



“Natco Pharma Limited
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the NATCO Pharma Q3 FY2021 Earnings Conference Call hosted by Investec Capital Services Private 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. Anshuman Gupta from Investec Securities Limited. Thank you, and over to you, Sir.

Anshuman Gupta: Thank you, moderator, and good morning, everyone. On behalf of Investec Capital, I welcome you all for the NATCO Pharma Q3 FY2021 Earnings Call. Today, we have senior management represented by Mr. Rajeev, Vice Chairman and CEO, and Mr. Rajesh, Vice President, Investor Relations and Corporate Communications. Over to you, Rajesh, Sir. Thank you.

Rajesh Chebiam: Thank you, Anshuman, and good morning, and welcome, everyone, to NATCO's conference discussing our earnings results for the third quarter FY2021, which ended December 31, 2020. Hope everyone is doing well as we are finally hopefully recovering from the COVID scenario. During this 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 future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. Like the statement at the beginning of the call, except for the participant questions, is the property of NATCO. It cannot be recorded or rebroadcast without NATCO's expressed written permission. We will begin the call with the results highlights, and then we will follow up with an interactive Q&A session. Hope you all received the financials and the press release that was sent out yesterday. These are also available on our website. So for the third quarter FY2021 ending December 31, 2020, the company recorded consolidated total revenue of Rs.386 Crores as against Rs.513 Crores for the same period last year. The net profit for the period on a consolidated basis was Rs.63.4 Crores as against Rs.104.4 Crores same period last year. As we mentioned in the release, the decline is primarily due to 2 reasons. One was due to lower sales in the domestic oncology; the second, due to weak realization of profits from our Oseltamivir product in the U.S.A. The segmental split for Q3, API were at Rs.97.8 Crores; formulation domestic total, Rs.95.3 Crores; formulation exports, which includes the profit sharing and the foreign subsidiaries, Rs.162.1 Crores; other operating and nonoperating income about Rs.13.8 Crores. Thank you all. We will open up for Q&A now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, if you can give us the breakup between oncology, non-oncology, third party and also give us some flavor in respect to the CnD this quarter?

Rajeev Nannapaneni: We are not doing a split of the segment, but combined sale of the domestic oncology is about Rs.90 Crores. I think domestic sale is about Rs.95 Crores, Rs.60 Crores plus specific to, we do not do an exact split, but majority of it is usually coming from oncology. And now I think our cardiology as well is also doing reasonably well. And our expectation is that cardiology should hit about 15% to 20% of our sale.

Sudarshan Padmanabhan: Sure, and with respect to oncology segment, I mean, if one is looking at it, I mean, even at 50%, 60% or 70%, I mean, this seems to be a kind of a waning proportion right from the first quarter. I understand that it is because of COVID. But can you give some color with respect to, are we seeing any signs of recovery over here? When are we expected to see that Rs.90 Crores to Rs.100 Crores kind of a run rate back?

Rajeev Nannapaneni: I think the challenge in oncology is this. I think what is happening in that business is things are better. I think it is not that things are not as bad as it I said 70% is where let us say we are doing x earlier. We are doing about 70% of x in oncology. The reason for that is there is a lot of fear for especially hospital therapies. And I think a lot of people are preferring oral therapies. I think the higher-margin products, which are the injectables, were not getting that sale. And as you know, COVID is there. I think there a lot are reluctant, but things are getting better. It is a process. I think over the next 6 to 8 months, I think things should improve that is the nature of the beast I mean, we are learning as we go and you are seeing that what has happened with COVID is a lot of ICU, transplant, these sort of diseases where there is a lot of immunosuppression, there has been a dramatic drop in sales. I will give you an example. We used to sell a couple of products for BMT, bone marrow transfusion. And practically, for 6 months, we had zero sales in that division. Because there are very little transplants happening because of COVID so these are all, I mean, very peculiar circumstances. I mean I cannot answer it in a better way, but I think once COVID settles down, I think we had a little bit some amount of COVID, but I think if things normalize, I think things will come down, come back to some level of normalcy.

Sudarshan Padmanabhan: And is the drop in international business largely on account of Tamiflu? Or I mean I would also understand a part of, since we also have a very strong disposition to oncology in the

U.S. I mean, would there be a little bit of a lower uptake than what we had expected there as well from similar reasons?

Rajeev Nannapaneni: U.S. in uptake is mostly oral so then they have been more stable than oncology. Injectable uptake is more in domestic rather than export. That is part of your answering the first part of your question. The profit share is lower primarily because Tamiflu we had practically very little income on Tamiflu this quarter. I mean that is one of the biggest reasons. Usually, what happens in our earnings is the first 2 quarters, we booked the raw material and the supplies and the last 2 quarters, we book the profit share. So this quarter, obviously, it has been weak. Hopefully, we will see if this quarter improves, but it is what it is. So because of the nature a lot of people are not coming out. So when people do not come out, they are not picking up flu. If we do not pick up flu then no one use the product. So it is you are seeing that across a lot of therapies. I mean a people are now going to us. For example, chest infections are lower or during peak COVID time, there are very little accidents. So there are a lot of less ICU requirements. So these are all very peculiar circumstances, but I think things have settled on as things go, but that is the present situation as the way we see it.

Sudarshan Padmanabhan: Just 1 question from my side. I mean if I break it out to...

Rajeev Nannapaneni: Just pass it on if that is okay if you do not mind.

Sudarshan Padmanabhan: Thank you Sir.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Skill Ventures Private Limited.

Viraj Kacharia: Congratulations for reporting these numbers in such a challenging environment. I just had 1 follow-up on the domestic oncology business. Sir if you could just give some perspective compared to the past sales, how much would the market degrown and have we lost any share in oncology in products? So if you can just provide some color on that.

