



“Natco Pharma Limited  
Q2 FY '24 Earnings Conference Call”  
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**MODERATOR:** **MR. ROHIT BHAT – BATLIVALA & KARANI SECURITIES**



**Moderator:** Ladies and gentlemen, good day and welcome to the Natco Pharma Limited Q2FY24 Earnings Conference Call hosted by Batlivala and Karani Securities India Private Ltd. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohit Bhat from Batlivala and Karani Securities, India Private Ltd. Thank you and over to you, sir.

**Rohit Bhat:** Thank you. Good morning everyone and welcome to Natco Pharma Q2FY24 Earnings Conference Call hosted by B&K Securities. From Natco Pharma management, we have with us Mr. Rajeev Nannapaneni, Director and Chief Executive Officer and Rajesh Chebiyam, Executive Vice President, Crop Health Sciences. We'll request Rajesh to give brief opening remarks about Natco's 2Q results before we open the floor for Q&A session. Over to you, Rajesh.

**Rajesh Chebiyam:** Thank you, Rohit. Again, good morning and welcome everyone to Natco's conference call. During this call, we may be making some forward-looking statements or statements about future events and anything said on this call which reflects our outlook for the future must be reviewed in conjunction with the risks that the company faces.

I'd like to state that the material of the call, except for the participant question, the property of Natco cannot be recorded or rebroadcast without Natco's express written permission. So, I'll begin with the results highlight and then interactive Q&A session. We have uploaded the financials on our website as well.

Hopefully, you guys have seen it. To summarize, Natco has recorded consolidated total revenue of INR1,060.8 crores for the second quarter of FY24 that ended on September 30th, 2023, as against INR452.6 crores for the same period last year, reflecting a growth of roughly 134%. The net profit for the period on a consolidated basis was INR369 crores as against INR56.8 crores same period last year, showing a significant growth of over six-fold increase from the prior period. Company business was strong during the quarter due to growth in formulation exports and also increased sales in our domestic agribusiness. The rest of the business is stable. Specific segmental revenue split has been also shared.

I will not go into the details. We'll open up the floor for the Q&A. Thank you.

**Moderator:** Thank you very much. The first question is from the line of Mr. Saumil Shah from Paras Investments. Please go ahead.

**Saumil Shah:** So congratulations on a good set of numbers. So I wanted to know the impact of eight observations for our Kothur plant on our revenue for the current quarter. And by when we can clear these observations because it's almost a month now?

**Rajeev Nannapaneni:** The inspection happened in the month of October, as you're aware. So on November 8th, we have responded. You're given 15 working days to respond.



So on November 8th, we've answered the given our reply to the observations and our rectification and remediation plan based on the observation. Typically what happens is it takes about 90 days for them to make a classification of the observation. So I think 90 days starts from November 8th.

So that's on the FDA side. In terms of impact, I think the impact will be minimal because I think the company has always done this mitigation with their top products. As you're aware, I think all our top revenue items, our top five, six revenue items have an approval from our Vizag side in addition to the Hyderabad Kothur side.

Lelanomide also, which is the biggest revenue item, is also having approval from both Vizag and Hyderabad. Except for two strengths, which are 2.5 mg and 20 mg, which is about 7% of the total lelanomide. So even that also we have done the batches.

It's on stability, started stability. So we believe if you do 90 days stability and it's a procedure called CB30. If that is also done, then even that can be moved. That was already on the way, so that is also planned. Overall, I think our impact will be minimal. So I think let's wait for the classification of the inspection and we'll make a decision.

But as we plan every project, I think we always have a two-side strategy for all our top five.

**Saumil Shah:** Okay. So even if this, I mean, currently since the observations are there, so the production has been moved to the other plant?

**Rajeev Nannapaneni:** No, the products are already being made in Vizag, most of the products. And some products have not been moved, but we already have approvals from Vizag. So it's a little bit of both. So some products we have approvals, but they're not moved. Some products we have approvals, we're making in Vizag.

**Saumil Shah:** Okay. And in the previous call, you did mention to achieve, say, INR1,000 crores to INR1,200 crores profit for the current fiscal. So, but what would be the, I mean, for next financial year, how much can we grow?

**Rajeev Nannapaneni:** I don't think there'll be much impact. I think I still stick to the same guidance. I think that range we're able to achieve. I don't see a problem.

**Saumil Shah:** Okay. And for the next financial year, can we grow 20%-25% above this?

**Rajeev Nannapaneni:** Next financial year, I think it will all depend on how the pricing environment is. I think we'll give more color to it, I think, closer to the end of the year. But we are expecting that we should do well in the following couple of years. I think that was the general broad trajectory of the business. And so I think, yes, I think we'll speak more in detail about the actual growth, I think, closer to the end of the year. But overall, I think, yes, the impact will be minimal.

**Saumil Shah:** Okay. Okay. And so there were, recently there was some news article that even Aurobindo has entered in the space. So how much that can impact overall our business?



