



“Natco Pharma Limited
Q2 FY2020 Earnings Conference Call”

November 13, 2019



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Natco Pharma Limited Q2 FY20 earnings conference call hosted by Edelweiss Securities Limited. As a reminder all participants' 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. I now hand the conference over to Mr. Deepak Malik of 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 second quarter FY2020 earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni – Vice Chairman and CEO and Mr. Rajesh Chebiyam – Vice President, Acquisition and Institutional equity, Investors in management and corporate communications. I would like to handover the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

Rajesh Chebiyam: Thank you very much as always. Welcome, everyone, to NATCO's conference call discussing our earnings for the second quarter of FY2020, which ended September 30, 2019.

As a disclaimer, we may be making certain forward-looking statements, which are predictions, projections or statements about future events. Because forward-looking statements involve risks and uncertainties, actual future results may differ materially from those expressed or implied.

Let me also state that the material of the call, with the exception of participant questions, is the property of NATCO and cannot be recorded or rebroadcast without NATCO's expressed written permission.

On the results, NATCO recorded consolidated total revenue of Rs. 518.9 Crores for the second quarter, which ended September 30, 2019, as against Rs. 583.5 Crores for the same period last year. The net profit for the period on a consolidated basis was Rs. 117.7 Crores as against Rs. 181.6 Crores for the same period last year. The decline in revenues and profits compared to the same period last year is primarily due to the unexpected drop in Oseltamivir sales in the U.S. and hepatitis C sales in India.

The Board of Directors has recommended a second interim dividend of Re. 1 per equity share for this quarter.



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We will take questions. And the split in terms of segmental has already been communicated to the exchanges. So any questions on that, we will take it.

Deepak let us open up for questions.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have a first question from the line of Shashang Krishnakumar from JM Financial. Please go ahead.

Anmol: This is Anmol. So domestic, we have seen a second consecutive quarter of decline. Would you like to call out the factors that are responsible? Also in terms of Hep C contributing, we saw that number decline from 42 Crores to 31 Crores on a sequential basis last quarter. What is that number like now? And since the performance is pretty much against the announced plans in terms of what other companies are executing, would you also kind of want to highlight how the full year should look like, especially in terms of the domestic performance?

Rajeev Nannapaneni: First, we will do the split of the divisions.

Rajesh Chebiam: Yes. So Anmol, let me just give you the specific split for the quarter. So API, we have said 68 Crores for Q2, and 55 Crores of that is exports, remaining is domestic. On the formulation oncology, that is 68 Crores and the non-onco brand pharma is about 34 Crores. Formulation CnD is about 5 Crores. And the third-party was roughly around 15 Crores. So that is the broad split.

Rajeev Nannapaneni: In terms of declines, you see we have spoken about hep C. I think, in the past year, we have spoken as well. Like, hep C is a complete cure. So we are seeing a decline of hep sell Q-on-Q. And I think that is, I suppose, a description. I think the only difference I think an unanticipated part will be onco decline. I think onco and the cardio decline, I think cardio sales, we had larger sale in the previous quarter because we had some stocking qualities of too few brands that we have done. And that is the reason why the sale was higher in the earlier quarters, slightly lower this quarter.

We will start with the cardio. I think we had very good launches in the last few months. We launched apixaban. We are the first generic. We launched Vildagliptin and Vildagliptin, Metformin where we are the first generic. We got injunction on it, where we got to keep the stock which is already there in the market. And I think post December I think it opens up for everyone. We launched Regorafenib, which is the non-proprietary where we are the first generic and we launched Ticagrelor after that Delhi High Court verdict on November first week.



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So we had good launches. I think if you look at a long-term view, I think we are very positive overall with cardio and diabetology business. So the disappointment is, to be honest, is the sales of in the onco business. I think we had a couple of pressures on a couple of brands, on some of our heavy brands. So I think that is the reason why we see a decline. But I think if we get traction over due course because we have some very good launches lined up in the next few quarters.

Anmol: That is helpful. But I think what would help, Rajeev, is that if you could just call out the corresponding number, the 31 Crores for hep C the last quarter. And also with respect to oncology getting sorted out over subsequent quarters, does this mean this was a one-quarter phenomenon? Or it kind of drags what we were expecting for the full year? And in terms of how does that impact the guidance that we had for the full year? So I think any outlining of there could be helpful.

Rajeev Nannapaneni: Yes, we will talk about guidance in a few minutes. But I think what we will, hep C has been flat, Anmol. Coming from Q1 to Q2, it is been stable. Compared to last year, yes, it is a decline, but we have said it because it is a complete treatment under the decline. But sequentially, it is been flat.

Rajesh Chebiyam: Of course, (inaudible) declined sequentially. If you compare Q1 to Q2, is roughly about 10 Crores decline, which I think, as Rajeev already explained, there is some pressure on just a few products. But

Rajeev Nannapaneni: We cannot return new launches. And the last question you had was on the guidance for the year is there any impact on the guidance of the year. I think overall there are in addition to the launches that we have in the domestic, which would, I think this is on onco, we have a few interesting launches lined up. I think one is what I call first one, which would be critical in the next year, I think in the next few months would be the agro product that we have filed, which we publicly disclosed and then the lenalidomide litigation in Canada. I think these are 2 big ticket items. And I will give an update on both.

So I think we have reviewed where we are on the agro product and they re-filed the product and there is pending litigation. And if everything goes well, we will speak about the launch. Obviously conduct legal case right now, so we will speak about that later. So this is obviously very important for our earnings growth.



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And another one is obviously the lenalidomide. So lenalidomide, we have a filing in Canada, and so we are going to trial next quarter on this product. And so that also would be very critical for us.

Anmol: Okay. Just my last question before I get back into the queue so Sir the agro launch is not FY2020 event right, given the best case litigation outcome it would not seem to be in FY2020 event ?

Rajeev Nannapaneni: It will happen soon. I mean I do not want to get into dates and all because we have a legal case Anmol but it will impact near term only, that is the best way to answer that question.