Rajeev Nannapaneni: I do not think we lost any share in the oncology market in terms of market share. I think the brand has been fairly steady. I think what we have lost is mostly to do with the fact that there is limited, the hospitalization has been low. So I think the challenges you are seeing across the sector. I mean, look at the hospital sector and you look at these segments, which require heavy hospitalization, which is the immunocompromised situation. Those products their takeoff has been much slower than it has happened, not just in India. I mean if you look at the global scenario, that happened in the U.S. and I think to other peers. You are

seeing their earnings that there is an overall hospital-related therapies there has been a decline.

Viraj Kacharia: Okay. Just 1 follow-up on this. So if you look at HCV in other players, they have reported a more normalization and sales. So when we look at this business in its entirety, say into FY2022, should we be back to what we were doing, say, in FY2020 kind of a run rate?

Rajeev Nannapaneni: I think what we are betting on is 2 things in the domestic market. See, 1 thing is that things will settle down. I think things are slowly settling down. And our cardiology and diabetology are doing reasonably well so that is also improving the strength of our base earnings. And see, our idea is to diversify our revenue base. I mean we have spoken about that many times in the previous call, like we need to diversify our revenue base so that there is more consistency on earnings. I think one major item that we are going to add in domestic, which is not in pharma, but it is in agro and that is where we are very excited because we have a couple of launches lined up, very interesting launches lined up. So if that would start kicking in, so that makes it much more interesting.

Moderator: Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.

Mitesh Shah: Sir, Tamiflu was low in Q3. So what is the current situation now?

Rajeev Nannapaneni: I do not want to judge it now, my friend. I think let us wait for the quarter to end I can speak about it at the end of the quarter.

Mitesh Shah: And congratulations for your first approval in Crop Health Sciences. So can you give us some directional guidance or the outlook about this segment? And how do you market this in between partners in the segment? Can you get some outlook on that?

Rajeev Nannapaneni: Sure. I mean, what we are thinking is, I think real value in this business is going to do with, do you do your own brand and launch these products? I think that is where we are looking at. And as you know, we got our first big approval, so we are very excited about this. We also know there is a court case pending on it. So I think we released the press release, and we will talk about our launch plan shortly. I think that is our position. We will come back exactly what we want to do because the court case is pending. I do not want to speak too much in this call at this time. But our expectation is that we will be able to overcome our legal hurdles, and then I think we should be in the market in the coming period, and that is our expectation.

Mitesh Shah: And do you just have a particular company that the court is appointing or are there any other competitors are there in litigation?

Rajeev Nannapaneni: I am not aware of other people. I can only speak about myself. I think we are in the first phase for sure, I think that is my understanding. And I think we have a good position. But again, I do not want to speak much about this part because the legal case is pending. I will come back with our plans shortly, yes.

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

Nimish Mehta: Just a little bit more on the agro chem business, but I understand that, that we are focusing on pesticides more. And given that the government's stance against using pesticide, trying to promote more organic manure and everything. What do you think about the overall opportunity? I know you cannot speak product specific, but overall, general understanding with regard to that.

Rajeev Nannapaneni: No. What you asked is a very good question. And I think we are very clear in our strategy. I think we have the products that we are working on are obviously for pesticide, but we also have a pipeline of products, which are also more environmentally friendly and less toxic to human consumption. I will speak about it shortly. I do not want to speak about it in this call today. But I think clearly, the emphasis that you raise is very important. I think the opportunity in this business is not selling toxic pesticides. The opportunity in this business is actually selling a greener pesticide. I think absolutely, I think your pipeline, anybody to be successful in the coming decades, you need to have a pipeline with a mix of both. Having said that, you cannot go away from the traditional pesticides, but you need to have a mix of products and portfolio. And this is where the world is moving, absolutely correct. But in terms of strategy, Nimish, I will speak about it as we go along. I mean we are still early days. So I would like to speak about it. But I think you will hear some commentary from the management in a short period of time on what our strategy is. Absolutely, you are absolutely right on that.

Moderator: Thank you. The next question is from the line of Sameer Shah from Value quest. Please go ahead.

Sameer Shah: The first question is on Revlimid. We had a date in December. So where are we on Revlimid?

Rajeev Nannapaneni: Good question. I think we believe again; I will reiterate it again. I do not want to think it, but I think it by saying it all the time. But it is the approval is around the counter. There is nothing serious pending. They are all minor queries. We have answered everything. There is nothing pending on the company's side. I would like to reiterate it again that we will get the approval. And I think we are very confident we will get it, and hopefully it will come very shortly.

Sameer Shah: And Sir, secondly, I mean, whatever initiatives we were doing either in India or the other markets like Brazil, Canada, et cetera, was going to be on top of what our base business is? Now given what it is in this quarter, the base business is actually there are question marks on whether that base business will normalize or will these initiatives like agrochemicals and other stuff, will actually bring us back to the previous level? Or is there from whatever initiatives we have; will we actually be in growth phase from 2022? What is your sense?

Rajeev Nannapaneni: I think there are a lot of moving parts there. So to understand the generic business, the core portfolio will always degrow by 10% to 15%. That is the challenge of doing generics. So I think that is how the business works and everybody knows that. So I think what we are trying to do is 2 things. We are trying to expand the portfolio and also build a stronger domestic portfolio where the price erosion or depreciation of the portfolio is lot less compared to the export business. And that is why our agro initiative. So in terms of strengthening the base business, I think agro is only very critical. You are absolutely right. The agro will pull us back and give us that strong base what we are looking for. Having said that, in addition to that, we are also very bullish in the launches that we have. We have Lenalidomide launches in multiple markets other than the U.S. so which we are very excited about. Epicor launch there in the U.S. in the next financial year. So that is also a very good launch. So Epicor for the lowest trends we are expecting soon, and the 10-milligram will also, I think, more generic in the financial years 2021, 2022. So we have very good launches there as well. And of course, the jackpot is always there the Lenalidomide launch in March of 2022. So that it will be coming in the end of the year. But however, we will be booking the earnings at the end of the year. So I am extremely bullish of 2022. And I think what we are seeing is a challenge in a quarter or 2. But it is not going to persist for long. I think but it is what it is. I mean, I am not going to run away from it. But what I am trying to say is that we are very cognizant of what is going on. And I think we are aware, and I think we will be able to pull it back and because of the pipeline that we have had, I know we have publicly announced already that we got approval of 1 big product. And we have other big projects in agro, which we will speak about in a short duration of time. So I am extremely bullish about 2022.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thavkar: Yes. So, Sir, could you elaborate more on Brazil and Canada as to how do we see the growth ramping up in the next 1 or 2 years? And between Canada and Brazil, which markets you feel are easy to ramp up?

