



“Natco Pharma Limited Q1 FY23 Earnings Conference
Call”

August 10, 2022



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Moderator: Good morning ladies and gentlemen and welcome to the Q1 FY23 Earnings Conference Call of Natco Pharma Limited hosted by Edelweiss Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Randeria from Edelweiss Securities. Thank you and over to you, sir.

Kunal Randeria: Thank you Mishel. Good morning and welcome everyone. On behalf of Edelweiss Securities, I welcome you all to Natco Pharma's Q1 FY23 Earnings Conference Call. We have with us Mr. Rajeev Nannapaneni - Director & Chief Executive Officer of Natco Pharma and Mr. Rajesh Chebiyam - Executive Vice President, Crop Health Science. I will hand over the call to Rajesh for his opening remarks. Over to you, Rajesh.

Rajesh Chebiyam: Thank you, Kunal. Again, good morning everyone and welcome to Natco's Conference Call discussing our earnings results for the first quarter of FY22-23 which ended June 30th of 2022. During this call, we may be making certain forward-looking statements or statements about future events and anything said on this call which reflects our outlook for future must be reviewed in conjunction with the risks that the company faces. Like to state the material of the call except for participant questions is the property of Natco cannot be recorded or rebroadcast without Natco's expressed written permission. We will begin with the results highlights and then go for interactive Q&A session. Again, we have sent our press release earlier. Results and press release are also available on our website.

Just to summarize, Natco had recorded consolidated total revenue of Rs. 918.9 crores for the first quarter of FY22-23 as against Rs. 427.3 crores for the same period last year, reflecting a growth of around 115%. The net profit for the period on a consolidated basis was Rs. 320.4 crores as against Rs. 75 crores same period last year, more than fourfold increase. Export sales of Lenalidomide product to United States was a major contributor to the revenue and profitability of the business during the quarter. The domestic pharma formulation business remained steady. On the expense side, there was a one-time cost associated with retirement schemes in the quarter and higher-than-usual R&D cost for product development. The segmental business split has been shared as well in the press note. We will go for Q&A and we will address the questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Dharamshi from ValueQuest Investment Advisors Private Limited. Please go ahead.

Ravi Dharamshi: My question is regarding the Lenalidomide, can you just explain to us how the recognition is going to happen in this case, some of it we had recognized in the last quarter of FY22 and also



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there has the split between manufacturing margins and the profit share, so whatever you can share, I understand the competitive reasons why you might not want to share a whole lot, but whatever you can share that will provide us with some sense on how the cash flows are going to pan out?

Rajeev Nannapaneni: I think internal profit share we have booked good amount in Q4 and good amount in Q1 of this year. In terms of further revenue, Ravi, I think it will taper off in Q2 and Q3, there will not be much in Q2-Q3, I think most of it is booked, so there will be a little bit left in Q2 and not much I think in Q3, I think that is my sense, but we will see how it actually plays out. Again, Q4 I think things will get better and then Q4 of 23, the quarter ending March 23 and again things will improve and again it will be very good, again June 23, again probably it will taper off. That is what the trend looks at, I think based on how things are.

Ravi Dharamshi: So, I have to understand correctly, whenever the supplies are sent at that time manufacturing margins are booked and may be some amount of profit share, but in the subsequent quarter when the sales happen is when the profit share is booked?

Rajeev Nannapaneni: It will be correct.

Ravi Dharamshi: My second question was on the Copaxone, if you can just give us some sense on what are the trends in terms of volume and pricing?

Rajeev Nannapaneni: I think our guys are doing well, I don't remember the last, the market share that we have, but I think we are 40 or close to 50 if I recollect, but I don't remember the exact number, but it is steady state. I think overall volume has dropped a bit on Glatiramer because lot of the product has moved to the oral as you are aware, but I think for whatever size of Glatiramer that is there, I think we are doing very well and that has been a steady state products and it is doing well.

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

Ankush Agrawal: Rajeev, congrats on great set of numbers, sir, first on Revlimid again, so wanted some sense on how do you see Revlimid going for Natco post the first initial launch. The reason I am asking this because in terms of volumes, if we say that volume quota is going to increase from mid-single digit to 1x for next 4-5 years, so naturally the volumes are going to expand multiple, so based on that do you think Revlimid from the first phase here for us in terms of value will grow or do you expect that will largely be stable for next couple of years, even how the market reflects?

Rajeev Nannapaneni: I don't have all the information, but I think, my understanding is that after generics are coming in a staggered manner, so I think our expectation is that again until the market formation happens,



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you can't really tell, but I think our expectation is it will do well for the next few quarters. I think we have good visibility and as you rightly said, we should get more market share with time and I think we should do well. I think that is our expectation.