Moderator: Thank you Sir. We have next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: I have two questions. First one on Revlimid, what is the status, given the fact we mentioned earlier that we are looking for an approval by end of this calendar year. Given there are only some labeling issues, is there an update there?

Rajeev Nannapaneni: Yes, sure. You are not talking about the U.S.A. So Revlimid, we have a goal date in this financial year, in the next quarter and we believe we have only some minor queries. We have answered all of them. And our inspections are all IIRS. So I think we are in good shape. We should get an approval hopefully in the next quarter based on the goal date that was given by the FDA, assuming we would not have any further queries.

Prakash Agarwal: So there are no pending queries in the molecule front is what I understand?

Rajeev Nannapaneni: Nothing is in that front.

Prakash Agarwal: Okay and goal date you are saying is Q4?

Rajeev Nannapaneni: Yes. Correct.

Prakash Agarwal: Secondly Sir if you could explain the gross margin movement also, I understand India business is down but there any lumpy drop down in any pricing of say product in US or say somewhere how do I understand the gross margin in this quarter going ahead?

Rajeev Nannapaneni: I will tell you what happened. So basically there are 2 issues here. We had some stock in quantity for the flu season this quarter. So I think we had about, I think about 20, 25 Crores API sales and about 30 Crores of what we call formulation sale where we both sold on cost



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plus basis, which will be reflected in the profit share that we are going to get in the subsequent quarters depending on how the market behaves in Europe in the next 2 quarters. I think the sale includes some portion of stocking quantities for that coming through flu season. That is the reason why the gross margin looks like there is a shrinkage but it is only because the way we do our flu billing is that we bill it at cost plus, and then and we wait for the profit share to happen. So if we get good profit share, then obviously you will see the gross margin return back to normal, to get normalized.

- Prakash Agarwal:** Adjusted for that it is around 80%-85% which is our run rate is that correct understanding?
- Rajeev Nannapaneni:** If we remove those sales, yes, I think your EBITDA margin drop will not seem as much as it looks like.
- Prakash Agarwal:** So we should not read much into any drop down in Copaxone or Doxil is what I wanted to ask?
- Rajeev Nannapaneni:** There is no impact on Doxil and Copaxone. It is fairly steady state. Those 2 are doing extremely well, and they are fairly steady state. What you have seen this quarter decline is 2, 3 reasons. As Anmol already said, one the domestic sale is has been few. That is one reason why we have a lower margin. And second is, as I said, we did stocking quantity of the flu business, and our bookings profit share of the flu business. So that is the reason why it looks because basically we will include on the raw material costs, and the profit share comes separately. So I think that is the reason why we see this.
- Prakash Agarwal:** Thanks I will join back the queue.
- Moderator:** Thank you Sir. We have next question from the line of Anuj Momaya from Value Quest. Please go ahead.
- Anuj Momaya:** Yes, so I am trying to understand your execution strategy for the agro business. You just announced the product name, but can you help us with the distribution strategy that you are going to adhere for that?
- Rajeev Nannapaneni:** I think we are looking at 2 options. I think the distribution business for agro, I think what we want to do, and we want to set up our own front end. We have already set it up right now. And we have a few more molecules in our pipeline, and I think we are very bullish about this pipeline. So I think the idea is primarily that we want to do it ourselves.



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Anuj Momaya: Okay, so you said own front end and it is going to be a partnership deal with the domestic market is what you are thinking?

Rajeev Nannapaneni: I think it is too premature. Nothing, I do not want to give really you a sense, but I think primarily it will be driven by our own branding.

Anuj Momaya: Okay. Selling for BRILINTA, you have launched wider product back in new market. So how is the response to it been? And how has the existing player have responded to our launch?

Rajeev Nannapaneni: I think very early that we launched it, to be honest with you, about a week ago. I think we are the most competitive generic players there. And we feel good. I think we are happy with the launches. And I said domestic launches we have done a lot of first in India launches. They are very bullish. I think, over a period of time, you will see the benefit of it. Yes.

Anuj Momaya: And only we have launched or even the other generic players, which were there?

Rajeev Nannapaneni: Yes, there are more generic, I think I do not recollect the exact number I think I have seen about five or six generics already.

Anuj Momaya: Okay. I will come back in the queue. Thank you.

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

Nitin Agarwal: Thanks for taking my question. Rajeev are you still holding on to the FY2020 revenue impact guidance that you have given out now at the earliest start of the year?

Rajeev Nannapaneni: It all depends on I think we have multiple launches lined up. I think we spoke about those 2 big launches. I think those will be critical in making those balances.

Nitin Agarwal: You mean that the Revlimid launch in Canada and the agro chemical launch?

Rajeev Nannapaneni: Yes. I think these are among what we have launched. But these are 2 large-ticket items which are very critical. I think it is all subject to patent case. These will be driving the earnings growth clearly.

Nitin Agarwal: Can you help us understand the Revlimid opportunity in Canada it will be better?



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Rajeev Nannapaneni: Yes, sure. I think let me tell you. I think the size of the market right now; I think we do not have data because it is not available. But typically, it is about 5% to 10% of the U.S. market size, typically on most molecules of that size. That is a fairly sizable product. So now what is happening is Canada we want to trial next quarter, okay. So there are multiple outcomes. I mean again, all options are open. So we settle and we are going to launch it and/or we go to trial and launch within, and we go to trial and win and launch after that. So that is probably we will see what will happen, but I mean, obviously, those are the 2 parts in that particular case.

Nitin Agarwal: Sir, Dr. Reddy's already settled on the product. Does that change anything for us on that opportunity? How does that impact the opportunity for us?

Rajeev Nannapaneni: It does not impact our opportunity. I think it in fact; I think we are in a good position because really for what I understand ours and Apotex are the only analytical which are pending. And our trial date is in this next quarter, and Apotex trial date is in the later part of the year. So I think it presents a very interesting opportunity. But as I said, everything is under litigation, so I think it is very premature to say what we are going to do. But I believe it is a very interesting opportunity.