- Rajeev Nannapaneni:** Aurobindo has entered into what? Oncology business? Revlimid, you're saying? Okay. I think a lot of players in Revlimid, there's already, it's all factored in. I think our earnings projections are so in the competition. So it's all factored in, my friend.
- Rohit Bhatt:** Okay. That's it from my side.
- Moderator:** Thank you very much. The next question is from the line of Yash Malhotra from JM Financial. Please go ahead.
- Yash Malhotra:** Hi, sir. In your last quarter presentation, there was a key molecule in your pipeline called Semaglutide. Can you throw some color on its progress?
- Rajeev Nannapaneni:** Semaglutide, it's a good question you've asked. This was not filed in Natco. It was filed from a CMO side. Okay. First question. To answer your first part of your question. The review is ongoing. I mean, it's very early days at this time. So I can't give you any update at this time. And our partner here is Viatrix.
- Yash Malhotra:** Okay. And what steps are we as a company undertaking in order to have a better FTA track record henceforth?
- Rajeev Nannapaneni:** I think we have a good track record. And I think we have, it's, GMP is a constant improvement process. And, when observations come, you need to take yourself to the next level and meet the regulators' expectations. I think we are engaged and we are cognizant of what is required. And I think we'll do what it takes to get it done.
- Yash Malhotra:** Sure.
- Rajeev Nannapaneni:** Next caller, please.
- Moderator:** Thank you very much. The next question is from the line of Marsal. Please go ahead.
- Marsal:** Yes. Hello. First of all, we didn't find a PPT presentation for the Q2 results, neither in your website nor in the announcement. So can you please make sure the next time the PPT is submitted?
- Rajeev Nannapaneni:** Yes. Usually what we do is, within 24 hours after the board meeting, we upload and we usually incorporate certain questions that come from the call as well and we do it. So it will be done within an hour or two after this call.
- Marsal:** No, sir. Actually, what happens is 99% of companies announce or like upload the PPT prior to the con call so that the analyst investors can go through the PPT and can accordingly frame their questions and the avoidable questions can also be avoided because a lot of answers we can find in the PPT itself. So can you please ensure that prior to this one, prior to the con call, at least a few hours before, like this must be uploaded?
- Rajeev Nannapaneni:** No problem. I think we'll take your advice. Thank you.



- Marsal:** Coming to the question, in view of our key products, how do you see the progress or how do you see the growth in the current part of December, vis-à-vis September quarter. If you can just talk about three key brands?
- Rajeev Nannapaneni:** Which product particularly, sir? Can you tell me exactly which product? Key products you're saying, in the company's portfolio you're saying?
- Marsal:** So like for that, I need to open your, this is like a Q1 PPT before the...
- Rajeev Nannapaneni:** I'll tell you which one are the important ones. I think we can run through them. Obviously, Lenalidomide is the biggest one. So Lenalidomide, I think, we have already, we don't have much quantity left for December. Most of it is sold. Lenalidomide will take off again starting from March. So the December quarter will not be as strong as this quarter. And again, March, things will pick up. And regarding other products, I mean, Glatiramer is doing very well. I think it's very stable. And we'll see how things are. We have very good market share.
- And overall, our RoW business, Brazil, Canada is doing extremely well. So we are happy where we are progressing. Our subsidiaries are doing almost this quarter growth sale of INR136 crores. So and they're all profitable and we're doing well. These are three major items that drive the earnings. And agro has done extremely well. I think it's a business that we had almost very little turnover. And now this quarter, we did almost INR100 crores for the half year. So all business segments are doing well at the core.
- Marsal:** So, like we expect that like our financial performance during December Q3 will be a bit better than the September or will it be like say, downward?
- Rajeev Nannapaneni:** It will go, it will be not as strong. I already answered the question. I, what I said will not be as strong as September because typically we don't have because the agro season is not there because Kharif is over. Second thing is, we don't have much, Revlimid sale is not there. So as much so. So basically it will be a little weak, but I think things will pick up again for March quarter.
- Marsal:** Okay. And the last question that like, do you feel like, like, do you see any new product launch during this December quarter or the March quarter?
- Rajeev Nannapaneni:** Any big product launches you're saying, in the December, March quarter?
- Marsal:** Any new product launch?
- Rajeev Nannapaneni:** No, there are no big launches per se, at this time. No, not in the next few months. No.
- Marsal:** Okay. Thank you.
- Moderator:** Thank you so much. The next question is from the line of Nitin Agarwal from Dam Capital. Please go ahead.



**Nitin Agarwal:** Thanks. Rajiv, can you provide some sense on, the growth outlook for the non-US geographies for the next couple of years? I mean, what could be the drivers, and any particular geography which is looking particularly robust from a growth perspective?

**Rajeev Nannapaneni:** In terms of Brazil and Canada are doing extremely well. I think, give me a minute, I'll just take out the numbers. So if you look at the last quarter specifically, I think Brazil has done INR34 crores and Canada has done about INR60 crores- INR61 crores. So these two segments have done very well. And so we expect that these businesses will grow another 25% a year. That is, I think, the one growth driver in the business.

Another growth driver has been the agro-business. The business that we started off with almost zero. So last year, I think we did about INR40 crores. And I think this year we're doing about INR150 crores-INR160 crores. So a minimum to INR200 crores. So I think these are the major drivers on the non-US business.

**Nitin Agarwal:** And in terms of these geographies, you talked about Canada and Brazil. Are there any major approvals which are possible or likely over the, which can have a meaningful impact on these geographies from a revenue perspective over the next two years, three years?