Ankush Agrawal:

Secondly, Rajeev, I think couple of years back we had this guidance of Rs. 1,400 crores of PAT in FY22 which obviously did pan out because lot of things have been played out, but now since things have started moving back, so any color on if we will be able to achieve that number sometime in the future?

Rajeev Nannapaneni:

I think, I assume few things, I assume that profit share that we had will be booked in March, but we have booked it over in 23, I think, so that is the kind it has not panned out, but still we have not met the 1400 number, clearly we have not and I think that is primarily driven by the fact that the agro hasn't panned out and our domestic has done too well. That is the reason why I think we are unable to meet. I think these two things we need to address. Let me start with domestic. I think domestic is steady, but I think we have money in the bank and I think we are looking at different acquisitions. Hopefully, we will be able to strengthen our domestic with an acquisition. I think that is something that we are looking at. Agro, we will share an update, the patent expires on August 13th of 2022 and we also mentioned in the last conference call that we got sued for process patent which is about I think around December 25 fiscal I think the date is. So, now what has happened is the judges appointed a third-party expert to look at whether we are infringing or non-fringing, I think we had taken a position that our process doesn't infringe that patent and they have asserted that we are infringing the patent, so they have appointed a third party expert, so they have appointed two experts, so their opinion is expected and we have been told not to launch till the next date of hearing which is scheduled I think around August 22nd. So, subject to a favorable resolution of the dispute with FMC, I think we are very excited about the opportunity that this product presents, but I think it will play out in the next few weeks. Hopefully, we will get a favorable order and we will take it from there and the domestic, I think we need to see what we should do on an acquisition side, but I think what has happened in the business, I am giving a general industry about generics is that the market has become extremely competitive and nobody is willing to let go market share and you will only get growth either by acquiring market share by buying an asset or into a new launch. So, I think that is the challenge in our business today and I think that is the challenge that we will see in the future as well.

Moderator:

Thank you. The next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha:

I have a question that last quarter, you quantified that we are left with 70%-75% of the volumes for Revlimid, so as of Q1 what percentage of volumes we are yet to book?



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Rajeev Nannapaneni: I think most of it, there is some left, I don't reveal the number, but most of it is done, only little left. I know I am being a little evasive in answering it, but strategically, I can't answer that question, but most of it is done, Ahmed. I think that is the best way to answer that question.

Ahmed Madha: Second question on the R&D expense, can you explain what kind of nature does unusual R&D expenses as mentioned in the press release and do we consider that this will be new 11.58 R&D considering the kind of cash flows we have been receiving?

Rajeev Nannapaneni: I think I had said this in the last quarter call as well. I think somebody asked me what we are going to do with this surplus, I think a good portion, I think at least some portion of surplus we are using for spending on R&D, I think we want to build another couple of jackpots that we have, so that we can sustain the pipeline for the coming decade. So, if you see the rise in expenses, there are two primary reasons, one is there is an increase in the exhibit batches and the clinical costs, so we are doing hard to do generics and we are trying to keep most of the economics for most of the products, so that is the reason why there is a higher expense on the balance sheet and the second thing is, there is there is general increase in the operating cost caused by the macroeconomic environment in the world as you know. We have seen a dramatic increase in fuel prices, furnace oil, coal, we have seen dramatic increase even in electricity prices, so I think that has probably contributed to the increase in a bit in the OPEX, but I think good portion of the increase is coming from more spend on R&D.

Moderator: Thank you. The next question is from the line of Hiral from Monethics. Please go ahead.

Hiral: Congratulation for the good set of numbers, my one question is that if I see the quarter-on-quarter performance compared to March 22, the June 22 numbers revenue has increased for more than 30-35% while the cost of material consume has gone almost half from Rs. 193 crores to Rs. 95 crores odd, so whether there is a reduction in the cost substantially and how if this is a sustainable for the future or if I miss something in the chart?

Rajeev Nannapaneni: You actually missed something. Basically, what happened in last March quarter was we have done a write-off of the COVID inventory, it is not true consumption, so lot of the raw material that you see is write-off of the COVID inventory, so that is the reason why you see very high consumption. That is the reason why there is a difference in the consumption.

Hiral: So, from the current quarter, what I see the margin and the revenue utilization, these are the actual margin, right and we can expect?

Rajeev Nannapaneni: Actual margin, most of it is actually consumption and about, I would say some portion of it is also R&D expense where when you do exhibit batches, you expense those off, when we do the exhibit batches, so the portion of this and a portion of the actual consumption.