Nitin Agarwal: Thank you.

Moderator: Thank you Sir. We have next question from the line of Charulatha Gaidhani from Dalal and Broacha. Please go ahead.

Charulatha Gaidhani: Yes, my question pertains to the profit sharing income. You mentioned that the current U.S. revenue does not include profit sharing from Tamiflu.

Rajeev Nannapaneni: Q3-Q4 product that is correct.

Charulatha Gaidhani: Yes, so then the profit sharing would have come in Q1?

Rajeev Nannapaneni: I did not understand your question could you say that again?

Charulatha Gaidhani: I was anticipating that the profit share would have come in by Q2?

Rajeev Nannapaneni: No, we do not have any profit share on Oseltamivir for this year in Q2 we are anticipating in Q3 and Q4 depending on the flu season and pricing situation.



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Charulatha Gaidhani: Okay and how much like on a constant currency basis you have a 4% growth in this so how much could it amount to?

Rajeev Nannapaneni: You mean how much you make in the flu product you are saying?

Rajeev Nannapaneni: We believe it is premature to answer that question. We will see how the quarter goes, I think. All of the dynamics are there. The intensity of the flu season is also very difficult to predict and the other competitors. We will speak about it, I think, once the quarter ends. It is very premature to say anything about that right now.

Rajesh Chebiyam: Just to add one more thing Charulatha on this, what we said earlier is in Q2 we had stocking quantities of Oseltamivir we push into the market we have also said that this year is a competitive landscape the profit sharing number is not expected to be as high so even Q3-Q4 we guess it will not be as much as what we had seen in the prior years.

Charulatha Gaidhani: Right and my second question are about the cardio and diabetics degrowth in India what is the main reason for that?

Rajesh Chebiyam: Just we had a good stocking quantity in the June quarter I think now we are trying to sell this stock that is the only difference, nothing there is no de-growth were seen in that.

Charulatha Gaidhani: So in the subsequent quarters also you would anticipate current lines?

Rajesh Chebiyam: I think so, I think if you take a more long term perspective yes, I think it will level off, you will see the consistent, just that because we are stocking all this new products I think you see a lot, see basically what happens is when you launch a new brand you have to stock at multiple distributors and then it takes a while for the stock to distribute and it starting from a low base so I think that is probably the reason why there is lot of up and down in the numbers but otherwise we see the other segments in the fairly state.

Charulatha Gaidhani: Thank you.

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

Kunal Randeria: Good morning every one. Rajeev in Copaxone, I believe that Sandoz has gone for a sharp price cutting in their list prices, now 20% or so below Mylan. So while I understand the net price difference may not be as much, does it mean that you have to match the prices that Sandoz is offering to your customers also?



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Rajeev Nannapaneni: I think the revenues from them have been fairly stable. I think we have got more market share. So I think things have been fairly stable for us. I think that is what we have seen from what we have heard from Mylan.

Kunal Randeria: But going forward, do you think you will have to sort of cut your prices more?

Rajeev Nannapaneni: I cannot answer that question. I think it is just better to target it at Mylan. I think I can only answer about the revenue that we are getting from Mylan as our share, I think, being fairly stable.

Kunal Randeria: Okay and secondly in Doxil do you expect competition to come in FY2020?

Rajeev Nannapaneni: Honestly, I do not know. I have no idea. I think for both have critical products. We just go with what is there in the public domain of other people's filing. But I am not I mean Doxil, I heard, I think Cadilla has filed. And I think Copaxone even Reddy's and other filers are there. I heard about it, but again, I am not I cannot make a judgment. I think at the end of the year, I think we get more clarity on where we are.

Kunal Randeria: Sure. And lastly can you share your net cash position?

Rajeev Nannapaneni: Our total cash in the company is about 1039 Crores and our net is about 299 Crores of which about 78 Crore is fall in discounting and rest of it is CPs and short term working capital borrowing.

Kunal R: Thanks for this. I have few more questions, I will join back.

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. Just the first question is that now regarding the recent deals of BMS and Celgene, so with BMS paying around \$74 billion and Celgene, for Celgene, half of which is in cash. So you think reading this deal it underwrites the fact that at least BMS will not precede us in launching the Revlimid in the U.S. market?

Rajeev Nannapaneni: Could you say it again I think catchy question, what will BMS do you said?

Kunal Mehta: You said they are to underwrite business and underwrite the fact that at least we would be the first company to launch generic or Revlimid in the U.S. market, and BMS would at least



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follow us or maybe have a deal similar to us, but it will not precede us in Revlimid. Does it underwrite that because Celgene BMS paid a huge upfront premium for Celgene?

Rajeev Nannapaneni: I think the deal assumes what BMS will do we have no idea, my friend. So I cannot answer that question. But what I can answer for sure is that our launch date that we had in March 2022 stays and that if BMS-Celgene merger itself does not affect the date, correct.

Kunal Mehta: Okay, okay. And any indication you would like to give us on the emerging market business, Doxil, in Canada? Do we stick with our guidance of at least trying to build somewhere around 150-200 Crores business in this year?

Rajeev Nannapaneni: I think the businesses are doing well. I mean Canada last quarter was about 25 Crores, and Brazil did about a little less than 10 Crores. So we are doing almost 35 Crores in our foreign subs per quarter. So that is doing well. Canada is profitable. Brazil is operationally breaking even if you remove the R&D expenditure. And I think Brazil at the end of the year should actually break even if you include even R&D expenditure. And we have very good launches lined up in Brazil. In Canada, the big launch, I already spoke about, obviously subject to legal outcome, so it is a huge launch for us. So I think our guidance that emerging markets and India should increase in the next 2, 3 years still remains, absolutely.

Kunal R: Sure. Thank you.

Moderator: Thank you Sir. We have next question from the line of Kiran Karthik from Table Tree Capital. Please go ahead.