**Rajeev Nannapaneni:** I think the business is steady. I think it's ramping up very well. We have some approvals which are pending in the next one year to one and a half year, which we are expecting. So next one year, one and a half year, we're expecting good approvals. I think the benefit of that you'll see in the financial year '24-'25. I think nothing before '24 March that I can think of. But definitely in '24-25, we have some very good filings. We generally don't state the products because of the confidentiality nature of the business, because of the strategy. But I think we have some good launches lined up in the '24-'25.

**Nitin Agarwal:** And last one, on the R&D front, any sense on, any color on, any large filings, big filings possible you've done this year or looking to do in the second half of the year?

**Rajeev Nannapaneni:** I mean, we are trying another two, three products. I think we are trying for a few other FTFs. They're all in the initial stage. But any of those filings will be happening on the financial year '24-'25. Nothing in the next four months, five months.

**Nitin Agarwal:** Okay, thank you.

**Moderator:** Thank you so much. The next question is from the line of Sagar Doshi from Fintuit Investment. Please go ahead.

**Sagar Doshi:** Okay. Sir, just wanted to ask, like, we have a good year-on-year growth. So, specific region of drivers for it. So, I don't want any guidance, but what's the sustainability of the revenue or the profit jump that we have this year? So, next year or, let's say, in the next two years, will we be at least able to maintain this rate or what would it be?

That's the first one. Second is, how dependent are we on Rivlimed? What is the total revenue that we get from it and the growth that drives it?



**Rajeev Nannapaneni:** I think, see, Revlimid is important. For every other company, I think everybody is doing well with this product. In terms of the growth in the next couple of years, again, it's all a function of the general, what do you call it, price erosion. I think optimistically, I think it should do well for the next couple of years, '24-'25, and '26. But, again, only time will tell and how market formation happens, but that's our sense.

Regarding our pipeline, post-Revlimid, I mean, we have a lot of other big filings. I think we have spoken about them in the past. I think Semaglutide is one big filing that we have. I think another good product that we have is Olaparib. These are all products which are under review at this time. So, we'll see how things go. But I think our sole FTF pipeline is in public domain.

We have Bosentan, we have Carfilnat, so we have Ibrutinib, so Erdafitinib. So, I think these are all very good filings, and I think some of them are already approved, and some of them are under review. So, I think we are very clear where the growth is going to come from, and I think we have lined up our core manufacturing, and we also have a backup strategy for all manufacturing.

I think company strategy has always been to have two sides for all important products. I think this has been ingrained in our system for the last five years, six years. So, I think in that sense, I feel secure about the filings, and at the same time, I also feel that there is a reasonable amount of upside in the future.

**Sagar Doshi:** Okay. So, can you just tell me the percentage that Revlimid contributes as on today?

**Rajeev Nannapaneni:** I didn't understand, my friend. Can you say that one more time? I'm sorry.

**Sagar Doshi:** The revenue percentage that we generate from the Revlimid sales as on today?

**Rajeev Nannapaneni:** Revenue percentage, generally we don't give sale numbers, my friend. I think generally we don't for competitive reasons. Obviously, it is impactful. I'm not going to say it has a reasonable impact, but I think it does.

**Sagar Doshi:** Got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Aman from Astute Investment Management. Please go ahead.

**Aman Vij:** Good morning, sir. My first question is on our USA portfolio. So, you have talked a little bit on the Semaglutide side. If you can just talk about the impact of this product. Will it happen in the next two years-three years, or do you think it is five years away? And the more important question on this part is also, there is this Semaglutide opportunity that is coming sooner. So, are we going to participate in this Victoza and kind of opportunity, sir?

**Rajeev Nannapaneni:** I don't have a filing on Victoza. That's the easy answer. We don't have a participation. I don't even have a filing. So, I think we are not participating in Victoza. Semaglutide, it's early days, my friend. I think the reviews in early days, the patent litigation in early days. As you know, this is a very good product. It's done extremely well. You are aware of that. So, I think we are very excited about it whenever it actually happens. I just found it to be very premature to give a



timeline. I would refrain from doing that. Once it develops, I think we will give you some time to come. As of now, it's too premature.

**Aman Vij:** Sure. You missed that part on the Saxenda. On that, are we planning or have we filed?

**Rajeev Nannapaneni:** Which product? I'm sorry?

**Aman Vij:** Saxenda. Victoza, you said we are not doing Liraglutide, but Saxenda.

**Rajeev Nannapaneni:** I don't know this product my friend. I -- it's not in our -- it's not that we have -- nothing I have disclosed. We only disclosed Semaglutide. We have done both Ozempic and Wegovy. I think that's what we have done. The diabetes and weight loss.

**Aman Vij:** Both are through Viatris relationship only?

**Rajeev Nannapaneni:** Yes, yes, that's -- that Viatris is our partner on this product. Yes. Correct.

**Aman Vij:** In both the cases?

**Rajeev Nannapaneni:** Yes, that's correct. Absolutely correct.

**Aman Vij:** Sure. My second and final question is on Humira, sir. Is there any -- given it is becoming off patent just few months back?