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

Rajat Setiya: Sir, just one clarification, did we say that when we said that we have booked most of the numbers in quarter 1 itself and nothing much will come in quarter 2 and quarter 3 and the cycle will begin again from quarter 4, did we refer to the manufacturing margins there or the profit share from Revlimid?

Rajeev Nannapaneni: Let me clarify, the profit share for the launch, we have booked in Q4 of last year and Q1 of this year so far and one of the gentlemen asked me how much of the profit share is still, I said most of it is done, little bit is left that we booked in Q2 or Q3 of this year and the manufacturing also will be booked in the next few quarters, but the majority of the profit share will get booked when we get to launch the new quantity in Q4 and Q1 of next year in 23.

Rajat Setiya: Sir, so a question here, so it means basically we have sold, we are given an annual volume permission to sell certain numbers and we have probably sold most of that already in the first 5-6 months, however, if we look at the BMS sales reported in this quarter, they have actually grown, so how is that possible, we have taken away some share from them for sure, in fact more than our permitted share in the first 5-6 months and we will not sell much in the next 5-6 months and that is how we will reach to our annual quota, however, we have taken some share from there, but they have also grown in this quarter on Q-on-Q basis, so how is that possible, I am not able to understand?

Rajeev Nannapaneni: I think there is a general growth in the molecule. Again, I have not looked at BMS statements, I can't qualify, I can only tell you what I have done. It will be hard for me to judge what BMS has declared, but I think the only logical sense, possibly the size has gone, but again I can't answer your question.

Moderator: Thank you. The next question is from the line of Ritika Agarwal from ValueQuest Investment Advisors Private Limited. Please go ahead.

Ritika Agarwal: Sir, last quarter, you had indicated that this Rs. 85 crores of agro inventory currently in your balance sheet and you classified that as the risk, so in the current quarter, of course you said that you are up beat on it and expect a favorable outcome, but what is the worst case scenario what is we do not receive a favorable outcome, what triggers this risk?

Rajeev Nannapaneni: Good question, we have not made assessment yet, but what I can tell you is for 18.04 we will tell you what we are dealing with. I think I just got an update on the inventory, so the total inventory in agro is about little over Rs. 100 crores, I think that is the current, Rs. 108 crores is what I have understood. So, it is reflected in the inventory of the books and there is also an investment on the facility which is about Rs. 165 crores, I think that is the total investment in



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the facilities. The question now is what will happen if you get the adverse of it. I think there are, let us wait for the lower court verdict with single judge verdict and even if you are unhappy or if they are unhappy with the verdict, they will definitely go to a DB, so I think we will make the assessment in this financial year and what to do and so if everything was well done, then I guess we don't have to provide, but and I think if you are not getting clarity, then we have to make a decision on what to do, but these are the numbers and what to do and all I think we will, let us wait for the clarity and I think we will make a decision. I think that is where we stand.

Ritika Agarwal: Sir, what you are saying is, could we expect that these inventory might expire and we may have to write-off if things do not fall in the correct place?

Rajeev Nannapaneni: I think I don't want to answer that question now. Let us wait for the court to decide and I think let us see how things go and we will update you and I think when we have to make the decision, but I think I don't want to answer your question at this time, but I gave you the broad numbers what we are holding and I think that is adequate disclosure at this time.

Ritika Agarwal: Sir, also last quarter, our inventory was Rs. 760 crores, could you update what is the current inventory?

Rajeev Nannapaneni: As of today, I don't have the console with me, I have the standalone which is most of the inventory. Our current inventory is Rs. 674 crores and this includes the agro inventory of 108, whatever that number is.

Ritika Agarwal: And lastly, what is our cash and cash equivalent currently on the balance sheet?

Rajesh Chebiyam: Ritika, as of today, it is about Rs. 1,134 crores is the cash-cash equivalents and total borrowings is about Rs. 168, of that about Rs. 180 is foreign bill discounting and about Rs. 60 crores working capital borrowing.

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

Prakash Agarwal: Sir, on the R&D you mentioned you are taking more initiatives and filing more complex, so which areas are these, what is the percentage of sales we are doing on the R&D especially for the quarter and what areas are these?

Rajeev Nannapaneni: I think I will answer your question in terms of area, we are focusing on Oligopeptides, that is one area we are focusing on and we are focusing on onco products, particularly onco products which require clinical trial on patients, so I think these are the niche areas we are focusing on. As a percentage, I don't have the number on hand Prakash, so I can't answer that question, but I think we are spending reasonable amount of R&D which is reflected in the cost.



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Prakash Agarwal: And how many of the filings we have already done or all of these complex filings are still WIP?

