“Natco Pharma
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of NATCO Pharma hosted by Investec Capital Services. 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 Ms. Swapna Bandekar from Investec Capital Services. Thank you and over to you, Madam!

Swapna Bandekar: Thanks Jacob and good morning everybody. Firstly let me apologize for the delay. We were facing some technical issue on our side. Having said that I welcome all to the Q2 FY2022 earnings call of NATCO Pharma. We have with us the management of the company Mr. Rajeev Nannapaneni, the Vice Chairman and Chief Executive Officer. Joining him is Mr. Rajesh Chebiyam. He is the EVP, Crop Health Sciences. Good morning gentlemen and I now hand over this call to Mr. Rajeev to make the opening remarks post which we will begin the Q&A session. Thank you.

Rajesh Chebiyam: Thank you, Swapna. This is Rajesh. Good morning and welcome everyone. Again apologize for the slight delay in the call. Welcome everyone to NATCO's conference call discussing of our earnings results for the Q2 of FY2022, which ended September 30, 2021. Again as a disclaimer, 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 the future must be reviewed in conjunction with the company status, but it is to read that the material of this call except for the participants questions in the property of NATCO and cannot be recorded or rebroadcast without NATCO's exclusive written permission. We will begin the call with results highlights and followed by an interactive Q&A session. Again we hope that you received the financial and the press release that was sent out earlier. It is also available on our website.

So NATCO recorded a consolidated total revenue of Rs.415 Crores for the Q2, which ended on September 30, 2021 as against Rs.827.94 Crores during the same quarter the last year. The net profit for the period on a consolidated basis was Rs.65.1 Crores as against Rs.203.9 Crores same period last year. The decline in revenue and profits compared to last year quarter is primarily due to a one off contribution that we had in the last year's earnings. The company is poised for growth during the latter half of this financial year and confident of a strong rebound in business. During this quarter, the Revlimid in Canada were launched, the revenues from these products will be realized in the immediate quarters. The company is well prepared for its major launch of Revlimid in USA during Q4 of this financial year. Segmental revenues split for the quarter as we have disclosed ATR stood at around Rs.76.3

Crores. Formulation for domestic of Rs.99.8 Crores. Formulation for exports which includes profit sharing and also the foreign stocks around Rs.190.5 Crores. Other operating and non operating income stood at Rs.45.1 Crores, crop health prices around Rs.3.5 Crores for the quarter. Thank you all. We will take the questions now.

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

Sameer Shah: Good morning. The first question is on the base domestic business? What are the growth drivers from here in terms of say product launches, etc.? We are clocking Rs.100 Crores a quarter so what are the plans in terms of launches?

Rajeev Nannapaneni: We had some good launches Sameer. I think we have lined up a couple of good oncology launches that we are having this quarter. We are launching the Cabozantinib in this quarter in Q3 and we are launching tablets and we are expecting approval of Molopiravir this quarter that is going to be a big one so not only it will contribute in domestic it will also contribute in the export business so that is probably going to be the large I think in terms of high impacts Molopiravir will be a big one I think in this quarter. The only thing is that DCBI should clear the file in the next week. We are expecting a meeting next week and hopefully if everything goes well we should be able to launch in the month of November. I think that is my expectation.

Sameer Shah: The patent thing with centralized patent pool that is done or that is also something?

Rajeev Nannapaneni: We have applied Sameer so what we have done is as of today there is no patent granted so while we apply to medicine patent pool and we are expecting a license. I think that is our expectation.

Sameer Shah: On the agrochemical side how is the thing doing? We have launched pheromones and we saw that some announcement by the Punjab Government that they are going to try out pheromones for this rabi season or something?

Rajeev Nannapaneni: We have done I think Rs.3.5 Crores so the primary is driven by that product that we have used for cotton. Right now the farmer is not, I think everybody is not aware of the breeding product awareness. Probably the brand will take some more time to grow and regarding Punjab and all we have heard about it, but we have not seen any orders.

Sameer Shah: Thanks and the second question is on gross margins of 75% this quarter so what led to the drop and will US launches take it up again or there was some excess only this quarter?

Rajeev Nannapaneni: We did not have any great triggers, gross margins are on the lower side, but I think we have launched Everolimus on October 1, 2021. We are in the stocking quantity of Revlimid in this quarter so I think hopefully we will start seeing some sales in Q3 and Lenalidomide also we launched it in September 1, 2021 so I think now we have bid in the tenders and all. The benefit of that I think will play out in the next couple of quarters so overall I think these two launches are going to be very good launches and obviously we molnupiravir coming up so that will be a very good launch not only in India, we are expecting a reasonable set of orders for export. It will be very comparative but I think the pie is large enough and hopefully we will be able to do reasonably do alright and then of course we have Lenalidomide coming up Q4 so I think overall I am positive. I think we will pick up as we go along in Q3 and Q4.