Rajeev Nannapaneni: Brazil takes longer, but I think your results will be much better over a period of time. I think the foreign chunk now, U.S. business is booked on an annual balance sheet because we do not have our own hub in the U.S. now. The foreign subs cumulatively have done about Rs.41 Crores in the last quarter. So we are doing well in the foreign subs all the foreign subs have been cumulatively have been profitable. Brazil is profitable this quarter. Canada has been profitable for long. So I am happy where things are going. We have some very good launches lined up next year in Canada and Brazil. So what is our run rate in that own service 40 a quarter. So if you annualize it, it will be about Rs.160 Crores. So where do we see this business growing? I believe this business can go to Rs.250 Crores to Rs.300 Crores next year. It is based on the launches that we have had. So I think that is based on our expectations, yes.

Ashish Thavkar: Yes. This is a very okay. And then, Sir, on the agrochemical side, if you could help us like what are the three products which are in the pipeline? And what could be addressable market?

Rajeev Nannapaneni: I think we only spoke about CTPR are on track now. I think the size of the market from our understanding is about Rs.2000 Crores. And it is there in the press release. And what the future pipeline we will not be revealing at this time for strategic reasons. I will speak about it shortly as we go along when we are getting the registration. But I am very bullish about the opportunity. A lot of these opportunities my friend we are looking at, things where we are going to be first to launch. See, as I said, I am not trying to do a commodity business, and everybody thinks of agro as a commodity business. But NATCO, I never do business where we believe something is a commodity. We always look for niches, we look for a sweet spot, look for opportunities where a lot of people are not where we believe will be in the first phase. So we are very excited about the opportunity. And I think we are going to see some positivity in that business in the coming period.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from InCred Research. Please go ahead.

- Rashmi Sancheti:** Just a clarification on the domestic business again. Sir, I can understand that chemotherapy sales might have affected due to COVID. But in oral oncology segment also, are we seeing the degrowth? Or we have seen recovery in the group?
- Rajeev Nannapaneni:** I think oral oncology has been more stable compared to chemo.
- Rashmi Sancheti:** So on a Y-o-Y basis, we are growing in that segment?
- Rajeev Nannapaneni:** Yes and that segment is doing reasonably well. But overall, in onco we are degrowing because of the thing at the chemo side. So, yes.
- Rashmi Sancheti:** Okay, Sir. Sir, then on the international front, just want to understand on the Pomalyst product, where you have already settled the litigation also. And so any plans? Have we launched the product? Are we planning to launch the product?
- Rajeev Nannapaneni:** We already have an approval, on that product. We have a settlement with innovator. The settlement date is confidential, but we have a settlement with that product. And that is all I can say.
- Rashmi Sancheti:** So it is not going to be a 2022 product, sort of?
- Rajeev Nannapaneni:** I think I will speak about the launch when it comes closer to the launch. Because the launch date is confidential. I think when it comes closer to launch, we will speak about it. This time, I cannot comment.
- Moderator:** Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset. Please go ahead.
- Ankush Agrawal:** Firstly, if you can help me share some thoughts on how you see the Relevant market moving from 2022, 2026 to the time it goes generic in terms of how the pricing pressure would be and how you see market share moving between you and other players.
- Rajeev Nannapaneni:** Sure, I mean it is there, public domain, my friend, but I will just repeat it for your benefit. So basically, the agreement says that we can put limited quantity in March 2022, and the quantity keeps increasing every year. This becomes open in 2026. And our belief is that our launch will be before other generics, I think that is our expectation. And that I think we should have the first-mover advantage.
- Ankush Agrawal:** So any thoughts on how do you see the pricing pressure moving between competitors? Any thoughts there?

Rajeev Nannapaneni: Again, I do not want to say anything about that at the time. When the launch happens, I think we can add more color to it. But I think it should be a very good product for us. I think that is our expectation.

Ankush Agrawal: Okay, fine. Secondly, Sir, how do you see the long-term sustainability of the business model that you operate on? I mean we typically go for big opportunities wherein at the time of launch, we get a huge jump in our business and then over time, it's kind of falls. So has the business size is growing up, every time you will need a bigger opportunity to not just to get back on the old revenue but to even grow over that. So how do you see that playing out over a long term as your business size grows? Do you see a hindrance over there?

Rajeev Nannapaneni: I think it is a challenge because our strength has always been delivering the niches. So I think the niche business will also have its own value. I think as you rightly said, there are huge upside that you get. And I think that is the basic DNA of the company. So we continue to do that. But having said that, we are very cognizant of building the base business. I think that is why we have been working very hard to diversify the portfolio in domestic by adding agro. So we are doing this foreign sub so that we can diversify revenues. So foreign subs are now representing almost 7% to 8% of revenue in this quarter. So we are trying to diversify revenue so that the dependence on the one-offs will be less. But I think over a period of time, we will be able to achieve that. I think it would not happen overnight. I mean, I can be honest with you there. But I think the endeavor is to do that. I think endeavor is to build a base business, which is always steady and then the upside gets added on the top. I mean that is the objective.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: The first question on the India business. You mentioned the trends in this quarter, but if I see the sales from Q1 to Q3, we are seeing a declining trend. So I would have imagined things would have only improved right now versus, so we had a higher sales in Q1 and Q2 than what we had in Q3. So that is what I am not able to understand.

