“Natco Pharma Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2020 Earnings Conference Call of NATCO Pharma Limited hosted by Axis Capital 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, 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. Prakash Agarwal from Axis Capital. Thank you, and over to you, Sir.

Prakash Agarwal: Yes, thanks. I welcome you all on behalf of Axis Capital to the Q3 Fiscal 2020 NATCO Conference Call, represented by senior management team, Mr. Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer; and Mr. Rajesh Chebiyam, Vice President, Acquisitions, Institutional Investor Management and Corporate Communications.

Over to you, Rajesh.

Rajesh Chebiyam: Thank you, Prakash. Good morning, and welcome, everyone, to NATCO's conference call discussing our earnings results for the third quarter of FY2020. We hope you have received our Q3 FY2020 financials and the press release that was sent out yesterday. These are also available on our website.

During the call, we may be making certain forward-looking statements, which are predictions, projections or statements about future events, and anything said on this call which reflects our outlook for the future or which may be construed as forward-looking statement, must be reviewed in conjunction with the risks that the company faces.

I would like to state to the material of the call, except the participant questions, is a property of NATCO, cannot be recorded or rebroadcast without NATCO's expressed written permission.

We will begin the call with the results highlights and followed by an interactive Q&A session. So on the earnings, NATCO has recorded a consolidated total revenue of 513 Crores for the third quarter, which ended on December 31, 2019, as against 580 Crores for the same period last year. The net profit for the period on a consolidated basis was 104 Crores as against 159 Crores same period last year. The company continues to face certain margin pressures in its hep C portfolio.

During the quarter, the other expenses was higher, primarily due to a 15 Crores provision for general chargeback and doubtful debts, in addition to about 6 Crores of higher R&D costs as well. I think this is one of the key things that we will discuss further during the call.

The segmental revenue split has also been given and shared via our press release. We can discuss further if there are any specific questions on that, okay?

Thank you very much. We will open up for Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sameer Shah from Value Quest. Please go ahead.

Sameer Shah: Sir, first on the pressures on the U.S., this flu season was quite severe. So have we had any traction on Tamiflu and whether these margin pressures or the slow top line because opex on market share is constant? So whether there is a pricing pressure there as well?

Rajeev Nannapaneni: I think Copaxone has been steady. I think things are well with Copaxone. Regarding Tamiflu, there has been good uptake. I think we did very well with the suspension. We did not do so great with the capsule. However, whatever volume we sold, it has not been great on the pricing. Pricing has been really competitive. So we have not had a great addition on the earnings, but otherwise, it has been fairly competitive.

Sameer Shah: Okay. But can we say that this is now kind of steady state for the international, I mean, U.S. geography?

Rajeev Nannapaneni: I would believe so, yes.

Sameer Shah: Okay, and second, on the various approvals that we are awaiting both on the agri side and Revlimid, are there any developments?

Rajeev Nannapaneni: I said in the call, there is 3 major events that we are playing out in the next few months. So I will list them out. Very quickly I will run through. One of them is the Revlimid Canada. So Revlimid Canada, the trial date is in the month of March in Canada, and in terms of what we are going to do in Canada, I think we are looking at all options, either a settlement or go to trial and launch. So we have not made up our mind on what we want to do. We are weighing all options, and we will come back to you on that. That is #1. #2 is Revlimid U.S. As I said in the past, we have a goal date this quarter. We are hoping we will get an approval this quarter, subject to FDA not asking us any queries. So that is 1 major event, and of course, we are also watching the Dr. Reddy's trial. My understanding is Dr. Reddy's goes to trial end of this year. So we will actually see how that plays out, and that also has a bearing on how things play out for us as well, as you know, so this is the second major one. The third major one is Coragen as you said. So I think the review is going well. We are awaiting approval from the Agriculture Ministry in India. So we are looking forward from that. Regarding the launch of that product, again, we have a court case with FMC. So it is

premature to speak about our launch plans. I think we will see how the legal proceeding goes and get the approval, I think then we will speak about it, yes. So these are the 3 major things.

Sameer Shah: Thank you, I will come back to the queue.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Sir, on the U.S. business, the Tamiflu side, I mean, usually, we have this lead and lag in terms of getting the profits from the partner. I mean, what is the quantum of profits? I mean, has there been any deferment of profit in the fourth quarter would be meaningful?

Rajeev Nannapaneni: There is not much we had, I think, nothing meaningful where we will have an impact that I am aware of at this time. So your question is, have we deferred anything that we have not recognized, and that we are going to recognize once we have clarity. I do not think there is any meaningful number that is happening which would make any impact on the earnings in the coming quarter. I think that is the best way to answer that question. Okay?

Sudarshan P: Yes, Sir, and second is, if I look at the domestic business, I mean, on a Q-on-Q basis, there has been a very sharp improvement. I mean, I would understand, we have been talking about oncology pickup and probably the non-oncology, non-hep C picking up, etc. Well, if you can give some idea about what is really happened in this quarter? And whether this momentum would continue as we move forward?

Rajesh Chebiyam: Sudarshan, I can give you the split for the quarter so then we will take it from there. Oncology itself for Q3, we had about 95 Crores, and the non-onco, brand pharma, which is about 39 Crores for the quarter, and then CnD was about 3 Crores and the third-party is about 16 Crores. So oncology per se, from Q2 to Q3, has picked up, right, so as a run rate. So broadly, in terms of run rate going forward, maybe Mr. Rajeev can...