Rajeev Nannapaneni: I would say, some we have done and some are WIPs, so we are targeting about 8 to 10 this year, so I think what you are spending now are WIP.

Prakash Agarwal: And you mentioned about most of the profit and supply of the goods of Revlimid is largely booked, so how do you expect the run rate for the export formulation business going ahead for the second half of the business, do you expect a drop there or?

Rajeev Nannapaneni: I think Lenalidomide contribution in Q2 and Q3 will be minimal, yes that is correct. You will have the numbers without Lenalidomide.

Prakash Agarwal: What is our normalized run rate, base business run rate?

Rajeev Nannapaneni: I don't answer that question, so I think because there will be some element of Lenalidomide also there, I don't want to answer that question.

Prakash Agarwal: And for the India business, you mentioned that you are trying acquisition, new initiative, so if you could talk about little more on that?

Rajeev Nannapaneni: We are looking at different assets, I think we have said that in the last quarter call as well. I think there are a lot of assets available now, so we have very different options and hopefully we will be able to close the transaction in this financial year.

Prakash Agarwal: Any particular areas you are looking at?

Rajeev Nannapaneni: I don't want to answer that question. We are looking at all areas, but I think once we consummate a deal, definitely we will.

Prakash Agarwal: Why I ask is because our focus area has been highest MR productivity, with less MR we get quite good amount of sales in these kind of portfolio, so it is similar or we are coming into the broad IPM?

Rajeev Nannapaneni: We have to come in the broad IPM Prakash, because otherwise we will not have growth. I think there is a limitation to my niche portfolio. I think we have done well with the portfolio, but there was limitation to how much can grow in that segment. We have to go into a more GP, CP, Cardio, Gynec, Anti-infective, I mean that area is very wide for us because we are not present in any of the mass segments, so any segment could be interesting as long as we are able to get some synergy, where we use that segment with the acquisition and void couple of our own R&D products so that we are able to get the synergies. So, we are open to any segment as long as we see that has potential, yes.



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- Moderator:** Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.
- Surya Patra:** Congrats for the good set of numbers, sir, just couple of clarification, with regard to this Revlimid, this volume limited condition whatever that is there for the period, so how rigid is that and whether the volume condition is for the annual condition or it is periodic like quarterly one should be having that mid to single digit kind of number, some clarity if you can?
- Rajeev Nannapaneni:** It is an annual number, Surya.
- Surya Patra:** So, that means one can be having a larger number in the initial period or whichever part of the period and in other period it could be lull, so that can be possible?
- Rajeev Nannapaneni:** That is possible, correct.
- Surya Patra:** May I know sir, what is the R&D sequential rise, let us say last quarter what was R&D absolute amount and this quarter what could be that?
- Rajeev Nannapaneni:** I don't have the number but I think I can't answer that question because I don't have the number on hand.
- Rajesh Chebiam:** I think overall for the last financial year, if you look at 12% of your topline was spend on R&D, so it is incrementally higher than the prior year which was around 8-9%.
- Surya Patra:** No, my point what I was trying to draw you sir, basically sequentially if I see the formulation export growth, it is near about Rs. 360 odd crores kind of incremental business sequentially and the EBITDA level, let us say, if I adjust for the previous quarter's adjustments of inventory and all that this quarter's for voluntary VRS payments so then there is a Rs. 330 odd crores kind of sequential improvement in the EBITDA level, so if I just having limited information, just think that okay, the majority of this sequential revenue rise is led by Revlimid contribution and same is the kind of or majority of the EBITDA contribution is also from that only, then the profitability of this product looks really great, it is beyond anybody's expectation in terms of margins for this revenue stream, whether I am right in thinking that way or if you can give some sense?
- Rajeev Nannapaneni:** I don't give a profit split I mean as you know this product is doing, we have launched it first, so it is still certainly very profitable.
- Surya Patra:** But indirectly, if you can just try to get a sense of whether the pricing of this product is like 10-15% lower in the?
- Rajeev Nannapaneni:** I can't answer that question, I think I have been forbidden to answer that question. Teva has given us guidance, what we can say and what cannot say, we can't say about.