**Rajeev Nannapaneni:** These are not my products my friend, these -- Humira is -- you said Humira right, it's a monoclonal antibody, it's not in our pipeline.

**Moderator:** The next question is from the line of Chetan Doshi.

**Chetan Doshi** Congratulations for the good set of numbers. My question is that this agri business. You said it is seasonal. So first half you have done almost INR100 crores. The question is how much is this contributing to net profits and what are your targets for the next financial year where we want to grow as far as this product line is concerned?

**Rajeev Nannapaneni:** I think we have a very good pipeline. So I think this year, it will -- we'll have some sale in the Rabi. So usually it's about 60-40 split. So I think 60% comes in kharif and 40% comes in Rabi so I think that's where we are. This product -- this profit right now is on the lower side. Earlier it was not profitable, now it's profitable. It's on lower side because we had a lot of high-cost inventory from the earlier years which we couldn't sell for a long time and finally, we're able to get rid of it as we speak.

I think the costing has gotten much better now. I think there's good diverse set of raw material supplier. You will see a very good profit run in the next year. I think that's what our expectation is. In terms of growth, I think we'll probably settle between INR150 crores to INR200 crores in this financial year. On that, I think we are targeting that we should grow compounded by another 25% in the following year based on the pipeline that we have.





- Moderator:** The next question is from the line of Ketan Athavale from RoboCapital.
- Ketan Athavale:** I just had one question. Is the current quarter EBITDA margin sustainable in the long run?
- Rajeev Nannapaneni:** I've said -- I've already answered the question. I'll repeat my answer one more time. I think the current quarter EBITDA will not be -- the next quarter will not be as strong as the current quarter, but it will pick up starting from March again.
- Ketan Athavale:** This was for the consol level?
- Rajeev Nannapaneni:** I'm sorry, say that again.
- Rajeev Chebiyam:** Consol level. Yes.
- Rajeev Nannapaneni:** Yes. Yes. Consol level. That's correct.
- Moderator:** The next question is from the line of Ritesh Oswal: from Opal Industries.
- Ritesh Oswal:** Congratulations for good numbers. Please provide some colors on inorganic growth acquisition?
- Rajeev Nannapaneni:** Inorganic growth. Good question. I mean, we're looking at opportunities all the time. So we are opening up subsidiaries in multiple countries. Our cash has improved dramatically now. I think as of December -- I mean, your -- already the numbers are there on there, but I think we received a reasonable amount receivable. So as of October 31, we have almost INR1,657 crores in cash or cash equivalents. And we have about INR108 crores of foreign bill discounting borrowing. So net cash level, I think we're almost at INR1,550 crores.
- So I think our cash would have increased and going forward by end of the year, also, I think it will go up reasonably well. So I think we have the cash. We're looking at opportunities. I think we're just trying to see what the right one is. But I think certainly, I think we're looking at. Yes, as of now, I don't have any deployment plan. But yes, I think we're looking at different options.
- Ritesh Oswal:** In antibiotic sectors?
- Rajeev Nannapaneni:** I'm sorry?
- Rajeev Chebiyam:** Antibiotic.
- Ritesh Oswal:** In antibiotic sector?
- Rajeev Nannapaneni:** Antibiotic, you said? No, no, no, not antibiotic. No, not in antibiotic. No.
- Moderator:** The next question is from the line of Yajash Mehta from Kotak Mahindra AMC.
- Yajash Mehta:** Just wanted to know, obviously, you mentioned that the September quarter is expected to be weak -- the December quarter is expected to be weak compared to the September quarter and you'd be expecting a recovery in March. How do you see H2 post vis-a-vis H1 going forward?



- Rajeev Nannapaneni:** So could you say that -- I understood most of it. I didn't understand the last sentence, last -- can you say that one more time please, the last sentence what is it...
- Yajash Mehta:** Yes. So how do we look at the second half of the financial year compared to what we've seen things. How do we see things pan out for the first half of the financial?
- Rajeev Nannapaneni:** I mean I said December will be a little on the weaker side and things will pick up March. I think we have given a guidance that -- I've given a range guidance, I think our expectation is that we'll do more than INR1,000 crores -- between INR1,000 crores to INR1,200 crores of PAT this year.
- Yajash Mehta:** Okay.
- Rajeev Nannapaneni:** Exact numbers and all -- I mean and I don't have a crystal ball my friend. I can only make an estimate on how things are. But I think that's our expectations. Yes. Yes. Okay.
- Moderator:** The next question is from the line of Saumil Shah from Paras Investments.
- Saumil Shah:** Sir, as we know, there is a fixed percentage for Revlimid sales for each year that we can do. So can we know for next year, this percentage will be higher than the current year or it will be similar to the current year?
- Rajeev Nannapaneni:** It will increase my friend. It will increase.
- Saumil Shah:** And...
- Rajeev Nannapaneni:** It is all in public domain. I think it will increase to almost -- by end of the term, it will increase to almost one third of the total sale of the innovator.
- Saumil Shah:** So next year, we can go up to one third?
- Rajeev Nannapaneni:** No, no, no. By end of the term, by end of the term, it will go to one third.
- Saumil Shah:** Okay. And when is the end of the term?
- Rajeev Nannapaneni:** I think by -- in the next -- I think by 26th March, I think 26th January I think...
- Rajesh Chebiyam:** Yes. Yes. It's all right. Yes. 2025 end.
- Saumil Shah:** Okay. So -- and currently, can we know, I mean, how much of that -- I mean, if it goes to one third, currently, we are at single digit? Or how is it?
- Rajeev Nannapaneni:** I generally don't give that information my friend, we generally don't give yes, it is bound by confidentiality. That's all we are allowed to say.
- Saumil Shah:** Okay. And can we know this is the second year for this product for us?
- Rajeev Nannapaneni:** Yes. Yes.