Rajeev Nannapaneni: I think this is all driven by the new launches that we have had. So we had some very good launches. That has helped us. I think our momentum on the launches will continue. I think we are very positive the way it is going. Things are stable, and we look forward that it will be stable. But again, the only concern I have is on the supply chain from China. So we may be impacted depending on, let us see how it plays out. If everything settles down, I think we are fine. But if there is any supply chain issues, there could be some impact on a couple of APIs and couple of domestic products. If the supply chain challenges continue, possibly in Q4 and maybe in Q1, but we just have to see how that plays out.

Sudarshan P: Sure, Sir, and on the emerging markets, how are we placed, I mean, historically, that has also been an area of focus for us. How has this quarter...

Rajeev Nannapaneni: I think, as a strategy, we are focusing on Canada and Brazil. I think in Brazil, our overall oral subs have been profitable. I think our Brazil loss has dropped. The loss in Brazil sub this quarter has been only about 70 lakhs. So I think things are looking good in all the subs. Canada is doing extremely well, and so I think, overall, we are positive about how the markets are doing. The whole emerging market, if you look at the numbers today, I am including Brazil, Canada, Philippines, Singapore and Thailand and the other major markets that we are selling, I think our top line is about 51 Crores, 52 Crores from these markets. I would say, about 10% of our revenue is coming from these markets. Okay?

Sudarshan P: Sure, Sir. Just one final thing. I mean, on your...

Rajeev Nannapaneni: We will give a chance to next person. Yes, we will comeback.

Sudarshan P: Thank you.

Moderator: Thank you. The next question is from the line of Akshad Agrawal from Treehill Capital. Please go ahead.

Akshad Agrawal: In one of the questions, you had said that Copaxone has held steady and that Tamiflu has not done exceptionally well largely because of pricing issues. But if I look at the numbers sequentially for the U.S., there is about a 40 Crore-odd drop, so I mean, there is clearly some impact, right, where Tamiflu was there some portion last year, but Copaxone has clearly taken a hit then. Otherwise, seeing this drop would not have been right. Can you please comment on that?

Rajeev Nannapaneni: You are saying that there is a difference between Q2 and Q3. Is that what you are saying?

Akshad Agrawal: Yes. So yes, correct. So if there is a sequential drop and if Tamiflu was not a big portion last quarter and this quarter, then Copaxone definitely would have taken a hit, right?

Rajeev Nannapaneni: See, I believe, the way it works is the export turnover also is driven by certain amount of stocking that we did for Tamiflu. So you should not look at it on a Q2 to Q3 basis. I think it is also, see, one thing you have to remember is, the sales tend to be higher when the flu season is there. So we do some buildup of stock and so on and so forth. So I will not strictly compare it on a Q-to-Q basis.

Akshad Agrawal: So it will be fair to assume that Copaxone has not gone down. That is...

Rajeev Nannapaneni: My reading is that Copaxone, the way things are going, it is holding very steady. The difference that you are attributing is because of the seasonal stock build up that we do for Tamiflu. Okay?

Akshad Agrawal: Got it. I just have 1, it is a larger question...

Rajeev Nannapaneni: Yes, go ahead. Sure.

Akshad Agrawal: Your commentary in Q2 2019, you had spoken in great detail about Brazil, and you had said that you are very positive on launches. There is some limited competition launch, and FY2020 should see benefit. You also attributed to some larger molecules getting approval in Brazil. How has that shaped up? Because from just reading on tonality of how bullish you were versus where we are today, do you think that we have sort of underperformed to our expectation? And what should we look forward to there?

Rajeev Nannapaneni: Overall, if you see, I think Canada has done far better. See, we look at our emerging market revenues about compared to a few years ago, which was almost nil, and today, we have hit about 10% of our revenue. So I think I said that a few minutes ago. If you want to look at, I mean, with the benefit of hindsight, I mean, you only assume that certain things will work out. But everything does not work out the way you plan, okay, I mean, broadly. So if you were to do a hindsight analysis, I think Canada has done much better than I thought, and Brazil has underperformed compared to what our expectation was. I think we expected that Brazil will be contributing more than what it has had. To be precise, Canada has done 35 Crores this quarter, and Brazil has done 7 Crores to 8 Crores. Going ahead, I think, Brazil will do much better than, to be very precise, it is 37.5 Crores in Canada, and we did about 7 Crores in Brazil, and the reason why we did not do so well in Brazil is that the uptake has not been as strong as we thought. But good news is that we have at least reduced the loss, and I think we got another approval this quarter, and I think we are looking forward, we think we should be able to be cash positive starting from next quarter, and we have lined up few other launches next year. So I think, I am overall still positive. I mean, it is a process. They do not change overnight, but I think we take a long-term view, I think you will see a difference.

Akshad Agrawal: Got it, and just last, it is not a question, but 1 comment that you made earlier. You had said that Revlimid Canada is actually going for trial in March.

Rajeev Nannapaneni: That is right.

Akshad Agrawal: And you are thinking about whether to settle or whether to go to trial. So 2 things. Once you agree to a trial, can you then go back to a settlement? And second, if you have a settlement,

if you think of ultimately taking a settlement, is that settlement even possible in cash like DRL or it will be a settlement of sorts where you launch after patent? Because once you have gone to court and once you have asked for a trial, I do not know how that process works on going back. So can you...

Rajeev Nannapaneni: Okay, to answer your question, you can ask for a settlement anytime as long as both parties are willing to agree it, even ask third day of a trial or fifth day of a trial, I mean, if 2 parties are willing to settle, you can settle at any time. There is no challenge there. What we will do is something that I do not want to comment at this time. We do what is right for us. I think, as a company, we will weigh all our options, we will do what the right thing is, which will give us the best benefit. If you ask me what I am going to do, I will not answer that question, but I will do what is right. Beyond that, I cannot answer that question.