Rajeev Nannapaneni: I think sometimes in a particular quarter, we tend to have stocking of particular products if we are launching a new brand. So that is why there is a difference between Q1 or Q2 or different quarter.

Anubhav Agarwal: But if you look at just the oncology segment, you will say that CT oncology sales would have been higher than Q1 and Q2.

- Rajeev Nannapaneni:** Could you repeat that question again, sorry?
- Anubhav Agarwal:** So I was asking if we look only the oncology part in India, that in the third quarter, oncology sales would have been higher than Q1, Q2 or it would have been lower than Q1 or Q2.
- Rajeev Nannapaneni:** It started off at a higher number. It settled on a lower number because we did stock in the previous quarter. So let say we are launching something. So to build the market, we tend to stock a little more. And once it becomes steady state, you do a lower sale. And we launched a lot of products at brisk. So we are very aggressive when we launched. I think that is the reason why there is up and down in the sale numbers.
- Anubhav Agarwal:** Okay. And second, on the export business, Tamiflu I can understand, but very high number in second quarter was also reason why some of the numbers in this quarter are very low on the formulation export businesses.
- Rajeev Nannapaneni:** What happened in Q2 is different from what happened in Q3. So Q2 we have spoken about that already as we had the benefit of the settlement. So I think that is why the difference is there.
- Anubhav Agarwal:** So Copaxone will be more stable product for you? Or does it also when you get the profit sharing on that also varies so significantly across quarter?
- Rajeev Nannapaneni:** I think, like the quarter tends to be lower. Sometimes we have like year-end adjustments. So for example, you could have a charge-back adjustment. So Q1 could be low. So a lot of these things you cannot trend on a quarter-to-quarter basis, my friend. I think if you have to look at it over multiple quarters and take an average, if you start looking at numbers on a Q1, Q2 basis and say Q1 has moved this much, Q2 has done this much. It is not a fair comparison because our portfolio is not a diversified portfolio like the other big companies that you follow. They are very concentrated. So if you do not get 1 profit share in 1 quarter because there is more in 1 quarter, it will be less in another quarter, then the difference becomes too apparent. So you cannot catch a trend. I think our balance sheet cannot be judged like the other. You have to look at a longer trend again. That is what I would say because our portfolio is heavily concentrated. If something does not happen, it directly shows on the balance sheet.
- Anubhav Agarwal:** And just 1 last clarity on generic Imbruvica launch, when is that expected it first half next year or second half? Have you talked about that?

- Rajeev Nannapaneni:** No. We have not spoken about Imbruvica this time. We just had a court case for which we went to trial. We are waiting for a verdict. And we will speak about that once we get clarity on the legal side. At this time, I have not spoken about it.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Two things. On the India business, when we look to FY2022 and 2023, maybe what does that look like? Is it both in cardiac and the cardiac, diabetes and oncology?
- Rajeev Nannapaneni:** Nitin. I did not catch your question. So how do I see FY2022 domestic, is that what you are saying?
- Nitin Agarwal:** Yes, the pipeline in terms of new launches, new launch opportunities.
- Rajeev Nannapaneni:** I think we see a lot of interesting opportunities. I think we have planned about 10 launches in the next financial year. Some of them are first time in India launches and the launches are primarily, as we said, in the oncology and the cardio segment. That is where we are looking at.
- Nitin Agarwal:** Okay. And so you have already had an aspiration of INR 1,000 Crores there about domestic business, that you have alluded in the past. I mean, given how things have played out, I mean, how do you look at the target now? And how in terms of what kind of timeframe is potentially the number that is achievable now?
- Rajeev Nannapaneni:** I think that the challenge that we have there is the multiple, one is the Hep C portfolio has dropped dramatically. That is 1 challenge we had. Another challenge that we have had is the domestic oncology is not done as well as we thought because of COVID and other challenges at the time. So the way we are looking at this business is we needed 1 or 2 things, Nitin. This is what I am giving you a general vision for that business. We have always covered only specialists. I mean that is the uniqueness of our model, that we have covered with 200 reps we have built the size of the business, which is a lot of people, so deferments now tend to have 5x, 6x the number of reps that we have. Because we are always and the number of reps we had have been in a few hundred. We never had 1,000, 2,000, 3,000 reps. So for us to go to the next level, we have to do one or the other. One, we do an acquisition, which allows us to build scale, which allows us to have higher coverage and more therapies, and then we add new products to it and then we grow the business. Or two, we need to add many reps and start new divisions. I think unless we do these 2, the needle is not going to move dramatically. And I think we have to sort of I mean, I am

looking at both options, but obviously, we added 1 segment. So we need to see when we will enter into a more larger mass market segment where we cover gynae today, we only cover, for example, only cardio, diabetes, onco and gastro. I mean, actually, it is a very small segment of doctors. We only cover, let us say, 3% of all doctors. So I think the sale has to increase, and we need to go and attack a larger market. So anyway, I am thinking of different options, but I think that is where the future lies. It is one or the other. I think either we do a larger market coverage, or we do an acquisition, which allows us to get it. I think that is where we are.

Nitin Agarwal: All right. And secondly, on the U.S., 2021 be in terms of filings? And in 2022 and in the next few quarters, anything that are interesting sort of lined up from an R&D perspective?

Rajeev Nannapaneni: We are targeting quite a few interesting filing. We are targeting a lot of few first to file. I think we always have a run rate over 6 to 8. I think we are confident we will have something interesting. What we are and all let me just file it, we get the first of my position and it will be difficult to say, but we are working on it. There are a lot of ideas we are working on.

Nitin Agarwal: Anything that you filed this year, so FY2021?

Rajeev Nannapaneni: No nothing interesting.

Moderator: Thank you. The next question is from the line of Nikil Mankur from Ambit Capital. Please go ahead.