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

Ankush Agrawal: Thank you for taking my questions. Sir can you talk about the market formation for Rev Revlimid in Canada in terms of pricing competition and how best is the opportunity for us?

Rajeev Nannapaneni: It is a good product. I do not want to say anything right now because it is preliminary stage. I think we should do well. I think I was interacting with my sales team yesterday on the phone. I think our sales team is very comfortable that they will do well with the product. What market share and what price and all, I think it should do well because I think will not be like a regular generic but we have to see. At this time, it is premature. I think if you ask me this question at the end of Q3 I think I will give you a better sense of where we are and how much revenue we are making but as of now it is premature. My sense is that we should do alright.

Ankush Agrawal: Right and second one the Revlimid in US can you provide the split between latest trend because Dr Reddy has got the final approval to put 520mg strength and they are going to launch I think before us?

Rajeev Nannapaneni: For the two strengths, is that the question? I think for those two strengths your question is if I understand correctly they got approval for 2.5 and 20 mg and we do not have this good approval. We have first to file on 5, 10, 15, and 25. They have first to file on 2.5 and 20. We have full approval for the strength where we player and we have tentative approval for the strength that Reddy's have full approval so we have to wait for Reddy's launch and we can launch after that. I think that is my understanding of the situation.

Ankush Agrawal: That is the right understanding. I wanted to understand how the market is split between this strength?

Rajeev Nannapaneni: I think the majority from the top of my head, I do not recollect but I think if I were to make, I do not want to speculate, but I will say 90% of the strengths are covered with us, more than 90% of the share roughly. Do not hold me to it, but I think it is in that ballpark.

Ankush Agrawal: Thank you.

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

Prakash: Good morning. The question again on the Canada Revlimid launch you spoke about feeling good about the market share and perks, etc., if you could help us understand how does this work in Canada? US is a totally different market where you have a partner so this we are partner and what is the market opportunity we are talking about?

Rajeev Nannapaneni: Here we are not partner so we are doing it ourselves that is the first clarification I am making. The second thing is we are doing it ourselves so all the economics are coming to us directly that is second point. In terms of Canada what is happening is that I will tell you what is happening. We did four generic launches Sando, NATCO, Reddy's and Apotex. Apotex has their own rems program. Reddy's have their own REMS program. Sando and NATCO product is on the innovative reams. We have decided to go in the innovative rems program so we are getting good traction. I think there are some people who do not want to change. They are comfortable continuing with innovative there so that businesses are able to get so that is how the market is.

Prakash: Sir on the size of the constituent and branded if you could help with a recent break it up whether it is $10 million product for us or it could be higher just on the market size what would be the market size?

Rajeev Nannapaneni: You are only speculating Prakash. Now you asked me a question that I do not have an answer to because the problem is I have not covered properly because it is such controlled distribution. The sales numbers are not known. The Revlimid the innovator does not disclose the sale. Based on that only I am able to estimate and if you IMF numbers and if you look at balance sheet their numbers they are always very different so if you were to make an estimate I think the sale is probably like $400 million to $500 million. I think whatever that probably the document or estimate. I think it is probably around that side so I think that is on the trial. How much market sale will we get Prakash I think it is doing well I

will say that and I think the benefit of that you will see in the next three quarters. I think that the numbers that you are speculating to get those numbers, I think I will be very happy. I am honestly if we make $10 million it will be extremely happy, but will we make it, how much will we make and all that I think only time will tell. You ask me this question next quarter, I think you will get a better feel for it. Then we will already be four to five months into the launch then we can probably make an estimate of how we are going to do. As of now, I cannot answer your question better. Overall, I think we are positive. I think our sales team is positive. I think we should get good market share.

Prakash: The next question is on the base business so we have now a good cash balance available and we expect it to have very, very strong cash flow, I am sure you have evaluated a lot of assets is there any progress on that side whether you want to add something which is more continuity business and have stable India or something like? Is there anything else there anything you have identified within India? Are we anywhere close to closing anything?

Rajeev Nannapaneni: Prakash I think I have said this. I will repeat it again. I think there are two weaknesses that our business has that are the elephant in the room so I will say the way it is. One is that we need to have a steady branded generic business which we do not have a larger size compared to our listed peers. The second is we need to have patent in the US and I think I have told you in the past that we are looking very and obviously are those are at a critical stage so we have not closed anything as of now because there is nothing to report at this time, but we are striving to get a front end into the US and hopefully we will be able to close the transaction and again we are shopping for a branded generic portfolio either in India or in the other market. I think these are assets that we are shopping for, but I also want to say something that we do not want to do a deal in a hurry whereas the overpay for an asset and I also mentioned this in the last conversation. Assets in India run way dramatically. I prefer to do a smart deal rather as suppose to a bad deal. You want what I mean by that. I do not want to put a time line on this, but very clearly I think we have time. I think we will do it. I am very clear that we have to do it and we will do it but we will do it with a right aspect.