Kiran Karthik: Rajeev, just a very strategic question not just related to this quarter this year. But essentially we seem to have 2 categories of products in my mind. The category 1 is the difficult to manufacture, difficult to sell, difficult to distribute products like Copaxone and Doxil and the second category product is Tamiflu and hep C, where we make a lot of money for a limited period of time and then a lot of competition comes in. So there is distinctly 2 set of products that I can read. So as part of the next 5-year journey, right, where we have kind of have the molecule like Revlimid, Sorafenib, Imbruvica, Ibrutinib, lapatinib, Bosentan 32 mg, there are products that you kind of revealed in Q1. What proportion of these products do you think are the category 1 like Copaxone and Doxil? And what kind of product or category which is likes Tamiflu or Hep C where we make a lot of money? I think Imbruvica falls in that category. But I look to you kind of to understand what proportion of future portfolio is in the category 1 with Copaxone and Doxil? And what proportion of products is in the category 2, please.



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Rajeev Nannapaneni: I think we strive for both. I think the idea here is we try to strive for both. And I think we have a very distinct model. I think that, one, the distinctness of the model is, I do not do commodities under any circumstance. We do not touch commodities, where I believe there are seven, eight guys, I do not believe in scale. I do not believe that you can compete because the value that we generate for doing a scale product is not attractive to us. So I think the challenge in our business is we like to do complex, but complex stock takes time and we like to do litigious stuff. And litigious stuff also, the challenge with litigious stuff is you get huge upfront onetime money, then eventually others competitors catch on. So then what it does is it creates uncertainty in the launch date. So that is the challenge. So that is philosophy of the company. In terms of the mix, I would say, I mean, 30% of filings related to complex. We do 70% more filings, which are difficult to do or interesting ones to start and try to do in the first year. I think that broadly is going to give the ratio.

Kiran Karthik: The second question on a couple of tough questions on Revlimid. Celgene is doing a lot of label expansion, multiple other symptoms so; Revlimid is being expanded from a label expansion perspective on Celgene. So would our launch is it restricted in some format? Or if Celgene expands its opportunity by making the label expansion, would we also be a part of it? Or can you also target this market? And the second question obviously Europe launch, so.

Rajeev Nannapaneni: I think in the US yes, I think the label expansion itself does not delay our launch. No, it does not. It does not restrict us.

Kiran Karthik: It does not restrict us from selling for those symptoms as well.

Rajeev Nannapaneni: From what I understand, yes. I think that is, that is what I understand, yes. That is correct.

Kiran Karthik: My last question on Revlimid, versus Europe launch, any kind of indication? Or you do not want to speak about it right now? Do we have, we do not want to target Europe at all?

Rajeev Nannapaneni: I have an approval in Europe, but I have no expectation in Europe. I think I do not think there is much money to be made in Europe on Revlimid. That is my personal view. We are only remember, we are only bullish on U.S. and Canada.

Kiran Karthik: Got it. Thank you I will get back the queue.

Moderator: Thank you. We have the next question from the line of Pratik Mantri from Samsung PTE. Please go ahead.



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Pratik Mantri: I have one question that last call, you said that the profits would double in next 3 to 5 years. In just all those despite short-term ups and downs and you told three years is your view that your profits would double?

Rajeev Nannapaneni: I think my long term view has always been that we are very bullish on our pipeline. We always shared our pipeline very openly, and I think we are very bullish about our future. I think even in the near term, I am very bullish. But I think what our point is; again, I keep getting asked the same question. I will answer it again. So the issue here is our company as a strategy is a product-driven company. We have an interesting pipeline. We always come up with something interesting every year, we come up with 2, 3 interesting ideas. And it is these ideas is subjected to regulatory approval and starting with 3, you get the upside and in terms of delay any of these things, then obviously there will be some. The growth in the earnings would not be there. But that is always been the strategy of the company, and I think we never changed that and I think looking at the pipeline that we have, we are still bullish, yes, absolutely.

Pratik Mantri: So from 100 million which you have let us say 650 Crores which you said about 500 Crores will be in 3- to 5-year view?

Rajeev Nannapaneni: Absolutely. I think, again, subject to the launches in the pipeline we have, yes, absolutely. Yes.

Pratik Mantri: I understand that. Second, in TEVA's recent call, they have said that Copaxone sales have been falling significantly, if you have notice that. And what is your agreement? I mean, of course, Mylan has a strong, so even Mylan has been saying on its call. So what is your view on Copaxone? And going forward, this quarter maybe good, but going forward, how do you see Copaxone for you because PEDDA has given the figure of about 270 million for themselves. So if you could just shed more light going forward? I understand this quarter it has been good for you?

Rajeev Nannapaneni: I think Copaxone has been stable for us. I think our earnings are stable. There is good market share. They are doing about 30%, 35% from what I have heard. I think for now, so far, so good. I think it is been stable. The earnings of Copaxone are stable on the balance sheet. We are not seeing much change.

Pratik Mantri: Sir, do you see any product, any customized with all the generic companies, most of the Indian domain companies having reported sales on the new products, just taking away their loss in the old products? Do you see that happening for you? Or you do not see anything like that in the next few quarters?



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Rajeev Nannapaneni: Our portfolio is not like that. I think our portfolio does not have, we do not get that benefit of rationalization because we do not have such a large portfolio. Our portfolio is still always niche and limited. So I think this rationalization benefit and all relatively have less impact on our portfolio.

Pratik Mantri: Then last question on Revlimid generally, to date, if you add all these, first to file, we never saw price fall, but if you see the same, most of the big the major Indian pharma and the global pharma, even if you were to follow the price falls, they are like 17%, 16%. And then you can see the sales of about 6 billion in Revlimid. Do you see an improvement in all onco products? Do you see a significant fall on day 1? Or do you see that it would not be that bad? It would be like Copaxone or something slow? What is your view on this? Can you just sort of enlighten how big is the market going to be and how it would turn out? Some rough idea?