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- Surya Patra:** Last one question if I can ask on that sir, so is it a 50-50 revenue sharing or it is profit sharing?
- Rajeev Nannapaneni:** One third, there is only 30%.
- Surya Patra:** Revenue or profit, sir?
- Rajeev Nannapaneni:** Profit.
- Surya Patra:** So, that means you would be booking partial revenue at the time of this thing?
- Rajeev Nannapaneni:** Partial revenue when you send the raw material and the profit is booked as and when it is accrued.
- Moderator:** Thank you. The next question is from the line of Danesh Mistry from Investor First Advisors. Please go ahead.
- Danesh Mistry:** Just one question I had is that on domestic business, which is there, you mentioned that last time there were some pricing pressure especially onco side, so is that passed us? Number two is that are we seeing any volume growth of pickup in that space? Number three is that in terms of our US business on export, US ex-Revlimid I think last year may be some of our incremental business was not doing well because of masking, but any sense on whether you see that improving in the coming year?
- Rajeev Nannapaneni:** Your first question is on the US business environment and what is the second question, what is the first part, I just missed?
- Danesh Mistry:** The first part was essentially in the domestic onco business, you had mentioned that there was some pricing pressure in the last quarter, so is that kind of past us, are we seeing volume growth coming back?
- Rajeev Nannapaneni:** I think it is stable, the domestic is being stable, I think we are doing well and I think we have done well in the cardiology division, I think overall the business is stable, but it is not growing, I think that is the challenge that we are having in that business and I think the diagnosis that we have done in that business is that we are too limited in terms of the reach that we have because we are only covering niche amount of doctors. Our core business was covered by only 300 reps which is not even if they are covering about 150 doctors on average, we are not even covering the tip of the ice berg of the whole ecosystem on doctors, but one of the major changes that we need to make is cover a larger segment, so we started a new segment now which will give us the mass coverage, so we are slowly ramping up the reps, but again, it is a very slow business unless we do an acquisition where we have a basic portfolio, then it does not allow to cover larger segments. I think that is what we need to fix and that is what we intent to fix in the next few



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quarters, so that is on the domestic. Regarding US, it is a tough business. That is the only way I can answer that question. I think you need to have a good launch or a niche product, otherwise it is very difficult to make money in the US and that is the way it works and the way the market is set up, that is the only way you can do it. Does that answer your question?

Danesh Mistry: Just one question I think you have been very clear on that, but in terms of the other part of our business, ex Revlimid in the US, where last few years we had this while influenza thing not working out because of?

Rajeev Nannapaneni: Sorry, I missed that question, influenza as a business has also gone Danesh, I don't see it coming back at all. We will book sometimes some revenue, but the margins are very low, it is nothing exciting where I can come back and tell you that they will make substantial dent on EBITDA. If you ask me the whole Tamiflu thing is dead, I am not saying I don't sell Tamiflu that is the way, we will not deny that, but it is a very commodity product. There is nothing special about it.

Moderator: Thank you. The next question is from the line of Sameer Shah from ValueQuest Investment Advisors Private Limited. Please go ahead.

Sameer Shah: I had two questions from my side, one, on the rest of the world geographies, what are the things, say next 2-3 years to look forward to, I think Canada is doing well, but if you can give some more color on the other markets?

Rajeev Nannapaneni: I think in the earnings, I think we did about in Canada, we did almost 9 to 10 million Canadian last quarter, so we have done well in that particular subsidiary, let us give the exact, give me a moment, and Canada we have put over Rs. 53.67 crores in the balance sheet in Canadian sub. We have done well. Brazil has also done very well. Brazil has done Rs. 18.2 crores, so I think our core business, our whole subsidiary business is doing about Rs. 105 crores. So, that is a very good situation to be. Our idea is that we should strengthen our subsidiary business and all our subs are making money except for the US sub which we recently acquired. So, that is also something that we need to fix, but overall, I think the near term, to answer your question, to improve our base earnings, we need to fix two things, one is, we need to enhance our domestic reach through an acquisition or with new launches; two, I think the agro, we need to have clarity; three, our US sub where we are launching our own products that also have to start making money. So, US my sense is it will lose money for the next 1-1/2 years, we have to stabilize this. So, I think our expectation like 24 financial year, I think we should be able to see some clarity there. Agro, we are waiting, so once the court verdict comes and domestic as I said, I think we are looking at different options, but acquisition and domestic growth is what is going to. These are three major things we need to focus on.



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Sameer Shah: And secondly on the agrochemical piece domestically, while we understand the CTPR whatever is happening that we are very clear, but apart from that if you can whether fair amounts of everything else, what are the other things that we are targeting if there is some color on that?

Rajeev Nannapaneni: Pheromone is something that we are trialing right now. We have this product for PBW, pink bollworm in cotton. This has done a reasonably well this year. I think our expectation is that business should do well this year. I think our expectation is that that whole agro business minus CTPR should do about 10 to 12 crores this year, I think that is our expectation, but it is not going to move the needle and I think you need a larger portfolio and I think we have other products that we have filed, but we don't have visibility on them at this time. CTPR is the only one that we have visibility and that is as you know our very large product, so this CTPR from what I understand is more than 10% of the whole agro business. So, I think you need to get this right, but you know how we are as a company, I think we always like to bet on jackpot and it is the nature of the bet, but in the near term I think that is what we are looking for.

