 2021 by when the full financial year effect will be seen on the agrochemicals so how much probably in terms of topline and bottomline the contribution come from agrochemicals, will it be like very major opportunity or will it be just add on kind of business how do you view the whole?





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**Rajeev Nannapaneni:** I think my vision is that it should be about 10% to 15% of our revenues not today, but may be in about three years time.

**Jagannadham:** In terms of profitability any rough estimate that you have?

**Rajeev Nannapaneni:** We are targeting this similar sort of EBITDA, but it is tough to say right now. You cannot really predict what your profit is going to be on a particular item in three or four year's time, but as I always said I do not look at it as a commodity business I look at it as a niche value business, so there is a lot of opportunity.

**Jagannadham:** But that business would not be the main stay in the sense. It is not like any change in the overall mix of the business?

**Rajeev Nannapaneni:** Absolutely not. I think as I said 85% to 90% of our revenues will be driven by pharmaceuticals. It is a nice niche portfolio for diversification. We have had this discussion in the past conference calls as well. Clearly what worked for us in the last 15 to 20 years as an industry is not working anymore and I think you need to think a little bit outside the box. Different people have different strategies. Again for example somebody like Cadila has bought an OTC portfolio. We are looking at. I think people have their own ideas of diversification in their own way using the skill set that we have, so I think the way I am looking at it is I am looking at a way of expanding this portfolio where we bring in different streams of revenue, which are well diversified, so then the volatility of earnings will come down. I think that is a concern because as an industry being so US dependent when something happens in the US then the earnings become extremely volatile. I think our attempt for the last two years has been for diversification.

**Jagannadham:** Any more new areas that you are exploring besides the agrochemicals?

**Rajeev Nannapaneni:** Whatever I publically stated is what we are doing. This is what we are exploring. I think emerging markets and agrochemicals. This is how I look at the world and we continue to pursue things in the US, but however we are looking at a strong emerging market and an agro strategy as well.

**Jagannadham:** Thank you Rajeev.

**Moderator:** Thank you. The next question is from the line of Rahul Jagwani from SKS Capital. Please go ahead.



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**Rahul Jagwani:** Actually I want a clarification on the buyback policy because in our previous buyback we bought back 75% of the amount and right now I think earlier you said that now you do want to do a buyback, but the price is still lower and you have cash so what is the logic?

**Rajeev Nannapaneni:** We said we have done the buyback. We did Rs.30 lakhs sales we have cancelled. That answers your first question. What is the logic for what? Why we are not using our cash is that what you are saying?

**Rahul Jagwani:** Yes is there something specific we need so much cash for?

**Rajeev Nannapaneni:** I like to take very high amount of risk, so when I do project initiatives we take a lot of projects where four years, five years or seven years sort of payoff and I like to keep our company in a way where we always have cash on books. We use some of the cash to do buyback and some of it was used for dividend. If you want me to say whether I am going to get rid of cash and give everything back to shareholders at this time the answer is no. I do not intend to do that. I think I want to keep the cash for me to make these high risk investments and may be if there is a huge opportunity that comes in the next few years may be we can use that cash for an acquisition or a new business idea. For now we would like to keep the money. I do not want to give it away.

**Rahul Jagwani:** Thank you.

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

**Srihari C:** Thanks for the opportunity. Firstly on the domestic market if you can give some kind of a long term outlook vis-à-vis Rs.735 Crores what is the kind of number you will be looking at may be three to four years down the line and is the inorganic route a critical part out there and secondly I propose Copaxone I presume Sandoz is not doing as well as your combine with Mylan so strategically what is the difference between the two players? Thank you.

**Rajeev Nannapaneni:** First question was on how much we expect the domestic to grow. I think our domestic expectation will grow about 12% to 15% this year. I think that is our expectation and going forward I am very bullish on the domestic figures. Long term I think we can compound that in that range I think. As of now I feel around 15% comfortably we can compound based on the pipeline and what we have, but again keep that in mind there is a caveat we do high risk launches, so there is always a risk of injunction, so nothing is guaranteed, but we will continue to pursue what we pursue. That is the first part of your question. Your second question was on why we have higher market share than Sandoz. I think one advantage we



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had is the first more advantage. I think Mylan has done a great job in terms of conversion and in terms of marketing I think that has probably made the difference. As far as more aggressive than Sandoz and we are fortunate we have a good marketing partner.

**Srihari C:** You expect that to be a barrier for the other generic players?

**Rajeev Nannapaneni:** My sense is yes. I think yes that is the sense I have and obviously time will tell, but it is not an easy product for approval. I do not think it is an easy product for marketing. It is not like a plain vanilla tablet. I think you cannot sort of extrapolate what happens on a plain vanilla on a product like this.

**Srihari C:** On the domestic front how critical would the inorganic route be for you?

**Rajeev Nannapaneni:** Inorganic I am not looking at anything my friend. Right now we looked at few things, but I feel that there is nothing reasonable available at reasonable valuations. I think sometimes it is just smarter not to do a transaction when things are not reasonable. I think that is how I look at it.