- Saumil Shah:** Second year. Okay. Okay, that's it from my side, yes.
- Moderator:** The next question is from the line of Yash Malhotra from JM Financial.
- Yash Malhotra:** Sir, if you could throw some light around the volatility and litigations in the U.S.A. As per my knowledge, you currently have another one in New Jersey filed yesterday.
- Rajeev Nannapaneni:** Which particular product?
- Yash Malhotra:** The same one an antitrust case.
- Rajeev Nannapaneni:** That we've already spoken, and I think we are defending our position. And I think we believe that the lawsuits are without merit.
- Moderator:** The next question is from the line of Hussain from Carnelian Capital.
- Hussain:** Just wanted to understand, apart from CTPR, we have some other products in pipeline in the agrochem side, so can you give some color on those products?
- Rajeev Nannapaneni:** Generally, we don't give a pipeline until it is at a mature -- where we're very close to marketing approval. But we have a very good pipeline. We're expecting at least 2 to 3 unique products in the next 12 to 18 months in the agro division.
- Hussain:** And secondly, we were doing some relaunches of our product with our subsidiary Dash. So any progress on that front, if you give some highlight on...
- Rajeev Nannapaneni:** Your -- is your question that you have launched some older products through Dash Pharmaceuticals is -- our wholly owned subsidiary. Is that the question?
- Hussain:** Yes, yes, yes.
- Rajeev Nannapaneni:** Yes, we have launched, yes. We have launched some products. It's doing reasonably well, but still a business that is losing money at this time because it's still in early stage. That's the only subsidiary that loses money. Otherwise, the -- all other subs make money. But it's a journey so it will take at least 1.5, 2 years before excessive turn. We just acquired it so I think -- and lot of the pipeline that we have is older pipeline so it is not such a profitable portfolio but I think over a period of time, I think we should be able to introduce new products and newer launches where it will turn around.
- Hussain:** And lastly, on the domestic front. So on the onco side, how is the business is shaking up, can you give some color on the overall domestic business?
- Rajeev Nannapaneni:** I think domestic has been stable. I think if you will look at it, I think we have done well. If you look at our half year numbers, I think we have grown around 10%, 12%. So I think it's fairly stable. I think I'm happy where we're going. Unfortunately, only missing piece is that we have done an acquisition, which we have been talking -- valuations, but yes. But otherwise, the business has been stable.



**Moderator:** The next question is from the line of Marsal.

**Marsal:** Yes, just going through this current investment, we have portfolio about INR305 crores and hardly about INR20 crores -- INR21 crores is only invested in the equity or the growth mostly in mutual funds. Remaining our almost, you can say, INR284 crores, which is more -- which is about, you can say -- which is about 92%, 93% is invested in the bonds or debentures yielding hardly 8% return. You know that like our inflation is 7% plus like. So like getting 8% return is like nothing. So -- and if you also see this for example market perspective, even the provident fund or the government provident fund or the PF trust they are also like allowing up to 15% investment in the, like you can say, market equity oriented. So, like...

**Rajeev Nannapaneni:** No, no, let me answer your question, no, just -- so our portfolio -- I think let's understand what we have and what we don't have. See, what we have in India is most of it is invested in fixed deposits in banks and financial institutions. Our average yield is about -- it depends on its tenure, but average yield is about 7.5% to 7.75%. I think that's what the average yield is for the India rupee deposits. But we also have cash in our offshore sub, which is giving a return of about 5% to 5.5% because dollar deposits only give you that much. So I think that's the -- where the variation is coming from. I can assure you; I think this is probably the most conservative investments we have done, and we have not -- we are getting a reasonable return for the cash that is there. I think that's -- yes, that's it.

**Marsal:** No, no, actually the point is that currently, we have invested only 7% in the growth oriented scheme predominantly the shares of Laurus Labs, What we are, like, suggesting that if you can increase this threshold, say, from 7% to 20%, 15% in the equity, because, like, the way the market is now booming and the way this, like, India macroeconomic factor, like, it will be \$7 trillion economy, so I think equity is doing, like, reasonably good, whereas we can fetch 22% to 25% return per annum. So, if you could consider, like, this allocating, like, bigger chunk for the equity, I think it will increase the stakeholder value.

**Rajeev Nannapaneni:** I understand your question. Now I understand what you said. See, the thing is, our equity exposure is very low. I think our equity exposure is only 5%, 6% of our total cash exposure. Laurus and all, because of a relationship, we bought them at the IPO. Those shares have been there for many years. It's -- I mean, our job is not to do equity stock market investment. Our job is to invest in pharmaceutical research and pharmaceutical manufacturing and pharmaceutical acquisition.