Prakash: Perfect. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Rahul Deera from Abacus. Please go ahead.

Rahul Deera: Rajeev so a couple of quarters we have been watching whether it is a case of patent against the FMC for our agrochemical molecule or the recent most against the Novartis the entrance into molecule? Are you losing out on lot of cases in terms of patents? Any thought to say

that they are like has the R&D strength weakened recently or what is the thought process there now a lot of cases have been against us?

Rajeev Nannapaneni: I will tell you something. When you do these things you get some right and you get some wrong. I think that is how we have to look at this. I cannot guarantee you success. All I can do is I can tell you what our standard view is. Even like the two cases that you have eluded to is, it is obviously the reversal, but again I will give two successes of us. This is a good sector that we have had. They did extremely well in the pandemic. We have launched another product called Baricinitib during H2 and we are hoping that we will also settle with molnupiravir. When you roll the disc I am telling you that you are going to get half of them wrong and I think you cannot sort of start offsetting too much about it. I expect every one success. Revlimid was a success in Canada so I mean you are going to get some right. You are going to get some right and some wrong and I think that is how it is going to be and that is what we are doing and I think our pipeline is strong and to further to your point we have basically going to do two first profiles in this quarter probably shared or so. We do not know how it is going to be, but I think we are going to keep at it, but you also have to understand we follow a high risk model. You are going to get some right. You are going to get some wrong as I say you have to role with the punch. When you lose, you lose, but I think the pipeline goes and if we get even one right you are set right. In a decade I always say if we get four of these things right, the whole decade is great. That is the nature to be. I think that is the best I can answer your question.

Rahul Deera: Recently we have seen on the balance sheet kind of large buildup of the inventory so this is regarding the Tamiflu coming up or it is the Revlimid or other?

Rajeev Nannapaneni: The Revlimid does not have so much inventory. I will tell you what your. I build on all the pandemic products so we have a lot of inventory which did well as in Q1. If you see the domestic it was Rs.200 Crores in Q1 and it is primarily driven by six of that so we have reasonable amount of inventory on Apxiban and we have inventory on some of the materials and we have ordered lot of raw material and we are going to order lot of raw material now. We have inventory on molnupiravir. We have inventory on CTPR and in this case which I eluded to which is a large set of inventory so we have substantial amount of inventory and all of it is dated so I think we are comfortable. I think we believe that we are able to liquidate it. See these are again business gambles right. We expect that these launches will happen and again with pandemic what we also saw unless you have stock you cannot succeed in pandemic. We are also making a bet right somewhere in this world that there will be another resurgence of the pandemic and what we make of it by building extensively because when the demand happens, all demands happen in 45 days. If you do not have stock you cannot service the demand and very deliberately I think I would believe

I think we have overshot our inventory target by more than Rs.200 Crores to Rs.250 Crores so that Rs.250 Crores is reflected in principal and in raw material but that is the nature of the business my friend. I think we have to take the gamble. If you get one of these things right suddenly you will have a huge aspect and that is how it works.

Rahul Deera: Fair point. Thank you so much.

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

Kunal Randeria: Good morning and thanks for taking my question. My first question Rajeev is the Molnupiravir. Now several of your Indian players have also got a license and India largest company also put out a press release? They are also gearing up for launch? You seem to be very confident on opportunity so just want to understand the reason behind it? is the market big enough for everyone you think and just what is the kind of commercial opportunities that we can expect from this product?

Rajeev Nannapaneni: I think we were the first one to file for the clinical of the product. We have probably been the most aggressive in terms of the validation batch is building up inventory, doing stability and all that. We are prepared in every sense in the raw material and the supply chain and some are little confident, but the problem is the pandemic Kunal I think I would stay with a note of caution is that you will go through months when there is no demand at all or very low amount of demand. This is what we are seeing with the pandemic portfolio. When the peak demand happens it becomes 20x for whatever you are based in, but you always have a base stage which kicks around 5% and 7% of the peak demand and suddenly like in a month and half you will have a 25x demand. So molnupiravir is just not only India. I think let us not obsess too much about India. Then if we launch right now then okay it is India right so I think you will see a slow take off but the question is you position yourself promoted when the actual pandemic or the third wave or something happens then there is a sudden spurt in demand. Let us say you are getting about 10% market shares. Your 10% market share on Rs.10 Crores let us say monthly sales pick suddenly the market expands from Rs.10 Crores to Rs.1000 Crores then you have 10% of Rs.1000 Crores then suddenly you are into an interesting situation and so this business was. You have to like be promoting and be there and just wait for something to happen and the opportunity is just not India my friend. It is also outside India as well so I think if the NTP license comes through which are hoping then I think the opportunity is there and the pandemic is fairly strong outside India at this time you know that so there are a lot of opportunities. I think you have taken it as a global view and for a company of our size if I get a Rs.1500 Crores profit I will be extremely happy so I think that is where we are.