Nikil Mankur: I had a question on the domestic oncology market. What do you think about the competitive landscape, the way it is shaping up in the domestic onco? Are you also seeing that from the competing firms, which have a broad portfolio and quality space in global markets? They are getting a bit more aggressive in the Indian market as well.

Rajeev Nannapaneni: Could you say that again, my friend? Are you on? Your voice is really muffled, so I could not catch what you said. Could you say that one more time, my friend?

Nikil Mankur: Is this better now?

Rajeev Nannapaneni: Yes. Could you repeat that question one more time, please?

Nikil Mankur: Yes, I can do that. Yes. So my question was on domestic oncology. What are your thoughts on the competitive landscape in this space in India? Are you seeing many of the competing

firms who are there in the global markets with a wide oncology portfolio getting a bit aggressive in the domestic market as well?

Rajeev Nannapaneni: I think the multinational has always been there. I think our competitors are primarily Indian companies because we sell generic versions of drugs I think that is our business model. Are the multinationals being active in India? Some are active, some are not active because a lot of these oncologies are very expensive, so sometimes the market is not large or interesting enough for them to do registration in India. Because some of these therapies are sold at \$3,000, \$5,000, \$10,000 per month kind of therapy. Our model is to go after packages, so I think that is where we are. So there are opportunities in onco. I think we are doing mostly chemistry opportunities. We are not doing the biotech opportunities. So I think actually, we have limited ourselves in scope, but there is still a lot of opportunities in the chemistry space.

Nikil Mankur: And just a question on Agrochem. See, my understanding on the Agrochem side is fairly limited. So what I understand is it is a CTPR-based molecule. I think it is a bit complex in manufacturing because it is a technical product. While I do not debate the manufacturing because it is really difficult in this kind of a molecule but what I want to understand is from marketing and a distribution standpoint, given that you are looking to build a brand in this particular space, how are you going about this? I mean are there any hiring you are undertaking? Or what kind of organization capability on the marketing and distribution side. Is that what you are looking to do?

Rajeev Nannapaneni: Yes, I think, we actually built our capability in the last 1 year in our discussion with launch. So we built the reps. We have nearly about 100 employees now in that division. We are doing a lot of promoter boys that are going to hire for the coming season. And so we are gearing the launch. We have hired seasoned hands from the industry who are part of this agro division. See, the real value, my friend, is when you do the front end. Otherwise, where is the value? If you are trying to give it to them on a principle-to-principal basis, you might do it, but there is no value on it. So my thinking on this is do your own brand and try to be the first-wave brand to come in so that there is a differentiation that you will give to the distributor and farmer so that you do not become one in the crowd. So I think that is the strategy. And then I think when you launch something interesting, customers will come to you. And so I think that is what we are trying to do. And then the question is, I think if you would ask the question, if you do not have a setup, will you be successful? This is a chicken and egg question, unless we do it, you will not know, so but my whole point is that you are doing it and somewhere you have some meet that bet. And then as long as you offer something unique, you will always stand out in the crowd. And I will see that in any

business we stand out, do something unique and where in the first wave, you will always be able to create a new market for yourself, okay?

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

Ravi Dharamshi: I wanted to just go back to asking the question on the competitive scenario in Revlimid, but I want you to give a more generic answer, not necessarily pertaining to Revlimid. Have there been other instances where a large number of generics has settled with the innovators and such kind of a competitive formation has happened? If yes, then how did the market pan out over there? If no, then I would like to know, I mean, how will the competition work over here? I mean usually, the generic players want to get onto the formulary list. They have assured supply or something like that. So in this particular case, will there still be like a proper competition between generic players? How will it work?

Rajeev Nannapaneni: I think until the market formation happens, Ravi, I cannot answer that question. What I can tell you for sure is we are going to launch first. I mean that is very clear because I am going with the facilities that are given by the other companies that are launching later than us, so which is good. So what I can assure you here is that we have the first-mover advantage. First mover makes a lot of difference because you are obviously there in the formulary ahead of everyone else. And as your market share keeps increasing, you will be able to able to get good business. That is our expectation. How many guys will come, when and all, is a question that only time will tell. I think we can answer that question in a bit of time. But at time, but I think for the start, I think we have a good advantage in the beginning. I think that is what we can say.

Ravi Dharamshi: Just a follow-up to that. Is there a motivation or is there an incentive at the end of the guys those who come in later? I mean they will have a problem selling their quantity and they will have to reduce the prices for that? Or is that everyone is assured a particular set of quantity and there is no need to reduce prices? Is my understanding flawed?

Rajeev Nannapaneni: Again, Ravi, I am not in privy to what they are saying, so I cannot answer that question. I cannot.

Ravi Dharamshi: And how will Celgene keep tabs on everybody's volumes and quantities?

Rajeev Nannapaneni: Ravi, that is a question you have to ask Celgene.

Ravi Dharamshi: But they would have told you, right? I mean, you are supposed to report or something.

Rajeev Nannapaneni: No, Ravi. I can only tell you what I said. I said we have a first-mover advantage, and our quantities keep going up and the other companies are coming later in us and that is all I can say, yes.

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

Kasera Vrijesh: Rajeev, just 1 question on the domestic business. The oncology, we are doing somewhere around Rs.60-odd Crores a quarter right now. It is my understanding, if my memory serves me right, a year back, we were doing somewhere around Rs.90 Crores plus per quarter, right? So are you seeing some traction in the domestic business at this point of time? So as well we can assume in FY2022 very easily that we will be going back to the earlier levels at least very soon?

Rajeev Nannapaneni: Hopefully, I think hopefully, I think. See, the pandemic has really upended a lot of our businesses. Overall, where there is chronic usage at home. Those are done extremely well. Businesses which are linked with hospitals, which had a very immunocompromised situation, critical strategies, those businesses have not come back to normalcy. So COVID is something that I am not able to guess where this is going, so...