I think that's always what the -- our mandate is. I think that's what we're looking at. If we don't have a great idea, we just put it in fixed deposit. I think that's what we actually do. I agree with what you're saying, but again, I also disagree with you because the mandate is very clear that it has to be invested in our core business not in equity. Thank you.

**Marsal:** No, sir, I respect it, but let me just add something more here. The mandate we respect, the only thing we are saying that, like, I'm not saying to go into, like, this pure equity. We can go through the mutual fund growth scheme and those are liquid also. Suppose, for example, if you go to any target to acquire something, then this investment in mutual fund can be liquidated within three



days' time maximum. So, like, there's no, like, issue that, like, there's no barrier that the funds will be blocked forever. No.

So, like, because the point is that if you invest in equity growth scheme of mutual fund, you will get a dividend also, plus there is market is booming, so we'll get, like, our NAV will also be higher. So, if you could consider to invest through the mutual fund route, wherein we will not be bothered day-to-day, like, about the market, like, this ups and downs. Just, like, let mutual fund work out. So, just be considered to hike to some more exposure in the mutual fund, please.

**Rajeev Nannapaneni:** Yes, sir. I think we will consider what you said and I think maybe we can consider an exposure, but as of now, I think, Yes, let me, we'll just have a review and then we'll come back with some thoughts, Yes. Thank you.

**Moderator:** Thank you. The next question is from the line of Rishikesh Patole from Batlivala & Karani Securities. Please go ahead.

**Rishikesh Patole:** So, just last year, same quarter, was pure base business without revenue and even without the aggregate scale-up and we had reported margins in the range of around 22%. So, is that the right way to look at the business ex-of revenue?

**Rajeev Nannapaneni:** I mean, yes and no. I mean, it's a very complicated question what you're asking. When we have good revenue, we also spend more on R&D as well, right? So, I mean, we, and when we have, it's -- I mean, I can't answer your question, honestly. It all depends on, see, we budget based on our surpluses and we plan our R&D investment based on that. So, if you -- and your R&D is measured based on -- I measure, I pay for my R&D costs, what it will spend based on, how the surplus is going to be. So, I, honestly, I can't answer your question, my friend. I do not know how to answer your question. Thanks.

**Rishikesh Patole:** Just to -- what was the R&D number for 2Q, this year?

**Rajeev Chebiyam:** I don't give for quarter-to-quarter. Generally, like last year, 8% to 10% of our revenue is spent on R&D, that's correct.

**Rishikesh Patole:** And that would be the same trend going ahead?

**Rajeev Nannapaneni:** I think we're maintaining the same flow, yes. Correct.

**Rishikesh Patole:** Yes, sure, that's it from my side.

**Rajeev Nannapaneni:** Okay, thanks.

**Moderator:** Thank you. The next question is from the line of Ketan Athavale from Robo Capital. Please go ahead.

**Ketan Athavale:** Thank you for the opportunity. Sir, I'm new to the company. So, can you just outline how have we doubled the margin percent year-on-year? And you said that after, I mean, in Q4, we will pick-up the margins again. So, will the margins sustain in the subsequent years?



**Rajeev Nannapaneni:** I think we have spoken about it in the past. I think, I mean, short answer is that, yes. I think based on our product launches and based on the expectation of the price erosion, yes. I think that's we expect at least for the next couple of years based on the pipeline, I think we should be able to hold up, yes.

**Ketan Athavale:** And what has led to increase in margin over last year, Q-o-Q?

**Rajeev Nannapaneni:** I think we had some good launches. I think we had a [inaudible 0:37:15] doing well. Our agribusiness is doing well. I think Revlimid also has done well. So, I think all of them together has helped -- improved our margins.

**Ketan Athavale:** Okay, got it. And this cyclicality, I mean, is this a seasonality that the margins will go down in Q3, or is this only for this year?

**Rajeev Nannapaneni:** I mean, I can only, I can't talk about every year. I can only talk for this. I can only tell you what's happening in the next quarter. I think the gentleman asked, how will your Q3 be compared to Q2? And I think we have said that Q3 will not be as strong as Q2. But however, things will pick-up from Q4. I think that's what we have said. And we have set the guidance for the year. And I think that number, I think we already set. That will be between INR1,000 crores to INR1,200 crores PAT. That is what we have said. I think that's what we'll end up with for the year.

**Ketan Athavale:** Okay, so can you give PAT guidance for next year also?

**Rajeev Nannapaneni:** I don't want to give right now. I'll give you closer, I think, if I have -- let me see how the year goes. And I think closer to the end of this financial, I think we'll speak about that. Thank you. Okay.

**Ketan Athavale:** Got it. Thank you.

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

**Nikhil:** Yes, hi. Good morning and congrats for a good set of numbers. Two questions, Rajeev. One is on the domestic piece. Now, probably at the current run rate, we are back to where we were three years or four years back when there was the price hit and everything impacted the domestic business. But in the interim, we had launched some more products and we had launched into, I think maybe if I'm not wrong, around 10 products to 15 products we have launched. How do you see the domestic business growing organically for us from here? Would it be more driven by more new launches or do you think that the current launches or pipeline which is there in the market has seemed to scale up? That is one.