Akshad Agrawal: Sure, sure. From a time line perspective, though it seems that whatever the outcome is, whether it is a trial or whether if it is a settlement, it could be earlier, but if it is a trial, then we are looking at somewhere around 5, 6 months, right? So that should be something that we should be aware of as outside in, right?

Rajeev Nannapaneni: Yes, I mean, you can settle any time today or you can settle next financial year also.

Akshad Agrawal: No, I am talking about if you go to a trial.

Rajeev Nannapaneni: If you go to a trial, if you play out the hypothesis that you are going to trial, and you want to launch, it will play out only in the next financial year, provided the trial goes well, yes, it will not play out in this financial year. That is correct. Absolutely correct.

Akshad Agrawal: Great, thank you that is all. Thanks.

Moderator: Thank you. The next question is from the line of Vinod Kumar from Growth Partners. Please go ahead. There seems to be no response from the line of Vinod Kumar. We move to the next question. The next question is from Kashyap Karthik from Table Tree Capital. Please go ahead.

Kashyap Karthik: Sir, one question is, at the start of the year, we had a far more kind of aggressive guidance in terms of the revenue impact and given we are at the end of Q3, what was the reason that we did not kind of foresee at the start of the year which will probably not let us achieve the profit or sales as guided? What are factors that played according to our estimates and what are the factors that did not play according to our estimates? And the second piece is, from a FY2021 perspective, if you could tell us what are the growth triggers that are possibly there

from here on for FY2021? 2022 is obviously the big Revlimid per se. But 2021, if you could just give us what went wrong in FY 2021 guidance?

Rajeev Nannapaneni: I think FY2021, I already spoke about the growth triggers. I think I have already spoken about the 3 major things. I have said that in the earlier part of call, okay, so those are 3 major events, as I have mentioned, Revlimid Canada, U.S.A, and the clarity based on, they are all linked with court verdicts and the agro product. So that I think I already answered that question. What did I get wrong for FY2020 in terms of the guidance, okay? In my head, I think we were weighing different options. I think we were weighing, I think the 1 major factor was, in my head, we weighed the option of doing a settlement for the Canadian piece, I think, initially in the guidance. But I think as things progressed, I think we are weighing the option of even launching. So I think that is probably 1 major difference between our earnings estimation, that is impacting our earnings estimation, and I think that is probably the biggest one. I think that is probably the biggest one. The other things are, I think the pricing pressure has continued, and I think, otherwise, there is not much difference on what I guided and where we ended up.

Kashyap Karthik: Got it, Sir. Got it, and the other question, Sir. From a Copaxone competition perspective, Roche has gotten a product called Ocrevus which seems to be a worthy competitor to Copaxone. So I just wanted to get your sense on, I mean, although we can maintain our market share, the number of prescriptions that are written in favor of Ocrevus seems to be increasing at a faster rate compared to Copaxone. So I just wanted to get your sense from a competitive perspective on Copaxone?

Rajeev Nannapaneni: I think there are a lot of oral products in my sense. I think my sense is there has been many products in MS. I think, you are only mentioning 1 product. From my understanding, again, there has been a lot of long list, Fingolimod, there is Teriflunomide. I mean, there is a whole slew of them. I cannot recollect all their names, but from top of my head, I would say there are many products which have come in MS in the last few years. But overall, I think Copaxone held steady. I think we have got very good market share. I think we are doing well. I think it has not impacted our volumes.

Kashyap Karthik: Got it Sir. Thank you so much.

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

Anuj Momaya: Sir, can you just highlight on the domestic launches that we have done? How is Vildagliptin, Apixaban and Ticagrelor doing for us, each product, if you just share some light?

Rajeev Nannapaneni: I think all the brands are doing well. I do not want to do a granular monthly split for competitive reason. But all the brands are doing well, my friend. I think Apixaban, we are still the only generic in the market. Ticagrelor has been more competitive than we thought. Vildagliptin, as you know, there is so many brands in the Vildagliptin. I am not able to count the number of generics that are there, but I think we have the first-mover advantage. I think we are doing well with that, and another one that we launched was Ibrutinib again, first time generics in India. So even that brand is doing well. So these are the major launches that have happened in the last few months.

Anuj Momaya: Okay, and in this quarter, you mentioned only 3 Crores sales in CnD, and you just mentioned a comment of 15 Crores kind of a provision that you have done in this, can you just highlight what is this? So why is there a dip in the CnD piece? So from...

Rajeev Nannapaneni: We clearly sees a dip because of the stocking quantities that we have done in the previous quarter. The 15 Crores charge-back is to do with, see basically we had a discussion with our auditor and I think because we have to run a global business. So we have challenges with respect to charge backs and we have challenges with respect to bad debt. So I think after our discussion with our auditor, we have decided to make a general 15 Crores provision to cover for any business, unexpected business, unforeseen business situations. So it is a very conservative view. I think it is not that we have any receivable which is, we believe, is getting delayed or we were expecting some charge back on any particular item. It is a general view that we have taken, that we want to make a 15 Crores provision and on a quarterly basis, we want to make a 2 Crores provision. I think this is something that we have decided to do, and I think it is just for hygiene sake that we are doing it.

Anuj Momaya: And you also mentioned about 6 Crores higher R&D spend that was there in the quarter. So can you just highlight what led to this higher spend than usual?

Rajeev Nannapaneni: This is one particular ANDA that we want to do, which we intend to file in the next few months, which is, I believe, will be a very good one. So see, we are time to time looking at first-to-files, and then there are some very interesting products that are there, and based on the opportunity, we make these discretionary spends, and we are not backing down from spending. I think we are only choosing what to spend, and we did about 6 filings this year for first-to-file, 6 filings we are expecting to do. About 5 we have already filed so far, of which Bosentan suspension for tablet has been the sole FTF. Tipiracil Trifluridine is another interesting oncology product. It is a shared FTF. So that is another one that we have done. We have done a couple of other FTF, but there have been many filers on day 1. So they are not worth talking about. So we are trying to do different things, so I think these R&D expenditures is based on opportunities we have, okay?