Kasera Vrijesh: What I am asking is may be on the trendline basis since month-to-month, we will have some clarity right now we are sitting in February.

Rajeev Nannapaneni: At a macro level, my friend, I will say that things will be better in 2022 because the things are more normal now. I know what we are dealing with. Now to say that I know what is happening, and as things will come back to normal eventually, it is our expectation, and that is our obviously, that is our expectation. But to say that if you want me to give a more emphatic answer, I do not want to say it. I think that is our expectation, I will leave it at that.

Kasera Vrijesh: Sure. Sir, last question on the overall FY2022, the confidence that you have on FY2022 will be normally better. So if I leave aside Revlimid this would come in Q4 FY2022, so will that confidence would be mainly on the domestic business actually coming back? The agro business starting to contribute in a meaningful way, and the Lenalidomide launch in the U.S., and are these the 3 triggers that I should presume? Or are there anymore?

Rajeev Nannapaneni: And also, we have the lenalidomide launch in other markets also. So what you said is more or less are the major triggers. That is correct, yes.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management Company. Please go ahead.

Aditya Khemka: Rajeev, on the question on the India business. A lot of companies talk about first to launch molecules in India, and all of them say that they have launched 5, 6, 10 first-to-market molecules in India. Now what I want to understand from you, and you were pretty much making the same suggestion on cardiology, which you have already done and some of the other segments which you may want to target and where you, again, I am assuming you feel that there are some niche molecules or first to India molecules that you have. My question is how large is that opportunity? How many are molecules, which are present across the globe, but not present in India, present in some countries and not present in India that all these pharma companies, including yourself, will continue to launch first-to-market molecules over the next 3 or 5 years?

Rajeev Nannapaneni: See, there are 2 things in domestic, my friend. One is you can do first-to-launch. But most probably most products in India, you end up in first wave. You cannot be like the only first who launches because particular manufacturing gives it to multiple licenses. So it tends to be about 5, 6 or 8 guys launch in the first wave. So typically, but obviously, if you want to be in the first wave as opposed to be in the second wave, that is what happens to more domestic molecules. Another thing that could happen possibility is that if it is a difficult chemistry or a difficult patent challenge, and you do something very interesting, then you are in the first wave. Then you end up being 1 of the 2 or 1. So that is where the real opportunity is. But what will be in the first wave or whether you will be the only one in all, we will not know until we have the launch because typically you cannot control what other people's behavior is, is not it? So let us say you think you will be the only 1 in there, but let us say, some other smart person thinks of the same thing at the same time. Then obviously, it gets diluted. So the way this business works, it is true even in the U.S. as well as you keep trying 8 or 10, somewhere in between, you will get something where you will be the only one, and sometimes you will get somewhere with a lot of competitors.

Aditya Khemka: Understood. You did not answer my question on how large that opportunity set is?

Rajeev Nannapaneni: So large means, my friend, I will tell you what it is. When it is like 6 or 8 guys then obviously, the brand would not be so large. But if you want to be the only one, then sometimes you get a Rs.30 Crores, Rs.40 Crores brand. When it is a highly competitive brand, then you will end up doing only Rs.3 Crores or Rs.4 Crores. So I think I answered in a very philosophical level. I mean the opportunities are based on the circumstances. Like there are people who have made Rs.200 Crores, Rs.300 Crores when you do it, something like a Remdesivir. I mean the opportunities can be based on the circumstances and where

you are. So it is hard to judge. But typically, our success in domestic is anything between Rs.10 Crores to Rs.25 Crores is considered success. Rs.2 Crores, Rs.3 Crores is a me-too launch, Rs.50 Crores to Rs.70 crores are a super success. I mean if you want to grade.

Aditya Khemka: And my second question is on Copaxone. So Copaxone, if I remember correctly, the reading last press release, they are still doing about \$1 billion on an annual revenue basis in the product being the innovator and all. Are there any constraints to you and your competitor in generics space gaining market share from the innovator? Or is it just the authorized generic is doing that kind of revenue?

Rajeev Nannapaneni: See, again, I cannot speak about their own balance sheet because I do not know anything about it. I can only speak for ourselves. I think from what I understand, we have about 30%, 35% market share. So we are doing reasonably well for the product like this. And so I think we are happy with where we are and...

Aditya Khemka: Sorry Rajeev, but my point here was that you are 30%, 35%. The other generic which has 30%, 35%, which implies that the innovator is also sitting with 30%, 35%, which is very unlikely what we have seen in the past once the generic competitors launched, the market share for the innovator is generally going through the **inaudible 46:22**. So I just wanted to understand from you as to is there a constraint from your side in gaining further market share in Copaxone. Or do you not want to engage in price war and therefore, you want to keep the market share low keeping the...

Rajeev Nannapaneni: I think let me answer your question in a different manner. These are not like a me-too generic endeavor where everything gets substituted immediately. There is you need to sell to the patient. You have to register an app. You need to have an auto injector. There are a lot of specialties in selling it. It is a specialty product. It is not like a me-too generic. So it is not strictly comparable to where I had 50%, 60% market share that you get overnight. So that is the first part of your question. I would believe we are doing reasonably well. I think that is the best way I can answer your question. I think I do not want to comment further than that matter.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Security Investments. Please go ahead.

Nikhil Upadhyay: Rajeev, most of my question have been answered. Just 2 things. You mentioned in Brazil and Canada, we were at Rs.160 Crores run rate yearly. And you believe we can touch Rs.250 Crores, Rs.300 Crores. And if I go back to our commentary in FY2020 before, pre-COVID, we were pretty sure that Canada and Brazil should start scaling up in FY2021. So

is it like the launches have got delayed, which we believe should come in FY2022? Or are there some large products? What gives you this confidence that we can because we are talking of almost doubling the revenue there?