And second question, if you can spend some light on, see, if you look at it, since the Revlimid revenue has started coming in, our R&D expenses have increased significantly. And I know this R&D investment will basically help us provide us a pipeline for future. But if you can just share, how should one understand this pipeline evolving? So is it like, are there a large number of opportunities which are like a \$1 billion or \$500 million kind of opportunities which we are



targeting? Or are these opportunities where they would be needed for a clinical trial, such kind of opportunities?

And once Revlimid goes off, probably by FY '25, FY '26, would this R&D spend taper down significantly or how do you think about the investment in the R&D over the next two years, three years?

**Rajeev Nannapaneni:**

Okay. The way this business works is whatever money you make, let's start with the domestic. Domestic is going reasonably well. I think organically our expectation that we go around 8% to 10%. And if you're able to add an acquisition, then obviously there will be a higher growth. Regarding R&D money, I mean, without spending money on R&D, you cannot build a pipeline. I think whatever this pipeline that we got is because of the money that we spent.

And I think a good amount of surplus that you're generating, you put it back in R&D so that we can sustain for the future. And I mean, our first fives are already in public domain. So I think, I -- so they have, obviously the timeline, so when they'll actually happen, it all depends on the patient's get outcomes.

To answer your question, do we have a pipeline for '26? Yes, of course we have. And I think we have a lot of products. They'll all come at different times, but we are excited about what we have. The question is, if you have more ideas like, which are highly valuable, which can give very large amount of revenues, the answer is yes. I think, see, I tell you, it's a very simple business in a certain sense. I mean, if you do four or five of these in the next seven years, eight years, I think you're set. You don't have to deliver many of those. I mean, you can deliver three, four complex products. I think you're set.

This business, I believe if the big things are right, at least three, four big things are right, you're probably covering 50%-50% of your EBITDA. Maybe sometimes you might have shortages and maybe you might come across a little bit of a -- the only way this business works is only two ways. One is you do the complex and deliver those. And two, you do a global strategy where you do an R&D and you do as many countries as possible. That's the only way you build a sustainable model. Otherwise, it doesn't work.

**Nikhil:**

Rajeev, one question.

**Rajeev Nannapaneni:**

Answer your question?

**Nikhil:**

Yes, Partly, and what I'm trying to understand is, see, last 15 years, 20 years, we've built a model around finding these kind of opportunities and going for it. But over longer terms, as the complexity increases, say, more products or more launches going towards biosimilar or such kind of products, would you say that at some point as a company, we would have to move towards -- we would have to change our business model or we would have to keep on moving up the value chain. How do you see over a longer term? So probably, next five years, this model can sustain, but over...



**Rajeev Nannapaneni:** See, there are enough opportunities in the area that we're doing. We also do a lot of peptide chemistry. We do a lot of complex oncology products. We do newer forms of -- new types of chemistries, which a lot of people are not doing. So in that sense, there is still a little bit of play available in the complex genetic space.

Regarding biotech, which is a separate question, it's a skill set we don't have internally, I think. I'll be honest with you. We're trying to build it through small investments, opportunities. But again, it's a skill set I don't have. There are enough opportunities in the setup that we have.

So I don't think there are lack of opportunities based on the way we look at it. But however, saying that, obviously, biotech is the future. I mean, it's just not monoclonal antibody. You have CAR-T Therapies, you have Gene Therapy. There's a lot of things that are happening in the pharmaceutical business that you can participate in. And these are the technologies of the future. I mean, you need to be part of these. I agree with what you're saying. How would you participate?

I mean, that's the question that you might ask. I think at this time, my personal view is that we don't have the skill set internally. But if somebody is doing it, maybe we can probably collaborate with them by investing or co-investing. I mean, for example, I would say... and again I'll give an example of one of our friends. I mean, for example, Laurus Labs has an investment in an IIT Mumbai startup. And they recently got approval for a CAR-T launch for an oncology product.

So, I mean, something like that, I mean where you take a substantial minority in state and you participate in the upside. So, there are different models. I mean, you can weigh them. Or in the ideal world, you want to own 100% of it and do it. But again, you have to weigh whether you can do or deliver or whether you want to do a collaborative approach. But I mean, that's how you want to look at it. Okay?

**Rohit Bhatt:** As a percentage of our current R&D investments...

**Moderator:** Thank you so much. The next question is from the line of Robert Joseph.

**Rajeev Nannapaneni:** Okay, fine. You can conclude your question.

**Moderator:** The next question is from the line of Robert Joseph from Retail Investor. Please go ahead.

**Robert Joseph:** Yes, sir. Congratulations for the good set of numbers. And especially growth on the agrochemical business. Sir, actually, I have only one question. During your last AGM, you were answering a retail investor. During that time, he was asking about the... Because our market cap was consolidating for the past five to six years in the same space.

So, is there any action you are going to take regarding the increasing of the market cap of the share? You told that time that you may consider issuing a bonus for the last time, sir, in order to reward them. So, do you have any ideas still regarding this issue of bonus, sir?

**Rajeev Nannapaneni:** As of now, no, my friend. I can't answer your question at this time. We look at different options. We have done a buyback. We have reduced equity by about 2%.