Moderator: Thank you. The next question is from the line of Pinaki Banerjee from AUM Capital Private Limited. Please go ahead.

Pinaki Banerjee: Sir, there is a news article where you are investing in that cell therapy startup eye systems, can you please throw some light on it, sir?

Rajeev Nannapaneni: Sure, I think as part of that we have about Rs. 30 to Rs. 40 crores investment that we do in healthcare related sectors, so as part of that and I think we have not, as you know we want to build, so the future of the business is doing innovative work and in our core business, our focus is primarily on generics, so we do some work, but I think most of it is on generics. This is an interesting opportunity, there we are investing about \$1 million, Rs. 7.5 crores to be more precise less than \$1 million and this startup is doing some work on macular degeneration, so I think it is a very interesting niche portfolio, but it is a very minority single digit share, it is nothing substantial, it is just part of our larger portfolio, just to get a feel of what is going on in the ecosystem, so we do this investments just to get a feel of the ecosystem here.

Pinaki Banerjee: Sir, next question is sir, actually agrochemicals has been just a miniscule part of your revenue now, so actually sir, are you contemplating any ways to actually increase this revenue share considering the fact that you have number of stiff competitors in the Indian market also and both national as well as international?

Rajeev Nannapaneni: I think the way we are looking at acquisitions in this space and we are also looking some success in our product launches, but the business at this stage is an infancy, but I think our thinking internally is that this business has to go large and I think hopefully it will become about 10 to 15% of our sales in the next 2 to 3 years depending on our success.



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Moderator: Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Sir, on CTPR, I think you indicated that the patent goes off by August of 2022, so irrespective of the litigation you should be able to launch one way or another, right?

Rajeev Nannapaneni: No, I have answered that question Gagan, you missed the answer. I will just tell you a second. The patent of the product goes up on August 13th, 2022. We have been sued for the process patent which is how to make CTPR through a process for a patent which expires in December 25. We are telling the court that we are not following their process. We have a non-fringing process. So, the court has appointed a third-party expert to evaluate what are processes and compare it with their process and it listed the matter on August 22nd and we are awaiting the expert opinion and once we get a favorable outcome, we will be able to launch the product. I think that is what I said.

Gagan Thareja: But does that mean that other companies can potentially come in and launch their product post 13th of August who would not have challenged?

Rajeev Nannapaneni: Anybody who has a non-fringing route technically can launch the product, I think that is the best way I can answer that question.

Gagan Thareja: Second question is, on the domestic sales, you indicated that it has not grown year-on-year and if I look at one of your competitors AstraZeneca who has oncology portfolio in India, they have grown significantly over the last 3 years, is there being a case of them bringing in some patented molecules which might have impacted the existing generic portfolios in oncology and therefore sort of shifted market share away?

Rajeev Nannapaneni: Astra's business model is different, our business model is different, what Astra portfolio has done is something I can't comment on because I don't understand it, I don't know it. What I can tell you is about the generic portfolio which is what we are as a company. The portfolios that we have done have been steady and we have seen price erosion. It is not a true comparison because theirs is an innovator portfolio, ours is a generic portfolio, so I think it is not a fair comparison, because it will be operating in two different environments and overall our portfolio has started, there is nothing to hide there, I think because of the limitations of the segments that we are covering and I think we have good launches that we have planned, so we are seeing this sale has been steady. I will not say that it has not declined and nor it increased, it has been steady. I think our idea is that we need to launch new segment and consolidate that segment.

Gagan Thareja: And the final question on US if I can, lot of your peers have indicated continuing double digit, in fact, mid to high double-digit sort of a base price erosion on their generic business, what has



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been your experience on your portfolio and what has been the year-on-year sort of performance for your base portfolio in US?

Rajeev Nannapaneni: I think if we remove Lenalidomide which is the elephant in the room, the other portfolio has been steady, it has not, in fact may be declined slightly, but it has been steady, but we have made up with like launches in the other ROW market, I think that is what has happened. In the US, pricing is difficult. I think I have always said, I think unless you have something interesting and special or limited competition, it is very difficult to make money. So, I think we have been reasonably successful, I mean we had reasonable launch of Everolimus last year, so it is not that all of it has been a complete decline of business but having said that it is a tough business. There is no way getting around that, but still, it is a very important market, you just can't avoid because 50% of the pharmaceutical market is in the United State. So, we just have to be there and just try to do something interesting and just hope that it works. I think that is how you do this business.