Rajeev Nannapaneni: You see, a lot of price erosion is driven by market formation and what market formation have in 2022, if we would have limited competition or a higher amount of competition, it is all very difficult to speculate and you have to play out different scenarios. I think we will be very premature to ask.

Pratik Mantri: And what is the size of the US market?

Rajeev Nannapaneni: The exact number? I think per quarter, it is about 1.2 billion, 1.3 billion a quarter, I think, if I recollect it right, in that region, I think.

Pratik Mantri: Yes, you are right. Yes, it is about 4.5 billion to 5 billion, in that range. That is true.

Rajeev Nannapaneni: Yes.

Pratik Mantri: So what is your feeling? Or would that be a 30% to 50%? Or are there more significant? What are the things you are seeing very significant?

Rajeev Nannapaneni: You are asking for an event that is going to happen 2 years from now. I would not want to speculate at this time. I think it is too early to say.

Pratik Mantri: My last question is China. Your products, onco products, are like very wanted in China. Would you now tie up officially and do something very significant in China? Because your onco products are, do have a place the countries like China. And now with China with opening up and Sun Pharma, these companies having done that, would you also go and file your products in China?



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Rajeev Nannapaneni: Yes, yes, absolutely. I mean we have about 8 or 10 filings that we target in China. So far, we filed about 3 in China. So I think we are on track.

Pratik Mantri: In your onco products, which is about 70 Crores a quarter, can it be as big as in China because as far as I know it might as well.

Rajeev Nannapaneni: I think, overall, let me speak to our Chinese strategy. We have about 7 to 8 products which we are trying to file in China. And about 3, we have already filed. We are doing bio study and takes time in China to do. In terms of Chinese opportunity, I think it is a great volume product. But the price erosion has been pretty bad, I think once they started the auction system. I think what I have seen, I think what I understand, and it has been very competitive. It is not as big as it made to be. I think it is fairly competitive business but having said that, it is still a very good market because of the volume and the size.

Pratik Mantri: Thank you.

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

Prakash Agarwal: Yes, a quick one again. On the oncology side, you mentioned it is gone down from 80 to 68, right?

Rajeev Nannapaneni: That is right.

Prakash Agarwal: The earlier number, which we were clocking in, was about 90-plus 9,200-plus. So I was looking at my last quarter notes where we mentioned that there is onetime inventory and this quarter again. So is it related to the oncology price cuts that we see, there is a reset happening, and we can see it in the next 2 quarters? Or this is the last quarter and we should see a bump up from here on?

Rajeev Nannapaneni: I think, Prakash, I think we have seen some pricing pressure because of the price cuts, but it is not the only reason. We are seeing competition on one or two bigger brands that we have had. But I feel that we can make it up because of the pipeline that we have. We can break it up, but I think I do not see a challenge in that. But it is only a temporary phenomenon. I do not think we should be able to make it up.

Prakash Agarwal: Okay. And this should take a couple of quarters?



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Rajeev Nannapaneni: I think you will see the difference in December quarter. It will not take a couple of quarters. Next quarter itself, you will see a difference?

Prakash Agarwal: Within the launches in oncology you mentioned, not from the whole India franchise, right?

Rajeev Nannapaneni: Yes, which is the oncology launches in India, India franchise.

Prakash Agarwal: Yes. Okay, okay. And that was the other reason why you said that the gross margin. So given that there are 2 one-offs, the gross margins should come back from 3Q itself, just one clarification.

Rajeev Nannapaneni: Absolutely yes.

Prakash Agarwal: Yes, that helps. Thank you so much.

Moderator: We have next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead. We have the next question from the line of Shrihari from PCS Securities. Please go ahead.

Shri Hari: Yes, this is Srihari from PCS Securities. We have a couple of questions. In particular, firstly, regarding the profit share, I mean can you please give a qualitative look, how it has moved on a quarterly basis? And secondly for CTPR enterprise discounting expected to be as it is for the oncology launches. And what is the kind of market share you will be targeting down the line?

Rajeev Nannapaneni: Okay. I will start with the agro product. I think agro, we just filed the product, and we just started litigation, so it would be premature to talk about that. The price increase, price trends and all I think, the legal case is pending. I think it is too premature to talk about that. But I think we are trying to do something very interesting in agro. A lot of people do not do patent challenges in agro as you are aware. I think what we are trying to do is do I think we have already a unique strategy. I think we are trying to come and do patent litigation, try to launch something interesting in the first wave, try to be the first sales product to launch. I think that is the interesting part about agro. Your question on the profit share, sequentially, I think give me a minute I will just have a look. I think in terms of the profit share, I think it is been fairly stable. The only, if you want a split of the products, we are not doing that, per se, is that the question?

Rajesh Chebiyam: You wanted a broader numbers, Sri Hari, on the profit sharing? We can take this offline.



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- Rajeev Nannapaneni:** I think we can discuss this offline. I think it is broadly stable. That is my understanding.
- Shri Hari:** Yes. I mean just to take the price discounting thing further. I mean in the case of oncology, there is some kind of a compulsion to price it very aggressively. Does that kind of compulsion existed on the agro chem space? That is what I wanted to know.
- Rajeev Nannapaneni:** I will not answer that question right now. I think once we are close to the launch, we will have a discussion on that, but not at this time.
- Shri Hari:** Okay fine.
- Moderator:** Thank you Sir. We have a next question from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.
- Vishal Manchanda:** Thanks for the opportunity. You just spoke about the China filings. Could you share whether these are injectables or oral filings?
- Rajeev Nannapaneni:** Most of them are orals. We have 1 or 2 injectables, but most of them are orals.
- Vishal M:** Okay. And so you have completed the bio studies in China for these products?
- Rajeev Nannapaneni:** Yes, we are done. Yes, so one study has been completed for one particular product, which we have filed, which we are filing now and one we have done the review, now we are doing the bio studies. So in China earlier, the rule was you have to do a review first then do bio study. Now they are okay with doing a bio study and filing. So we are under 2 regimes there. Yes, the problem in China is the bio studies are very expensive. They are 10x more expensive in India. And it takes almost 8, 9 months to complete a bio study in China, including the permissions and what it takes. So there is a huge entry barrier to doing bio studies China. However, as I said, it is an interesting market, and we will see how it plays out. I think we are targeting second filing.
- Vishal M:** You done for on one of the products, and the other is close to completion?
- Rajeev Nannapaneni:** Yes.
- Vishal M:** And so can we expect an approval, say in next 12 months, for China most likely?
- Rajeev Nannapaneni:** Hopefully, yes. I think maybe not this financial year, definitely next financial year.