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

Rajeev Nannapaneni: Next question, please?

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

Hari Belavat: This is regarding agrochemicals, some 100 Crores investment was done, and this was to be completed by 2019, I do not know FY or CY. Is it complete? What is the status now?

Rajeev Nannapaneni: Everything is getting ready, my friend. I think our expectation is that the plant should be operational in April of 2020 in the next 2 months. I think that is our expectation. Things are going well. We are applying for all the permits and licenses to operate the factory. I think our expectation is, it will be operational next quarter.

Hari Belavat: Okay. Sir, how much revenue do we expect in the next year in FY2021 from this agrochemical business?

Rajeev Nannapaneni: I cannot answer that question because it is linked with certain launches and which are all subjected to legal outcomes. So I do not want to say anything about that at this time. All I can say right now is the facility will be ready and will be operational next quarter.

Hari Belavat: Okay, Sir. Another thing is this 15 Crores provision, where have we shown in the figures, consolidated figure? In exceptional item, it is not shown, nothing is shown. Where...

Rajeev Nannapaneni: Other expenses. It is shown in other expenses.

Hari Belavat: Other expenses. Okay. Sir, just 1 more, a small query. This Directors' approval, you are taking for Chairman and Vice Chairman only for 2 years. Generally, it is for 5 years because for Independent Director also, you are talking 5 years approval. Why it is limited for a very short period of 2 years? Any reason on that?

Rajeev Nannapaneni: There is no reason I think on the 2 years. I think we said we will reassess the situation after 2 years I think. There is no reason.

Hari Belavat: It is the most competent management, Sir.

Rajeev Nannapaneni: All right. I mean, if you ask me for a reason, I do not have a reason. So I think that is the best way I can answer that question, okay?

Hari Belavat: Thank you Sir, thank you.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: So, Sir, on the India business, so you have also commented that there is a lot of pricing pressure. But Sir, just to understand, I mean, from here on, do we expect to grow 15%, 20% on the India portfolio? If you can just talk a bit about that, your pipeline?

Rajeev Nannapaneni: My friend, I think our expectation is we will grow at that level. So again, see, if you understand one more thing is our growth is driven by launches, and some of these launches involve patent litigation as well, yes. So if these patent litigations go against us, then obviously, the growth rate is not possible. Based on, what I can only say is that we have a good pipeline, and we expect that we will get favorable outcomes in the court. Subject to that, our ability to execute, I think, I believe we will be able to grow. Okay?

Rohit Balakrishnan: Okay, got it, and just as a follow-up to this. So in terms of, you mentioned Vildagliptin and there has been many, many brands there. So I mean, if you can talk about the pipeline in cardio and diabetology? And also other pipelines that you have in your mind that can sort of help you to achieve this 15%, 20% kind of growth in the next couple of years?

Rajeev Nannapaneni: I will not answer that question because just for competitive reasons. What I can tell you is, see, what the management can do is we can tell you that this is what we have launched, and these are the exciting molecules, and this is the position that we have, and based on our past performance, we would like to stick to a similar strategy that we have done in the past. If you ask me specifically, you want me to give me a pipeline, no way. I think we cannot do that. I think when the launches happen, we will speak about what we have done. But for competitive reasons, we cannot answer that question.

Rohit Balakrishnan: But it is fair to say that you are confident, yes, sorry. Go ahead, sorry.

Rajeev Nannapaneni: So idea is that we launch these interesting products, and we will try to be like one of the earliest generics or in the first wave launch, and try to launch about solid molecules of 8 to 10 molecules a year, so that we can keep the growth engine going. I am sorry, go ahead. You were saying something, yes.

Rohit Balakrishnan: No, that is helpful, Sir. Just 1 more question. So in terms of the pricing pressure in hepatitis C, I mean, what is your outlook? I mean, has it bottomed out? Or how do you see the next, maybe 3, 4 quarters from here on?

Rajeev Nannapaneni: It has been difficult, honestly, my friend. I think the peak sales were about 480 Crores a year, and now we have dropped to like 30 Crores now I think a quarter.

Rajesh Chebiyam: 100 Crores, 110 Crores.

Rajeev Nannapaneni: 120 Crores annualized. So it has been a dramatic drop, so which has affected our domestic portfolio. But it has nothing to do with, again, if you look at market share, we are still the #1 company in that segment. I think the challenge here is it is a cure, and see, the takeoff was unexpected and even the drop is also, I mean, initially, when we launched the product, there was a pool of patients who were untreated. So immediately, the brand took off. But because of the cure, within 3 months, lot of people get cured, the patient pool keeps reducing. So the only way now to get new patients is when you have new diagnosis. Right now, it is holding up steady state. I mean, what I can do is we can update you on how the quarterly sale is going, but this is where we are today. Okay?

Rohit Balakrishnan: Got it, and Sir, just 1 more question on Nexavar, if I can ask. So Sir, our understanding is that, that product has an exclusivity expiring in November of this year, November 2020, and we have a 180-day settlement. So should we assume that, that we will get a fee exclusivity? Or do we get to launch only when the, once everybody starts to sort of launch after the exclusivity is lower? So if you can just talk a bit about that?