**Srihari C:** Where is the focus Sir right now in terms of acquisitions?

**Rajeev Nannapaneni:** I do not want to do any acquisitions. As of now no.

**Srihari C:** Thank you.

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

**Sameer Baisiwala:** Thanks. Good morning everyone. Rajeev to your point that you will double your FY2020 profits by FY2022 Rs.700 Crores going to say Rs.1400 Crores, have you made the adjustment that Copaxone can moderate in those two years and despite that you think you can double?

**Rajeev Nannapaneni:** Yes based on the settlements and the launches and our strategy yes that is our expectation.

**Sameer Baisiwala:** Great. Thank you.

**Moderator:** Thank you. The next question is from the line of Raj Kumar from Green Portfolio. Please go ahead.



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- Raj Kumar:** Sir would you like to throw some light on your Tamiflu drug?
- Rajeev Nannapaneni:** What specific question on Tamiflu?
- Raj Kumar:** How much it contributed in 2018 and 2019 and what is your outlook going forward?
- Rajeev Nannapaneni:** I think I have already answered that question. I think 2018 and 2019 it played a huge role on the earnings. I have said that. A split byproduct I am not doing for comparative reasons and to answer your question on FY2020 on our projections we have removed that from the projections. It will play a very minor role.
- Raj Kumar:** Which drug will replace this without Tamiflu contributed so much in 2018 and 2017 I think?
- Rajeev Nannapaneni:** Some amount will be replaced by Copaxone and some amount will be replaced by the emerging markets.
- Raj Kumar:** Emerging markets. Sir would you like to tell me about the Revlimid medication I think it is in the process?
- Rajeev Nannapaneni:** Revlimid you are talking about the US market?
- Raj Kumar:** Sir when it we launch?
- Rajeev Nannapaneni:** The US market is March 2022 financial year.
- Raj Kumar:** Sir would you like to put some light on how much revenue will come around if there is no Tamiflu in the revenue?
- Rajeev Nannapaneni:** What projection I have given assumes no Tamiflu. You can assume 7% to 8% growth and 8% to 10% growth in profit without Tamiflu is what I assume.
- Raj Kumar:** Tamiflu is nothing contributing in your profit this year?
- Rajeev Nannapaneni:** We are assuming it is not a meaningful contribution in FY2019-2020.
- Raj Kumar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Samir Shah from ValueQuest. Please go ahead.



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**Samir Shah:** The question is on these domestic litigations where we face injunctions from Delhi High Court, etc., how is the legal status on all these and now given that US is pressurizing India to kind of respect patents more, etc., do you think this strategy will face more difficulty going forward?

**Rajeev Nannapaneni:** The government has nothing to do with legal cases Samir.

**Samir Shah:** How strong are the IP laws in India that your strategy basically?

**Rajeev Nannapaneni:** I will answer the question in a different manner. I feel litigation is difficult in India. I think I will not say that it is easy, but you go to keep trying. I think that is what business is all about. You have a legal strategy and then you keep trying. Sometimes we succeed and sometimes we do not. I think a few minutes ago somebody alluded to the fact that we got enjoined twice, but I can give you an example of seven products that I did not get enjoined to, which we allowed us to build what we build today, so when you do this business you are going to get at least you are going to have some failure 40% to 50% failure is built into the model. We just have to keep going I think that is all it is.

**Samir Shah:** Basically you say if we take a case in point of Brilinta for example if we have got an injunction there is that opportunity kind of gone forever?

**Rajeev Nannapaneni:** Yes and no. It depends on, the court is supposed to give an order. Let us say we win the case and we enter first in the market then there is some opportunity. Let us say if we do not win the case then yes and if the case gets dragged longer than we anticipate then yes it is gone. There is no like I cannot give you an answer for every product that this works or that does not work. It is all a function of how many competitors are there, whether you win or if at all you win, when the judgment comes, the timing of judgment, when the other patents are there, so it is a case to case analysis we have to do, but broadly if you want something special in domestic than on your base business you have to be aggressive on patent.

**Samir Shah:** Got it and second question is on the CWIP is about Rs.600 plus Crores so this is Revlimid plant and the agrochemical plant is that the main component of that?

**Rajeev Nannapaneni:** There are two plants. One plant is in Vizag, so which we have done almost Rs.250 Crores is the project cost. About Rs.200 Crores we have spent on Vizag, so the plant is just getting operational this quarter, so we will get capitalized this year. About 40% of that is coming from the Vizag facility and the agro we have spent about 50% so far. It is about 50%. The rest of the stuff is just basic maintenance capex and so on and so forth, but these two are the big 50% to 55% is contributed by these two plants.



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**Samir Shah:** Going forward then with whatever capex we have done it will be only maintenance capex or what kind of capex would we need to continue?

**Rajeev Nannapaneni:** I think we did the budget meeting the other day. I think we are targeting about Rs.350 Crores to Rs.400 Crores of capex a year.

**Samir Shah:** Thank you.

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

**Rajeev Nannapaneni:** Thank you all for your questions. Again anything pertaining to the call what we had discussed please feel free to reach out. Thank you all. Have a good day.

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