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- Vishal M:** Going to your onco decline in India, would this be largely attributed to price changes?
- Rajeev Nannapaneni:** There are two reasons. One reason is that the government has reduced the MRP of these products. So that is one pressure. The bigger reason is the one I just talked to was the top brand which we have has faced particularly higher pricing pressure. So that is the reason why we had a decline. But I think what I still believe is that we can make it up with the new launches that we have.
- Vishal M:** Among the new launches, one is Vildagliptin, as you said. So would you need to promote? So are you promoting it after the preliminary invention has come?
- Rajeev Nannapaneni:** I think we are yet to keep the stock there in the market. And we will be able to launch with more stock towards December.
- Vishal M:** But will that sell without promotion?
- Rajeev Nannapaneni:** I do not want to answer that question. For legality I do not want to speak further on this product. I think I have answered already the question.
- Vishal M:** Okay. And the other 2 launched recently is Ticagrelor lot, right, among industry and different CnD?
- Rajesh Chebiyam:** Yes, Ticagrelor, BRILINTA.
- Vishal M:** And there is no other recent launch, apart from the launches you did the previous quarter.
- Rajeev Nannapaneni:** That is right; these are the major launches that we have done.
- Vishal M:** Okay Sir, thank you very much.
- Rajeev Nannapaneni:** And then we offered one more onco product. I think we did a product called Eribulin. So it was again the generic for that as well. That also was there.
- Vishal M:** Pardon Sir what is the name?
- Rajeev Nannapaneni:** Eribulin, E-R-I-B-U-L-I-N.
- Vishal M:** Thank you Sir.



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Moderator: Thank you. We have next question from the line of Rahul Pitcha from Multi Act. Please go ahead.

Rahul Pitcha: Sir, my question is on our Revlimid settlement. So in accordance with the settlement, what you have guided is that in the first year, we will be allowed to sell some mid-single-digit percentages, which will go up to 1/3 in the last year. That is FY2026. So am I correct on that?

Rajeev Nannapaneni: Yes, that is correct.

Rahul Pitcha: And also in continuation, there was earlier in the year another settlement with Alvogen. So the extract from that settlement, which is available on Celgene's website, my understanding from reading that is that in the last year, in FY2026, the volume you made for Alvogen goes up to a single-digit percentage only, which against us being 33%, it is single digit for Alvogen. So is my understanding correct?

Rajeev Nannapaneni: On Alvogen settlement, you are saying?

Rahul Pitcha: Yes.

Rajeev Nannapaneni: See Alvogen settlement is there. I think what I can tell you, Rahul, I think from what I read and from the development of our settlement is superior to Alvogen's settlement. And so I think we are in good shape. And what is the question that you are trying to target?

Rahul Pitcha: I just read that statement from the extract which is available on their website. So is although the agreed-upon percentages are confidential, they increase gradually each period to no more than a single-digit percentage in the final volume-limited period. So basically does this imply that Alvogen is allowed to sell only a single-digit percentage of volume share up to the last year before which the product goes off-patent? That is my question.

Rajeev Nannapaneni: Okay. I will answer your question. I am not privy to what Alvogen has signed. Okay. So that is the first question. So I have no idea. What I can clearly say is our deal is superior to Alvogen deal. And I think that is the sense I have. But beyond that, I do not think I can answer your question.

Rahul Pitcha: Alright thank you.

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



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Gagan Thareja: Good morning. So first question is around the agrochemical product that you intend to launch post litigation, if you could give us some idea of even what is the addressable market there? Is it a 9c or a 9d filing? Do you get some exclusivity, marketing exclusivity, obviously subject to litigation going in your favor?

Rajeev Nannapaneni: See, the size is there in the press release. I think the size of that product is about 300 Crores. That is the last reported size. And in terms of strategy and market share and revenues and what it is, I think it is just premature to answer. I think we have already made it elaborately clear in the press release that we are targeting this filing, and it is all subjected to, as I said, patent litigation. So I think we will speak about it once things are clearer. At this time, it is premature to talk about that.

Gagan Thareja: I am not looking for your launch strategy. What I am sort of trying to understand is do you get the market in exclusivity period, if at all; you manage to launch post litigation? Or does your litigation pave the way for other filers?

Rajeev Nannapaneni: I do not want to answer that question. It is too premature to talk about that at this time. I think once we have clarity, then I think we will speak. At this time, I do not want to answer that question.

Gagan Thareja: Okay. Second question is around Eliquis, are you being enjoined there?

Rajeev Nannapaneni: No, we are not being enjoined. We are not being enjoined.

Gagan Thareja: Okay. You are not being enjoined on Eliquis. So you can continue to supply into the market?

Rajeev Nannapaneni: That is right.

Gagan Thareja: And last question is around the nature of change in the domestic business because now you are doing a host of filings which are litigious in nature. You are getting enjoined and then sometimes the case goes in your favor, and it also paves the way for most of other generic filers. So it inherently brings volatility to the sales profile of the domestic sales that you have. How should we therefore because now it becomes a little more difficult for us to sort of get a line of sight on the trend line growth because quarter to quarter will actually be fairly high, both on sales growth and on margins. If you could give us some sort of an indication around this of what trend line growth should be, irrespective of quarterly volatility.