Rajeev Nannapaneni: I think what I will tell you is, we got it approved in 13 months. So we believe we have our 180 days, and it is a joint venture with Mylan. The actual launch date, I cannot speak about it because it is bound by confidentiality, okay? We believe we have exclusivity and it is going to happen in the near future. The exact date and all, I do not want to speak about at this time. I think when we are coming closer to the launch, I think we will speak about it. Do I expect that we keep the 180 days? As of today, that is our expectation that we will get to keep the 180 days.

Rohit Balakrishnan: Okay, thank you very much.

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

Kunal Mehta: Sir, any plans with respect to the cash on the balance sheet?

Rajeev Nannapaneni: Can you say that again? Can you say that question one more time? I did not catch.

Kunal Mehta: Sir, what are your plans with respect to the cash you have on the balance sheet presently?

Rajeev Nannapaneni: What is the plan for the cash which is there on the balance sheet? The cash today, as of December 31, we have about 951 Crores of cash, and in terms of debt, we have about 284 Crores of debt, that includes 86 Crores of foreign bill discounting and that is as of

December 31. I do not have a plan as of now. I think we are just keeping it in deposits, and then I think we will, but I think that what this deposit allows us to do is allows us to take interesting amount of risk on certain products, so which is what is a great thing about having a deposit. If you ask me specifically, what I am going to do with this money? As of now, I do not have a plan. I think we are just leaving it as status quo.

Kunal Mehta: Sure, Sir. Sir, the second question I have is that, if I exclude Copaxone and Tamiflu, have you seen competitive pressures in other products in the U.S.?

Rajeev Nannapaneni: In terms of market share, I think the other products have done reasonably well. I think there have been steady states of that, all the other products have done reasonably well. We have seen pressure, particularly in Tamiflu is what we have seen. I think we made lot of profit in the past. Now we have lost a lot of it. I think that is why it is hurting our earnings growth. So that is probably the biggest difference and the reason why our earnings growth has dropped.

Kunal Mehta: Sure, and then the final question is, Sir, in terms of Brazil, do you still remain optimistic on the launches which you had planned at the beginning of the year? I mean, as you just mentioned, the launches have been delayed to some extent. But do you still remain optimistic of the size and the number of launches you have planned for Brazil?

Rajeev Nannapaneni: I believe that Brazil has come to an inflection point where we will actually start seeing good money. I know it has been a very painful journey. We have lost money for all these years. But I feel like things are turning around, and we have a lot of interesting launches lined up in the next few months, a lot of them are first-time generics in Brazil. So I am positive, my friend. I still believe that I think we have come to a stage that they are very sure I think this calendar year, I think we should do well. I am very positive. But Brazil is a tough market. I mean, it is not, and obviously, and I think our expectations were very large when we actually invested. But it took a long time to get the approvals going, and finally, I think we have come to a stage where things have been doing much better.

Kunal Mehta: Thank you Sir, that is it from my side.

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

Nimish Nagindas Mehta: Rajeev, I am very confused when you said that the difference between our expectation on sales growth as guided and what came out is largely because of the expectation related to Revlimid in Canada. But on the other hand, you also mentioned that Canada has performed better than what you had expected. So how do I (00:34:40).

Rajeev Nannapaneni: I do not think you have got what I said. I think what I said was that one of the biggest things that, that gentleman was asking was, would you do a settlement for Revlimid like Dr. Reddy's, and I think, in our mind, we initially thought we want to do a settlement. This is what I have said, when we talk about Canada business, we are talking it ex-Revlimid. So the Canada has done well ex-Revlimid, okay? That was my first statement. The second statement that the gentleman asked me was, why did not you meet your guidance expectation? So I said, the reason in the early when I gave the guidance, in my head, I thought we are going to do the settlement. But as time progressed, we decided that we should also look at the opportunity to launch as well, and specifically, I also said, we have not made up our mind still, whether we want to settle or want to go to trial and launch. So that is the reason and the upside of that has not been captured. I think that is what I said. Does that make sense?

Nimish Nagindas Mehta: Yes, yes, yes, I understand. So I mean, I do not know how the economics on Revlimid Canada work between you and Teva. If I assume it is the same as what you have in U.S, and if I do the math between the guidance and the difference, it turns out that our share at least would be $50 million, $55 million and multiply, to say, about $100 million, $150 million...

Rajeev Nannapaneni: No, no. Just 1 second. Your assumption again is wrong. Again, what I am trying to say, we do not have a relationship with Teva on Revlimid in Canada. Canada is our own front end. We have a partner, but, we are leading the front end in this product.

Nimish Nagindas Mehta: I see. Okay. Understood, understood. So you will directly be owning Revlimid and there will be a large part of the profit...

Rajeev Nannapaneni: We own the product. We are leading the litigation, and we are marketing it ourselves, okay? So that is the big difference, and we have no relationship with Teva in respect to Revlimid in Canada. Our relationship with Teva is only limited to the U.S., okay?

Nimish Nagindas Mehta: Okay. Fair point. Last thing, I just wanted your view on this coronavirus that you mentioned. I mean, is it fair to assume that with the onset of summer, this will anyway go away. So it might be a momentary thing. How should I look at that, I mean, just...

Rajeev Nannapaneni: You are absolutely right. I think, again, I am going with what is there in public domain. I think this phenomenon of coronavirus affecting the supply chain would go away once the summer comes and that is my understanding as well. But this phenomenon will have an impact on the earnings, if the supply chain problems continue in the near term.

Nimish Nagindas Mehta: But that should be momentary, right, because summer is around the corner?

Rajeev Nannapaneni: I think it is only momentary. Absolutely, you are absolutely right. So what I said was, there could be an impact in Q4 of this year and maybe in Q1 of next year, if this issue continues, is what I said.

Nimish Nagindas Mehta: Understood, fair enough. Thank you very much.