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

Sameer Baisiwala: Rajeev, a quick one on Revlimid, are you doing a continuous manufacturing and supplies to Teva or are you doing it on a campaign basis?

Rajeev Nannapaneni: We do it on campaign basis.

Sameer Baisiwala: That is why you have two quarters when you get a lot of profit share et cetera in two quarters when you are not getting?

Rajeev Nannapaneni: It depends on like, yes, in a way sure, that is correct.

Sameer Baisiwala: And just one final one on this, even when the other competitors do launch end of September whenever they do, it is highly volume-controlled launches and my guess is that market would always be under supplied, so therefore is there really a pricing risk here or you think that you can maintain high profitability and pricing for a period of time?

Rajeev Nannapaneni: I think the product should do well, I think that is the best way to answer that question. Regarding the other competitors and all, I think there will be staggered entries, so that will obviously play a role on the price erosion, but it will be a good product overall.

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

Ravi Dharamshi: I just had a small followup, did the current quarter number have any contribution from Nexavar?



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Rajeev Nannapaneni: Yes, it did.

Moderator: Thank you. The next question is from the line of Sandeep Kothari from East Lane Capital. Please go ahead.

Sandeep Kothari: Quick question on the FMC litigation, appointing of an expert committee or expert, is it very normal in process patents in India or this is something unique and do you have a say in appointing this or court accept somebody and appoint them and what is the potential for delay, there have been couple of hearings, it is now 22nd August, so just how this plays out?

Rajeev Nannapaneni: How it will play out, I don't have an answer to that Sandeep, I don't know. What I can tell you is the process, so in our experience and litigation, at least I would like to say that we are fairly experienced in this because we have done a lot of litigation patents in India. In one other case, we also had an expert appointed when the court is unable to decide where if they need technical help they do ask an expert. So, is it unusual, no, I think we had it in the past, this is again, second time it has happened. That is the first question. Second question is, there are two experts appointed, so essentially there is a panel that the court has, so we chose one member and they chose one member, so I think we just are waiting their response on the questions post by the court. Once the opinion comes, how quickly the judge will make a decision, hopefully soon, I think that makes and I think that is our expectation, but I don't want to speculate on a timeline at this time. I think it is what it is. I mean we are hoping that we will get clarity in the next few days. That is all I can say.

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

Nikhil: Rajeev, just adding 2-3 points, in the whole discussion we mentioned that we do campaign production which means we provide our substance to Teva on a quarterly basis and then somewhere you also mentioned that profit booking has its accrues which means when we do the sales, then only the profit will be booked to us, now if we go back to what Teva and BMS reported on the sequential basis in their revenues, I am unable to add up what you say what happened in Q4 and Q1 because neither Teva has seen such a strong sales growth on a Q-on-Q basis in their generic business, not BMS has seen such a strong degrowth in Revlimid in the US business. So, how does we add the issue with your commentary?

Rajeev Nannapaneni: Nikhil, first of all, go read the Teva statement carefully, they have clearly stated that Lenalidomide is a significant contributor to the earnings and for the size of Teva's business, Lenalidomide doesn't make much of a difference because of the size of Teva's balance sheet. It makes a lot of difference for us because we are a smaller company and regarding BMS' number I can't comment about BMS' numbers, but I can only talk about what market share we have taken and I think what we have accrued and I said there is a general increase in the portfolio of that



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product, so therefore maybe it is not impacting, I am speculating. That is what I believe is probably happening.

Nikhil: So, is this right that the profit will accrue only when Teva sells in the market?

Rajeev Nannapaneni: Absolutely correct.

Nikhil: Then that does not mean that Q2-Q3 Teva will not sell anything in US?

Rajeev Nannapaneni: Nikhil, I will answer this question again. See, what is happening is there is a limited amount of quantity that is given, so because you have a limited amount of quantity that is given, basically what happens is lot of sale happens as soon as you launch, so basically once the quantity what you call is done, then the sale kind of tapers off. Nikhil, I suggest that you have a separate call with our IR, I think he will actually explain you the process.

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

Ankush Agrawal: I had a follow-up, Rajeev, so the domestic acquisition has been profitable, so would it be possible for you to quantify in terms of what kind of sizes we are looking at, so example, currently we have just Rs. 1,000 crores cash, so would it be around that number to be materially higher given that the cash flow we will be getting?