Rajeev Nannapaneni: Based on the launches that we have and see basically, these are all positive statements, I think, based on 2 assumptions. One we will get the approval on time. The market formation will have a limited amount of competition, and that will be successful and some of the patent challenges we are doing. Based on those assumptions, yes, that is our expectation.

Nikhil Upadhyay: Okay. And multiple times, you have mentioned that Lenalidomide might launch in multiple markets. Is the market opportunity large enough? And would it be like a competitive, like normal product? Or do you believe it could be limited competition? If you can just help me understand the perspective there.

Rajeev Nannapaneni: It is going to be a limited competition, but it is a high-value product. So you able to do small revenue. I think it will be fairly profitable. So I think the gentleman asked me what other big launches we have next year, so I think in that conjunction, I have answered that question. Yes.

Nikhil Upadhyay: And we are close to approval in those markets?

Rajeev Nannapaneni: Some of the markets, yes, they are very close to approval.

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

Kunal Mehta: Just wanted to understand firstly on Revlimid, I think there are only 2 REMS mix available right now. One is of the innovator and is the one, which we have filed. So I think the reasons for the settlement with Cipla, the Cipla has been allowed to use the REMS belonging to the innovators. So I just wanted to understand from a competitive advantage standpoint in terms of gaining more market share, will the REMS mix sort of a difference in the playing status as because I think if supply is getting the deal, I think that other people will be **inaudible 49:53**?

Rajeev Nannapaneni: I think I understand everything. So let me I will rephrase that question. So just whether I understood this correctly. You are basically asking me by using innovator REMS, do we have an advantage? Is that correct?

Kunal Mehta: And so do we have a disadvantage because obviously we have set up our own brand and other players are going to use the innovator brand?

Rajeev Nannapaneni: I think my understanding is that we are using innovator brand REMS

Kunal Mehta: So on the same plane as the other ones who are going to use the innovator brand so that will not make any disadvantage when it comes to maximize our share difference.

Rajeev Nannapaneni: I do not think we are in a disadvantage.

Kunal Mehta: Okay. Sir, secondly, I wanted to understand was on the India business. So when I look at, of course, the only data point I am looking I have to observe this right now is the numbers where the hospital revenues are not tracked. But when I look at onco, when I look at the growth of other players, I mean, players' guidance in the domestic market even during these last 6 months, I think we have been doing a little bit better than what we are doing. So just wanted to understand a lot of these big guys that have been doing big marketing and ability to do very well in the specialty space if they want to. So I just want so a lot of these big guys and also potential to sell a basket of products through the hospital segment along with your biosimilar resilience and the chemistry portfolio. So just want to understand, I mean, are when you look at the market share for the oncology products on both of course, hospital picture is not as clear as what will emerge, and when it comes to the other products, I mean how confident are you that you are not losing market share in these products?

Rajeev Nannapaneni: I think we are doing reasonably well. And I think I will just come back to what I said earlier. We are doing reasonably well. And I think once this COVID settles down, I think the oncology will bounce back. I think that is our expectation.

Moderator: Thank you. The next question is from the line Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Just 1 question on the APIs. I mean, of course, it is not quite volatile. So I mean this quarter, run rate of Rs.95-odd Crores. I mean this is the normal run rate that we can assume and growth for FY2022?

Rajeev Nannapaneni: It depends on like there is a portion about 20%, 25% is coming from the tender business. The tender is not repeated, and the base will be a little lower. But see honestly, see it is very difficult to judge how next year is going to be. I think closer to next year, I think we will speak about it. So I do not want to comment on anything about how sales are going to be. I

think it makes sense if you ask me like in the May or June call when we do the final numbers for FY2021.

Sriraam Rathi: Okay, got it. And just 1 more question on the export business. I mean, it is of course, quite volatile for different reasons. But I mean even if you look and if you assume you are like around Rs.150 Crores, Rs.170 Crores for the quarter. But we were doing like Rs.200 Crores plus Rs.220 Crores, Rs.230 Crores on a normal rate generally every quarter. So anything apart from Tamiflu which has impacted this quarter performance, or it is only Tamiflu in that?

Rajeev Nannapaneni: The biggest impact is Tamiflu. There is no volatility in there. But we have Lactabnic. We are the only generic that has done reasonably well. So our expectation is we will have other products coming through. So but I think if you were to point at any single particular reason, I think that is one of the biggest reasons.

Sriraam Rathi: Got it and Sir, lastly, 1 thing then on agrochemical, is it fair to assume that you will be able to make comparable kind of margins whenever you have Rs.220 Crores sales?

Rajeev Nannapaneni: What kind of margin will we make, is that what you are saying?

Sriraam Rathi: Yes. So EBITDA margin can be in line with company's average for agrochemical?

Rajeev Nannapaneni: I think, Sriraam, I think that is our expectation. I think the kind of things that we choose are where the margins are good. Our business model has never been to do commodities. But actually, how much money you make, again, is all you cannot really control that. But I think that is what we are striving for.

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

Sameer Baisiwala: Just 1 quick clarification on your comment on Revlimid. You mentioned that you will launch will be before other generic players and that gives you a competitive advantage. So just curious because it is a volume-limited launch, and you probably would be getting a, I do not know what, single-digit market share. So what is that advantage that you have by launching this first?

Rajeev Nannapaneni: It will be the first generic, Sameer. I think that is the advantage. So I think that is what we have pointed out and we will meet before everyone else because I am just going by the

press statements of the other companies where they said that they will launch sometime after March. We are launching in March. I think that is the point I was trying to make.

Sameer Baisiwala: Fair enough, but if it is not as you can go and get 40%, 50%, 60% market share, and that is the advantage that you get by launching before others.

Rajeev Nannapaneni: I think we never said that. No, Sameer. I think if you look at read of the statement, what we have said is that we will launch with a single-digit market share, which keeps increasing until 2026, and we have unlimited share. The facilities are there in the public domain.