Moderator: Thank you. The next question is from the line of Chaturya Agrawal from Clay Securities. Please go ahead.

Karthik: This is Karthik here. I just wanted to ask you, is it fair to assume that for this quarter, wherever is our EBITDA margin, that will be a steady state, assuming that there is no one-off. You have a 15 Crores provision, if I should add that back to arrive at your recurring EBITDA margin?

Rajeev Nannapaneni: I think my sense is this, Karthik. I feel our business is doing well. I think, at steady state, I think we are comfortable to continue what we have. The only concern I have is on the supply chain. If this issue continues longer, then we will have a problem. If you remove the supply chain issues, I am comfortable with the way things are.

Karthik: So which is why to assume a supply chain, if it is there in Q4 or even if it is there in...

Rajeev Nannapaneni: Q1.

Karthik: Q1 also. But on an as-is basis, assuming that there is a weakness in FC, there is no large increase in the revenue from the U.S. side and your costs, including R&D are there, so if I have to assume a steady state, assuming that, okay, so from Q2 onwards, is it fair to assume that on this top line, the EBITDA margin that we have now, it is...

Rajeev Nannapaneni: I think it will hold up. I mean, there is a lot of factors, Karthik. Every quarter things change. But as of today, if you ask me, I think things are steady, except for the caveat that I have said, I think I feel comfortable. We can review this on a quarterly basis based on other things. I mean, if I see more, let us say I see competition on Copaxone, I am playing out, I mean, just taking your thought further. If I see more competition on some of our key products like Copaxone, let us say, Dr. Reddy's get this approved in the next 2, 3 months, then we have to sort of go back again and see what the impact is. If you leave those factors out, yes, I think it is a bit fair to assume that. Okay?

Karthik: And should we add back the 15 Crores or a part of it? Or is it...

Rajeev Nannapaneni: No, no, no. Not required. No, no. If I take a prudent, we have made a provision, I would not want to add that back.

Karthik: Yes. But will it be recurring every quarter?

Rajeev Nannapaneni: No. I said it a few minutes ago. What I said, we have decided after discussion with our auditors that we want to make a 15 Crores one-time provision, and we want to make a quarterly 2 Crores provision.

Karthik: 2 Crore. Right, okay.

Rajeev Nannapaneni: And we want to consistently make this provision going forward to cover for any unexpected bad debts or charge backs, and it is just for the sake of prudence. Nothing else. That is what we are doing.

Karthik: Thanks Rajeev.

Rajeev Nannapaneni: Next question please.

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

Kunal Randeria: So Rajeev, you have a fairly long paraffin pipeline and drug side is also fairly huge. So what are the thoughts of replicating this in other developed markets like maybe Europe and then probably Japan or something in the future?

Rajeev Nannapaneni: We are doing that in Canada, right? So we are doing that in India. We are intending to do that in Brazil. So that is the idea. Whether we can do this in Europe and Japan, not as of now, Kunal, I think. As of now, I think we have a handful. I think we are focusing on these markets. I think we see a lot of opportunities in these markets. Our core of our strategy is still driven by India, Brazil, Canada and the United States, and these 4 are the major 4 pillars of our business. I think a lot of the strategy in terms of filing, in terms of resources, I think we are spending on these 4 markets. Regarding Japan and Europe, we have looked at it, but I do not think we are spending much on the bandwidth as of now. I think maybe over a period of time, we have to expand, clearly. I think we are looking at Australia, we are looking at Western Europe, we are looking at Japan. But as of now (00:42:22).

Kunal Randeria: Right. Then what is the sort of competition would you be expecting to face? So would it be like India where you launched VILDA, let us say, 2 months before the patient expiry and then there were 50 players? Or will it be more like a slowly sort of seeping in competition?

Rajeev Nannapaneni: It depends on the product, Kunal. I think to answer that question, it is a little difficult to answer. I think each product has its own story, right? It depends on how you file, when to file, was this the technology that you file with, how many guys are competing with. Each product is unique in each market. So you cannot make a blanket statement of what happens in each bucket. What I can make a statement for is that these are the 4 markets that we are focusing on, and this is where our pipeline is, and this is where we think we want to spend our resources on.

Kunal Randeria: Right, right, and Rajeev, once this cardiac division, you had a very good 1Q where you launched a few products. But once the destocking is over, so what could be the steady state number, again, on your launches?

Rajeev Nannapaneni: I do not want to answer that question, Kunal, for competitive reasons, I do not want to answer that question. I think...

Kunal Randeria: All right, and just 1 last one. So maybe a couple of years down the line, when some of the oral MS products go off-patent, do you see Copaxone sort of facing volume pressure?

Rajeev Nannapaneni: 2 years down the line is something that I do not want to talk about. I think we will take it by quarter-on-quarter I think. As of now, things are well. We will see how things play out when the orals come. But orals are a few years away from what I understand, and I think let us take it by quarter-by-quarter. I do not want to talk about something that is going to happen 2 years down the line.

Kunal Randeria: Thank you very much.

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

Charulata Gaidhani: My question pertains to your India launches. By when do you think we will start seeing growth in India? And why is there a de-growth? Is it that too much of competition entering the products after you...

Rajeev Nannapaneni: I will answer both your questions. I think the reason we are seeing de-growth in India is because of the hep C portfolio. I said that a few minutes ago. Peak portfolio in hep C was about 480 Crores annualized. Now our hep C portfolio has dropped to 120 Crores. So that you see is almost a 360 Crores drop in our sales that you have seen in the last 2 years. So that has been the reason why our portfolio has de-grown.