Rajeev Nannapaneni: We are looking at any good opportunity, so I don't want to comment on the size, but I think we had started somewhere, so anything in the Rs. 100 to Rs. 200 crores sales range would be interesting to start with, sales range and depends on what multiple they will ask I don't know, so it all depends on how the negotiation works and the nature of the portfolio and the profitability of the portfolio, yes. I think that is what we are looking at.

Ankush Agrawal: And secondly on the CTPR again, so you mentioned that the first is the case on the lower court and then they might again appeal to the tribunal and all that stuff, so don't you think there is a material risk to keep getting stressed and the opportunity for us by the time we are able to do it is not really there?

Rajeev Nannapaneni: I think it is not tribunal, it is a high court, so basically what happens is typically a single judge will give an order and whoever is agreed will go to the double bench, so that risk is there, that is the nature of it, that is all I can answer, so that risk is there. Your question is there is the risk that if the TB can overturn a decision, yes, there is always a risk in any court case, but that is the risk that you take.



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- Ankush Agrawal:** The reason I was asking that even if you get stable outcome over there, then they can give an appeal, then we are again not able to launch, because it has always been delayed by more than a year now from the initial, we run in the major risk of write-off because if you get continued to get stretched then the opportunity just keeps on **(Inaudible) 52:39** so that is why I was asking, but you yourself can't help it?
- Rajeev Nannapaneni:** Let us see, let us not speculate, let us wait for the order and I think we will see what happens and see, that is the nature of that and that is how this legal system works. I think I am not getting into whether Natco gets favorable or FMC gets favorable, whoever is on the losing side we will appeal in the DB, isn't it, double bench and if they are not happy with DB they will go to Supreme Court. That is the natural course of the process and it is where it is. That is all I can say and let us wait for the verdict and I think we can give you more light on where we stand and what we are doing.
- Moderator:** Thank you. The next question is from the line of Mitesh Shah from Nirmal Bang. Please go ahead.
- Mitesh Shah:** I will just have a one question about the domestic, as you said that we struggled mainly because of this smaller of the team size and we are looking for more assets, so how it will work that we first ramping up our size and then looking the assets and we stayed away with the assets, we are taking the team as well?
- Rajeev Nannapaneni:** It depends on the nature of the acquisition, we have ramped up the people, but the people are not yielding much. The revenue that we are getting from the Natco division which is the more wider coverage division is not as much where it is meaningful, so if you do an acquisition, typically they will give you people, sometime they give you the brand. It depends on the situation. To answer your question, the best way to ramp it up is with the people and the brand. I think that is probably the most ideal way of looking at it.
- Mitesh Shah:** And any particular team size you are looking to increase in next couple of years?
- Rajeev Nannapaneni:** I answered that, I think the first one in my mind, I am looking at sale target of about Rs. 100 to Rs. 200 crores and whatever multiple that the deal transaction ends up there.
- Mitesh Shah:** Sir, I am talking about team size you are ramping up over a period of 2 years?
- Rajeev Nannapaneni:** You need lights to cover like the biggest segment that we are not covering is consulting physician and general physician, so you need to do all India coverage for a segment like that, probably we need like 300-350 people, so it is double of what we have at this time.



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- Moderator:** Thank you. The next question is from the line of Admed Madha from Unifi Capital. Please go ahead.
- Ahmed Madha:** Imbruvica, do you have any update?
- Rajeev Nannapaneni:** No, at this time Ahmed, nothing at this time.
- Ahmed Madha:** And just a confirmation, so from March 2023 we will have higher team in the market here?
- Rajeev Nannapaneni:** That is correct.
- Moderator:** Thank you. The next question is from the line of Ritika Agarwal from ValueQuest Investment. Please go ahead.
- Ritika Agarwal:** I have a question on domestic formulation, last quarter you have indicated that Rs. 100 crores base run rate is what we are at currently in the domestic formulation and we expect 10 to 15% growth this year based on the new launches, do we still stand on this, what we indicated last quarter?
- Rajeev Nannapaneni:** I think so, okay in domestic; I think we will be able to meet that target. That is our expectation. That is correct.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.
- Gagan Thareja:** This one is again on CTPR, if the verdict goes in your favor, would you be given exclusivity for the launch of CTPR or because the patent would have expired any which ways, you would be launching with other people in the market?
- Rajeev Nannapaneni:** We will win first day of launch, India doesn't have a consent or exclusivity like the US, so anybody else also could launch, provided they have a non-fringing route on the process.
- Gagan Thareja:** But I would have thought there is a marketing exclusivity period for a launch in a 93 format?
- Rajeev Nannapaneni:** No.
- Moderator:** Thank you. As that was the last question for today, on behalf of Natco Pharma Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.