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Rajeev Nannapaneni:

I think my point is this okay, the fact that we go after these patents, it creates volatility, I am not denying it does not but it creates a brand you see. So what I always believe is if we go aggressive, do patent litigation, you will end up being in the first day of launch by default. And because you are in the first day of launch, you end up getting very good market share. And this has always been the strategy of the company whatever we build in NATCO has all been driven by having either a very interesting product and technology or through our aggressive patent litigation. But that is a respect you earn. I mean we say you are not able to judge us on a Q-on-Q basis. Yes, I mean it is difficult. I am not saying it is not. But if you take a more long-term view, if you take a view like a 2 to 3 year view, I will give you an example. For example, we launched apixaban or Ticagrelor, and there is a lot of volatility in the earnings, but you see yourself 3 years down the line, we will be the top 3 brands in any of these products, for example. So that is the benefit that we get as a company, is not it? Because we say what we did, which is a disruptive; we are ending up with a brand. But in this segment, you are the top 3 brand. In that segment, you are in the top 3 brand. It plays for more of a long-term benefit. In the near term, it looks messy. But I think in the long term, you will see the value. So at the end of the day, the scorecard that you have to judge, from here on is 3 years down the line for this x-generic, what your market share is 3 years down the line? How much money are you making? On these Y-generics, what are you making? And in the list of the product, we are able to get very good market share, have very good brand on these products, I think that will last you forever. I mean like you just mentioned, Eliquis. At end of the day, we have the brand; we are there in the market. And I think that is what matters at the end of the day. And that is what is very important in this business and unless you do something that is very difficult to grow. NATCO is different from other people. See, the other people have Rs.3,000 Crores, Rs. 4,000 Crores, large portfolios which are spread upon multiple therapies which where they can grow. They have 8%, 10% growth based on the markets. See our portfolio is very limited, limited only to 2 segments. And any volatility that happened, it affects our growth. So that is and we are trying to broad-base that segment. I think we are not denying the fact that we are highly confident, but what we are trying to do is we are trying to broad-based and the broad-based, it cannot happen overnight. It only happened organically. If we want it to happen, we need to do new launches or we have to acquire something. So we are not acquiring anyone, as you see. So that is the only way we can do it.

Gagan Thareja:

Finally, one on Revlimid revenue, there are a host of possible outcomes. Only probabilistically speaking, I emphasize that. Is it reasonable to infer that the favorable or the likely outcomes will be you being able to generate significant cash flow and a consistent cash flow in Revlimid for at least a 3- to 5-year time frame? Is it reasonable assumption?



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Rajeev Nannapaneni: I cannot answer that question. I think you are asking me something which I cannot answer. What I can say is, I think, what I tell you for sure is that we have a first day of launch, and we can, and we have an impending approval. We will gain whatever a first-wave guy, whatever benefit we have been getting we can get, we can get. Regarding the long-term value, not only time will tell, it all depends on how the second and the third and the fourth generic play out. But honestly, I cannot answer that question. How long it lasts and all, it would be very difficult to judge.

Gagan Thareja: Thanks.

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

Nitin Agarwal: I just wanted to quickly ask on Doxil, any clarity on the EU launches?

Rajeev Nannapaneni: I think I do not have clarity at this time. I think we are still working on the trial. I do not think we have clarity at the launch. I think we are still working on the planning. We do not have any clarity on that launch yet.

Nitin Agarwal: We have not filed the product yet?

Rajeev Nannapaneni: We filed it. And I think we do not have clarity on what is the launch date. I think we are not able to tell. I will come back to you on that. We do not have clarity on the launch.

Nitin Agarwal: Okay. And secondly, I know you talked about the Tamiflu stocking during the quarter. But given the way the market has become competitive in the last season, how should we look at this market this year?

Rajeev Nannapaneni: Again, Nitin, it is a very tricky market. So we have to see how it actually plays out and should see the intensity of the flu season, who supplies, who does not supply, These are all very tricky questions. So let us wait. But it is not as Rajesh said a few minutes ago; it is not going to be like what it was in the past where we made extraordinary amounts of profit. That is sort of numbers will not be possible, but it will be more modest numbers. But the extent of modesty, it will be all depending on how it plays out. Let us wait for the quarter. I do not want to say it. But keep your expectation low. Do not keep very high expectations. Clearly, I think I mean it should be reasonable to assume.

Nitin Agarwal: Thank you.



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- Moderator:** Thank you Sir. We have next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** This is a single question, the accounting on the agrochemical launch for the earnings growth?
- Rajeev Nannapaneni:** I do not want to tell you. See again, you are asking to reveal our strategy, which I am not going to reveal.
- Kunal Mehta:** I just have a different question. Just regarding both of the time periods which we have observed in other companies who pursued the similar strategy of going off the patented molecules, it has taken them at least, and I would say, 2 years to get through the litigation process. So do you think if in our case, this would be the same time line which we should look at for this molecule?
- Rajeev Nannapaneni:** I cannot answer that question. Typically, I will tell you. I will not answer that. We are probably the most aggressive litigators. So I can tell you my working experience. I cannot speak about other people that you are talking about. You I am not as particular in this particular product generally, in more other products either you get injuncted or it takes about 9 months to 12 months or 15 months to resolve. Or you do not get injuncted and then you get to launch, so either of the outcomes happens. It depends on the molecules. Sometimes we get injuncted, sometimes we do not. So I mean on different molecules, I have different experiences. So I will not we just because we have litigation, does not mean you will get injunction. Just because you have injunction, it does not mean that will take we will launch the results so it is a molecule to molecule. It has its own story.
- Kunal Mehta:** Sure. Thank you. That is it from my side.
- Moderator:** Thank you Sir. We have next question from the line of Kiran Karthik from Table Tree Capital. Please go ahead.
- Kiran Karthik:** Sure. I think just one last question on FY2020. So FY2020, we are looking, anywhere between Rs. 500 Crores Rs. 500 Crores and Rs. 550 Crores. So the thing that does not move the needle in FY2021 is agrochem and Revlimid Canada? Or do you have anything else that will move the needle from Rs. 500 Crores back to, let us say, Rs. 700 Crores in the quartile.
- Rajeev Nannapaneni:** So it is like this again, you are asking me specifically what will happen on these 2 products. It is the multiple outcomes that are possible on these products. So it is very difficult to judge what the near-term impact on the earnings are, will it be in 2020 or 2021. So there are



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multiple scenarios. You could, one, win the trial and launch, and then obviously, we go to FY2021. If you factor this, then the outcome will be different. And on the other one that we are on track to all, that again, there are so many unknowns. So it is very hard to judge. All I can say is very, I think the best way to answer both these questions that you have asked is both these products are important for our earnings, and they will play out in the near term. I think that is the best way I can answer that. I think beyond that, I do not think I can answer that question.