**Robert Joseph:** Okay, sir. Thank you, sir.

**Rajeev Nannapaneni:** We have given a reasonable amount of dividend. And I would like to say that our financial performance has been very strong. And as I also said, we have a good amount of cash in our books. The company is in the pink of health. So, beyond that, I can't answer your question I mean, Yes. But I think you just have to articulate our position that this is what we are doing. And this is the pipeline. And this is how we are going forward. I think that's all I can do.

**Robert Joseph:** Thank you. Thank you.

**Moderator:** Thank you. The next question is from the line of Harish Swaminathan. Please go ahead.

**Harish Swaminathan:** Thank you, Mr. Rajiv. I really admire your stewardship of this company. And I'm very proud to be a very long-term shareholder. Just two points I wanted your view. One relates to buyback and one relates to dividend. Now, the last buyback was on the market method. So, long-term shareholders didn't really benefit out of it. Though the equity capital came down, so our holding became more powerful. But the tender method would have been much more beneficial for long-term shareholders. Because A, you get the money. B, it is tax-free. And C, it is very equitable.

So, considering that you earn 7% to 8% on your INR1,600 crores. And considering that you might not need that entire amount for a potential acquisition. So, in case you are considering any future buybacks, particularly if you can time it with respect to this Q3 seasonality, so that people who are not really believing the company can, of course, pay the price. Now, the tender method of buyback, I feel, could be considered. Many progressive companies are doing that, including Infosys. And recently, Granules did it. So, it's like a form of dividend, but it helps us, number one. And there is a time limit that is now over for you to consider the next buyback. But I leave it to your better judgment.

And the second point is on dividends. Now, I understand that we want to, at some point, even out this seasonality thing. But you see the way we pay out dividends. We pay much less dividends for Q2 and even less for Q3 and very high for Q1. Because that's where your good revenues come in. Now, one way would be, just my thought, is to, as a measure of establishing our intent towards removing the seasonality, to look at the dividend in a more equitable or equalized manner.

Because otherwise, what happens is today, many in the market think that nothing, a positive shock is not going to come for the next three months. So, people trade in and out. Whereas very long-term shareholders like us, we bear the pain and we hope for a better tomorrow. But we also bear this pain because of the seasonality thing. So, these are my two thoughts. And I once again want to put on record my admiration for your integrity and the way you have handled this entire piece. Hats off to you. Thank you very much.

**Rajeev Nannapaneni:** Thank you, sir. Thanks for your kind thoughts. I will take both your suggestions under advisement. I think in the future, if at all, we consider a dividend payout. And or a buyback, I will defiantly way on your suggestion and we'll do what inside support for shareholders., okay.



- Harish Swaminathan:** Thank you.
- Rajeev Nannapaneni:** Thank you.
- Moderator:** Thank you. The next question is from the line of Saumil Shah from Paras Investments. Please go ahead.
- Saumil Shah:** Sir, as you mentioned that Q3 won't be as strong as Q2. But if we compare it as I mean, Q3 to Q3 of previous year, can we expect growth in that term?
- Rajeev Nannapaneni:** I don't want to answer that question, my friend. Let me just see how this quarter goes. It's so early to answer that question. I think I can't answer that question. I'm so sorry. Let me just see how the... Because I'm right halfway into the quarter. So I don't know how the orders will be booked. So, I think... I can't answer that question. I'm sorry. I refrain from doing that. I'm just premature, Yes. Thanks.
- Saumil Shah:** And one more suggestion as the previous participant. I mean, in future, if we do a buyback, please do it through shareholder. So that shareholders could benefit and not through the open market route.
- Rajeev Nannapaneni:** Got it. Got it. I'll take that under advisement. Absolutely.
- Saumil Shah:** Because in last five, six years, I think our market cap has been stagnant. So, shareholders have not benefited. Yes.
- Rajeev Nannapaneni:** Absolutely. I'll take that under advice.
- Saumil Shah:** Since we have so much of cash in hand and if we don't have any opportunity for acquisition, then please do a buyback in this way.
- Rajeev Nannapaneni:** Yes, sir. Absolutely. I'll take that under advice. Thank you, sir.
- Saumil Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Oswal from Opal Industries. Please go ahead.
- Ritesh Oswal:** Thanks for the opportunity. What's your view on carbohydrate chemistry? Are we entering in this phase?
- Rajeev Nannapaneni:** I'm sorry. What chemistry?
- Ritesh Oswal:** Carbohydrate chemistry. Are we entering in this?
- Rajeev Nannapaneni:** I don't know. I don't know what that means. But I'll just have an evaluation from a technical team. We are not in – not them -- I'm not a technical person, my friend. So, I'm sorry you caught me off guard. But I'll just check what this means. I don't know what it means.



- Ritesh Oswal:** Okay. I'll send you an email.
- Rajeev Nannapaneni:** Okay. Thank you. So, I'll take the last question for today.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.
- Rajeev Nannapaneni:** Thank you. Thank you so much. Thanks for your comments and thanks for your questions. And I appreciate the suggestions given. And we'll take that under advisement when we make our next set of decisions. Thank you everyone. Thank you.
- Rajesh Chebiyam:** Thank you all. Have a good day.
- Moderator:** On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.