The second question that you had was on when do we see growth in India. See, growth in India is all driven by our strategy of launches. I mean, we spoke about our agro launch, we spoke about our patent litigation strategy in our portfolio over various drugs. So these are all linked with patent litigation. To say, as we said, how much growth will you get? See, we can get 10% growth or we can get 40% growth. It all depends on the outcomes of some of these cases. So they are completely linked with our, see, our model itself is a very high-risk, high-return strategy, meaning we will launch these products if everything goes well and the patent litigation goes well, we are able to execute things on time, we get very good growth. If things do not happen, then we go through a phase where we continue not to grow.

So all I can do in these calls is only tell you that this is the strategy, and this is what we want to do. If you ask me specifically, will a particular event happen? It is hard to say, and I know I am being a little evasive here, but the fact, because I do not know what the answer to that question is. What I can do is only articulate our strategy. Okay?

Charulata Gaidhani: Yes, and how much is the Capex that you have planned?

Rajeev Nannapaneni: So far, I think our Capex is about 258 Crores is what we have spent. Our Capex plan per year is about 350 Crores, and we are adequately funded. I think the cash flow is strong enough to fund all the Capex. I think we are comfortable.

Charulata Gaidhani: Thank you.

Moderator: Thank you. The next question is from the line of the C Shri Hari from PKS Securities. Please go ahead.

Srihari Chintalapudy: It is PCS Securities. Firstly, I am not sure if you have spoken about the guidance for the current fiscal. Obviously, that would have undergone a change, and secondly, you mentioned about using the cash at your disposal, 950 Crores-odd for one-off opportunities. Could you please elaborate a bit on that?

Rajeev Nannapaneni: I think what I am trying to say is the cash gives us the buffer to pursue things which are more high risk. I think it is more of a psychological boost that it allows you to take these risks where the payouts are longer than near term. I think that is one thing I have said, and the other question that the person asked was, do you have any plan for the cash. I said, I do not have a plan for the cash. I think, as of now, we are just keeping it as the way it is. In terms of guidance, I think I already spoke about it. I think we have said, I have stated all the caveats on that. So I think it is already addressed.

Srihari Chintalapudy: Could you please give revise guidance, because I think I have not understood?

Rajeev Nannapaneni: Okay, sure. I think what we are saying is that our run rate is about 510 Crores a quarter. I think we are comfortable that we are able to generate about 105 Crores to 120 Crores a quarter, and we have not included any upside that could happen from any new launches, and I also said, with the caveat that we would not have any supply chain issues from China. Then I said, if there is a supply chain issue, there is a near-term challenge in Q4 and Q1 of this year. I think that is what I have said.

Srihari Chintalapudy: Okay, clear. Just 1 final question. I mean, on the expenditure front, I mean, have you taken up any plans for moderating it?

Rajeev Nannapaneni: Expenditure front, I think overall, we have a cost program. So what we have done is we have engaged couple of consultancy companies, particularly Grant Thornton we have engaged to bring down our costs. As you know, we are not having the earnings growth that we had in the past. So we have done some cost rationalization. I think the idea here is that we look at our costs and see whether we can do a better job than what we are doing. At the same time, we are not compromising our R&D focus. To answer your question, are we doing some program? Yes, we are. I think we have had almost 60 Crores, 70 Crores worth of savings in the last 1 year since we have implemented this program.

Srihari Chintalapudy: Any specific areas where you are focusing on?

Rajeev Nannapaneni: I think we have done wage rationalization, we have done a power renewable energy investment which allowed us to reduce our power cost. We reduced our operational cost by rationalizing our cost structure in terms of expenses. So there are like multiple measures that we have done, and we have changed the way we do some of our commodity procurement by introducing an auction system. I mean, there is a whole slew of measures and we can go on and on. But overall, what we have done is we have done a program, I think, which has brought about savings, and I think we continue to, what you call, pursue this, and I think, that is it.

Srihari Chintalapudy: Yes, that was the elaborate answer. thank you.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investments. Please go ahead.

Ashish Rathi: I just wanted to clarify my understanding of how Revlimed stands through today as well. I mean, we have a settlement day for March 20, 2022, and so that is a definite launch date. If kind of competition enters before that, we are allowed to launch before that. That is the understanding?

Rajeev Nannapaneni: That is absolutely correct, yes. Under certain circumstances, yes, that is correct.

Ashish Rathi: Perfect, and the second thing I want to understand is on Dasatinib as to, with this brand, we had launched this drug earlier. I believe it was an invention. The patent expiry is happening in the near-term. Are you ready for a launch now?

Rajeev Nannapaneni: Which product is it? I do not catch your product.

Ashish Rathi: Dasatinib.

Rajeev Nannapaneni: We have settled with the innovator. The launch date in India is in April of 2020, I think. So we are launching it in April, I think just this is what I remember from memory. I do not remember the exact date. I think I remember 2 things. We have settled with the innovator. The case has been settled, and that the launch date is, I think, April is the patent expiry, whenever the patent expiry is, I think that is when we are launching the product.

Ashish Rathi: Should we expect it to be a meaningful product for us? Or do you expect a lot of competition from getting any...

Rajeev Nannapaneni: I think, you ask me, I think there will be a lot of competitors because everybody will launch on expiry. So generally, will it be meaningful, it will be meaningful in terms of having and adding a new product in the portfolio. Will it be meaningful in terms of rupees, I do not know. To be honest with you, I am not very bullish. But it is just one of those things. We launch multiple products. But if you ask me to be bullish on this, it will be difficult.

Ashish Rathi: Sure. Can I just ask you one last one, on Vildagliptin, as to how the market size is now post patent expiry? And if you told this already in the call, I am sorry, I am going to miss that.