Kiran Karthik: No. Absolutely, Rajeev. I am saying, let us say, with respect to agro and Revlimid Canada, is there any other aspect that you think is going to move the needle of pipeline? That was basically the question. Are there any vertical in the results?

Rajeev Nannapaneni: Yes, I think we have some smaller products, but publicly spoken, I think these 2 are critical products. Yes. That is the best way to answer that question. These 2 are important products. Okay, in the near term.

Kiran Karthik: Okay thanks a lot.

Moderator: Thank you. We have next question from the line of Ashish Rakhi from Lucky Investment. Please go ahead.

Ashish Rakhi: Just wanted to clarify on the impact on the gross margin on account of the Tamiflu inventory, which is like the gross margins are down close to 700-plus basis points Y-o-Y and now 900 basis points quarter-on-quarter. How much is the Tamiflu inventories are built up contribution to this?

Rajeev Nannapaneni: I said that we build about Rs. 30 Crores of Formulations stock, and we build about Rs. 25 Crores of API stock. That portion has relatively lower margins. So if we remove that, then I think that explains where we are.

Rajesh Chebiyam: What we have said is the significant portion has been contributed because of that, the stocking, yes.

Ashish Rakhi: Understood. And just the Tamiflu buildup that happened in the second quarter, this can impact is that a one-off? Or does that happen again, I mean, in anticipation of the season?

Rajeev Nannapaneni: Yes, if there is more inventory, yes. I think if we do not have inventory, yes, we build up, for this quarter, we built up inventory for the coming flu season that is the fact.



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- Ashish Rakhi:** No, the question is basically was the same inventory buildup happening last year as well in anticipation of a strong season for the third quarter.
- Rajeev Nannapaneni:** I think we had some lag because we had some stock from the previous season it is also basing of the product. So it all depends on how much stock you had.
- Rajesh Chebiam:** So it also gets absorbed when you have other profit sharing numbers also coming, right. Historically, you look at it every time you had a stock up; there have been some ups and downs in terms of gross margin. It happened in the past as well. I think if you go back in our history, I think that is happened in the past as well.
- Ashish Rakhi:** Right. And also secondly on the Vildagliptin side, are there no sales that we have booked anything in this quarter? Or what is the distribution like or buildup?
- Rajeev Nannapaneni:** I think we will build some stocks before we go and send it. We are going to keep the stocks that we had. And I think we can only build further stocks starting from December. I think that is my understanding.
- Ashish Rakhi:** So the stock getting built up, as in we are now going to distribute them and we book the sales? Or is this sitting as inventory on the books?
- Rajeev Nannapaneni:** The stocks before inventory has already been booked as sales. That is correct. That is correct.
- Ashish Rakhi:** So how much would that be, approximately?
- Rajeev Nannapaneni:** I do not want to get into the details of the product splits, for strategically it is correct?
- Ashish Rakhi:** Right. And how do you see the Formulations space for December, Rajeev?
- Rajeev Nannapaneni:** It will be pretty bad. I am expecting more or less 50 brands are what I understand it will be very, very competent.
- Ashish Rakhi:** So in a way, that is a first-mover advantage that we want you to tap into by announcing the event early. Is that advantage that is going to come to us in that case? Is that a fair assumption?
- Rajeev Nannapaneni:** That is exactly what I was trying to explain. I think first-mover advantage is the most fundamental thing in brand building. And that is the only reason we will at least for a



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company like us, that is what I believe. I said to you unless you are earlier, it does not matter. If you launch like #25 brands it makes no difference. I think it just gets drawn down because there is so many people who are promoting this, what is the difference when you are or us, any of the 25, 30 companies are coming to adopt this change. First-mover I think that is the only strategy that works.

Ashish Rakhi: Sure. So the impact on the domestic business for the full year next year, that was around 27% Y-o-Y this quarter, how will it pan out for the year post the launch of Vildagliptin?

Rajeev Nannapaneni: I think it gets better. You will see the numbers. I think December, that will be more stable. I think things will get better. Our business, as I said, is highly concentrated. So when an event happens, it really shows on the numbers. But I think as we broad-based our portfolio, there is a larger portfolio for multiple segments, I think this sort of volatility will come down.

Ashish Rakhi: I will put in one more question on the oncology business in India. How is that space doing, considering we have a complicated scenario and the pricing a bit? Because I think oncology, with what all is happening, was growing in the 10% to 13%. Is there sudden change in that piece, because we are seeing a sharp decline there?

Rajeev Nannapaneni: See, oncology piece is fairly stable, but you are wrong, my friend. I think oncology; we are not doing bio generics. Also we are not covering all oncology segments. We are only doing the chemistry segments. In that way, our pipeline is limited. But however, I think our pipeline going forward, it is fairly aggressive. We have a lot of good launches. I mentioned the launches that we have done in the last few months. So I think that the pipeline in terms of future outlook I think it is still very positive. And I think you just have to look at it in terms of a long-term view I think that is one last question.

Ashish Rakhi: Thank you I am done.

Moderator: Thank you very much Sir. Sir that was the last question, I would like to hand the conference over to you for any closing comments. Sir, over to you!

Rajeev Nannapaneni: Thank you very much, again. Great questions. We will publish the transcript as well in the website, and feel free to reach out to us. Well, thank you, and have a good day.

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