Sameer Baisiwala: Of course, Rajeev. Of course, it is there, Rajeev, and that is why I am asking you because if it is only single-digit market share that you will be getting, so what is the advantage of launching before others, let others also launch at the same day, just hypothetically. It makes no difference. Or is it the pricing that you have in mind than others, so then you will have to scale down your pricing? So I am just trying to understand your comment. What is the advantage of having the market to yourself with just mid-single-digit market share?

Rajeev Nannapaneni: Sameer, I think we are going to be the first generic and the erosion will be low. I think that is what we are trying to say. And I think that is the only thing I can tell, Sameer. I am not able to understand what the question is. I think that is the best way I can answer that question.

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

Rajat Setiya: Sir, my first question is how confident are we about the guidance that we had given for the financial year 2022 in terms of Rs.1000 Crores of PAT?

Rajeev Nannapaneni: I think I will speak about it closer to and let me finalize the numbers, but it predicates on the assumption that we are able to launch Revlimid in that financial year and also predicates on some success in our agro business. I think that is the assumption. But I think when we close it, I think in the May call and when the final numbers are done, I think we will speak more in detail about what our assumptions are and what we think how things are playing out, okay?

Rajat Setiya: Sure. And do you think that would be the peak for the company? Or you think from thereafter also, the company may expect to grow in profits?

Rajeev Nannapaneni: I think what we have is we are trying to strengthen our business. And I think our percentage of quantity is increasing every year for Revlimid. So I think that will drive the earnings over the next few years.

Rajat Setiya: The other question is on the exports business. So basically, last quarter, we did some Rs.480 Crores. This quarter, we did Rs.160 Crores. I think are we saying all the revenue decline is attributable to Tamiflu and the onetime settlement that we got last quarter? Or did we lose some business in Copaxone as well?

Rajeev Nannapaneni: I mean those are 2 reasons, that Copaxone are the major reason of declines, yes, that is correct.

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

Vishal Manchanda: Sir, could you give a sense on how large the oncology market is in India?

Rajeev Nannapaneni: How big is the oncology market in India, you said?

Vishal Manchanda: Yes.

Rajeev Nannapaneni: Honestly, I do not know, my friend. Because the reality we are seeing, and all these numbers do not actually capture it. My estimate is I am making a guesstimate, okay, so do not hold me to it. It is about Rs.3,000 Crores to Rs.3,500 Crores is what I was understand informally. But again, I cannot back it up with any validation from any agency, okay?

Vishal Manchanda: And then, Sir, in the U.S., how many launches should we expect in the next 12 months?

Rajeev Nannapaneni: How many domestic launches, you are saying?

Vishal Manchanda: In the U.S.

Rajeev Nannapaneni: U.S. launches next year in the U.S. At least, I think our big launches, I have about 2 or 3. I think we already spoke about it. I think Effectnor and Revlimid but in addition to that there is another interesting launch that we have not publicly revealed, I think the immunosuppressant is also there. I do not know when the exact launch is. I think we will come back to you on that on the launch date. So I will just come back to that. There is also an interesting one. We are rolling out an immunosuppressant. So let me get some clarity on the patent and the approval, but that is also an interesting launch we have.

- Vishal Manchanda:** And you talked on Everolimus business. Is that right?
- Rajeev Nannapaneni:** There are 2 Everolimus products, my friend. There is Affinor and there is the immunosuppressant. So immunosuppressant is a different product. The oncology one is a different product. So there are 2 different brands, and there are 2 different ANDAs.
- Vishal Manchanda:** Okay and they can be launched next year, could that be it?
- Rajeev Nannapaneni:** I do not remember. You asked me what other interesting launch we have. That is the other one also we have, but exact launch date and all, I am not able to recollect. I will just come back with you. At the moment, I am not able to answer the question, but I will just come back with you on the next conversation, when the launch exact launch date is. I will come back to you on that.
- Vishal Manchanda:** So this approval is at hold and basically getting an approval, U.S. FDA approval is at hold?
- Rajeev Nannapaneni:** I think 7.5 and the 5 and the 2.5 is only launched in approval. The 10 milligram, if I remember right, again, I think it will come, I think, later part of 2022 - 2021, sorry, in calendar and launch date in later part of 2021. And Zotorus, I do not recollect what is holding it up. I will just come back to you on that. At the moment I am not able to recollect what is holding this down.
- Vishal Manchanda:** Okay. And, Sir, what was the export formulation sale, excluding profit share?
- Rajeev Nannapaneni:** We are not sharing this. We are not giving this. We are giving it as a combined amount.
- Vishal Manchanda:** Sir, as you indicated about Rs.40 Crores of sales in Brazil and Canada. So that is going to be your largely our export formulation sale is...
- Rajeev Nannapaneni:** See, what happens in the Brazil and Canada, the sale from India gets canceled out because it is sold to your own club. So that is represented separately. So that has a component of transfer price from India to Brazil and then Canada and then the local sales. So we are only reporting 1 sale. So we are reporting it as a subset.
- Vishal Manchanda:** Okay and Sir, just going back to Copaxone, so from a profit share perspective, the product is probably not as attractive as we would have expected. And one of the reasons could be there is kind of large, fixed costs associated with the kind of selling that product in the market, is that right understanding?



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Rajeev Nannapaneni: Not even price erosion is being fairly competitive. I think to get market share has been very aggressive. So if done reasonably well, again, I will not say that it is one of our best products, clearly. I mean that is all I can say. Could that have been bigger than what we have? Again, this is all driven by market dynamics, out of my control. So I think if you ask me, I am fairly satisfied with where we are with the product.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Anshuman Gupta from Investec Securities for closing comments.

Anshuman Gupta: Thank you all for joining on this call. A special thanks to the NATCO management. Thank you. Bye.

Rajeev Nannapaneni: Thank you all. Have a good day.

Moderator: Thank you. On behalf of Investec Capital Services Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.