Rajeev Nannapaneni: General market, but I avoided answering. I said we are doing well. I do not want to get into details of how well we are doing, but broadly I will play out what happened in the market. I think from what I understand, the market was about 700 Crores, and the price erosion has been dramatic, I think, nearly 80% price erosion. I think it was about, I am not remembering the exact prices, but I think it is like a 20 to 25 a tablet before we went generic, between Novartis and the other authorized generics. Now the prices are like between 2.5 to 5 or 6. It has been almost a 75% to 80% collapse on the market. So essentially your 700 Crores market collapsed to 140 Crores, and on that, we have, I believe, considering the fact that there is about 40, 50 competitors, I think we have done extremely well. I think once the IMS data comes out, I think you will see that we have done reasonably well. The only thing that your sales are going to do better is clearly is with the volume growth because, obviously, the affordability is much better when your product is priced at 4, 5 as opposed to

20 something. So we will see how that plays out. But I think broadly, that is what has happened with the market. It has been very competitive.

Ashish Rathi: All right. Basically, that is what I was asking for the volume growth, and could you see similar volume ramp-up happening for something like a dasatinib? In terms of demand, do you think there is more pent up demand for that product as well? Because you have already launched in the past had an inflation on it.

Rajeev Nannapaneni: I will not compare it like that because Vildagliptin is actually a more larger market because number of patients who have diabetes are fairly large, and so the market for that and the scope for that is much larger. Problem with a product like dasatinib is, it is used after failure of Glivec, and Glivec is usually the first, and only after Glivec, and the number of patients that are there for chronic myeloid leukemia, which is what I think dasatinib is indicated for is not as large. You will never have 20 lakh people having CML as an example. It will always be a number which it will be in thousands, but never be lakhs. You know what I mean? So I think it is not strictly comparable, and I think problem with cancer is, if we kill the price and the size of the market also collapses.

Ashish Rathi: Thank you so much Sir. All the best.

Moderator: Thank you. The next question from the line of Gagan Thareja from Kotak. Please go ahead.

Gagan Thareja: Sir, specifically on Eliquis, you are the only generic supplier in the market right now, if I am correct?

Rajeev Nannapaneni: That is correct.

Gagan Thareja: Do you foresee intense competition of the sort that you have seen in Ticagrelor coming through in Eliquis in the coming year?

Rajeev Nannapaneni: Possibly, because all the litigants are fighting the court case right now in the double bench in Delhi High Court, possibly I think. Eventually, you will see competition. All I can tell you is that we are the first mover and we have established the brand, and we are doing reasonably well, litigating the innovator, and we have to see how it plays out with the other generics. But eventually, we are going to see competition. But I think for the fact that we have been aggressive in the litigation, and we are able to launch early, I think, will stand well for us in the long run.

Gagan Thareja: Is your status on litigation different from the others? Are the others trying to invalidate the patent, whereas you have got...

Rajeev Nannapaneni: I do not want to get into the legalities of what our status versus their status is. All I will say is this. I think we are in the market. They are not in the market.

Gagan Thareja: Okay, okay, and of these 5 or 6 new launches that you have done in India, in the domestic sales reporting, do they sit across the onco, non-onco and CnD piece? Or do they sit in one specific line? If you could clarify that?

Rajeev Nannapaneni: I am not able to understand your question. Could you rephrase that question, please, if you do not mind?

Gagan Thareja: What I am trying to ask is that all the new launches that we have seen, I know some of them pertain to CnD and some pertain to oncology. So are they, I mean, you report your sales, these new products, are they reported according to the therapeutic area based potential?

Rajeev Nannapaneni: No. I think we give a general answer. I think when we say domestic sale is this much, we give a whole number by adding them all up together.

Gagan Thareja: Because I am just sort of trying to understand what impact it has had on your domestic sales. If you could give some ballpark idea of the contribution of these 5, 6 launches that you have had?

Rajeev Nannapaneni: I think I answered that question. I said I did not want to answer that question. That was my answer. I think what I said was, for competitive reasons, I do not want to answer about what we are selling, how much we are selling. All we are doing is a broad number is what we are telling.

Rajesh Chebiyam: We have given the total number for each of the segment. For the onco and the CnD, we have given the broad number.

Rajeev Nannapaneni: So we are not giving a split of the products.

Rajesh Chebiyam: Okay. Thank you.

Rajeev Nannapaneni: Last question, please.

Moderator: Sure. We will take the last question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Rajeev, I think and one is the, a, for next year, you highlighted these 3 main events to watch out for. Outside of these events, how should we see the balance of the business?

Rajeev Nannapaneni: See again, I will indirectly answer that question. I think this is a steady state that we have as of today. We will make a judgment of a lot of things that, if there are more generic competitors on some of our key products, then we have to reassess what our base business is. I think I want to answer this question maybe for the next conference call when we do the, because we will have more visibility, and we are already, let us say, 5 months into the year. So actually, we will have some clarity on where we are going. So I would probably not answer that question at this time. I think we will speak about this when we do our annual numbers, how we see FY2021 to be playing out, and we will have clarity on the other things as well. So I think it makes sense to take this up later.

Nitin Agarwal: Okay, and secondly, on the Doxil launch in Europe, I mean, what are time lines? And how should one look at that opportunity?

Rajeev Nannapaneni: I think it is premature, Nitin. I think we have some queries that we are answering. So I think we will take some more time. As of now, I do not have any visibility.

Nitin Agarwal: Okay, thank you, that is all.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mr. Rajesh for closing comments.

Rajesh Chebiyam: Yes. Thank you all for your questions. Again, we will publish the transcripts as soon as they are available, and please feel free to reach out to us specific to these questions that we answered during the call. Thank you all, and have a good day.

Moderator: Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.