Kunal Randeria: Sure that is kind of good. Secondly in terms if you can just really guide whether you will be able to launch nexavar in the next couple of quarters?

Rajeev Nannapaneni: I cannot answer that question.

Kunal Randeria: Sir just lastly if I can squeeze in what is the cash position at the end of the quarter?

Rajeev Nannapaneni: Rajesh he is asking us what the cash and net debt is.

Rajesh Chebiyam: It is Rs.889 Crores in cash, shares and bonds. We have a debt of about Rs.346.85 Crores for which about Rs.54 Crores is bill discounting.

Kunal Randeria: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bund Institutional Equities. Please go ahead.

Vishal Manchanda: Thanks for the opportunity. A question on molnupiravir just wanted to understand if you are backward integrated to the API level?

Rajeev Nannapaneni: We have tied up all the supply chain. I think we are ready to go.

Vishal Manchanda: You will be sourcing the API from someone else?

Rajeev Nannapaneni: I do not want to reveal what we have done. What I am saying is we are ready to go.

Vishal Manchanda: Just a followup on molnupiravir so on the export to tap the export market would you need to be an authorized licensee or even if you do not have you can still tap the export market?

Rajeev Nannapaneni: I think what we are saying is that the portion of the getting the MPC license and I think which will allow us to tap on the major countries which the license is available. I think that is correct.

Vishal Manchanda: How long can that take getting that license?

Rajeev Nannapaneni: Again I have applied. I am hoping we will get it I think in the next few weeks. I think that is expectation. We will see. I think we will see but again I said we have applied and we are waiting for the outcome.

Vishal Manchanda: Sir on the gross margins you had said your profit shares during the quarter from the new launches is that right and that has lead to the gross margin decline?

Rajeev Nannapaneni: The profit share will happen in the subsequent quarters because the launch only happened at the end of the quarter.

Vishal Manchanda: But you will have profit share from the other two launches?

Rajeev Nannapaneni: No, I will tell you what it is epitonor will be profit share because the partners, levaminide will be our own sales. What we have done is only done a chart fit to our subsidiary. Once the sale is excluded in the market that is when we are actually we are able to book sale.

Vishal Manchanda: So there was no write off on inventory as such.

Rajeev Nannapaneni: As of now no, I think routine write off are there. I think that is already shown in the balance sheet to the larger bets we have made like CTPR inventory and what you call the pandemic inventory we have not done a write off yet. I think we are hoping that we will be able to liquidate. The product has dating so I think we are not in a hurry to write off. I mean the product has dating between two years to five years, so I think we will make a call as we go.

Vishal Manchanda: And on lenalidomide in Canada you said you were on the innovator range so does that adversely impact you or favorably impact you.

Rajeev Nannapaneni: It is yes or no. I mean it is one of the judgment calls. I think our Canada CEO decided to go with the innovative because he felt lot of reimbursement will be very comfortable because already it is them which is already established so there is people who want to go and do that, but obviously if you do your own drugs you will have more flexibility and consider established registered rep, but I think we have made a call to go with innovative that is the thing.

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

Rajat Sethia: Rajeev my question is, I wanted to understand what is the core profitability of our business, is it 300 Crores or is it 400, 500 Crores because one thing you have said in the past calls that from cycle to cycle we have grown our PAT from 150 Crores to 450 Crores but if we take out the one time settlement out for Revlimid Canada, seems like base is continuing to squeeze. As per the past understanding we thought it is 450 Crores or so.

Rajeev Nannapaneni: Let me answer your question. Let me be really specific of what you said and I will tell you what. Our earnings last year there is an element of that coming from the settlement, there is an element that come from the base business. I would say 2/3 of it came from the base business and 1/3 came from the settlement. I think if we look at it, we have a run rate of about, last quarter we did 75, this quarter we did 65. Let us say we keep the same run rate we will do 300 something like that. We have the initial launch of Revlimid, the question with our business is we are not like the other companies. We always bet on something unique every year. I mean this year we made a bet on CTPR and Revlimid. Looks like Revlimid is going to happen, CTPR is not happening. If you look at past five years of earning there is always an element of base business and there is always element of the X factor that comes with whatever we do. If we look at consistency in the last four to five years we are able to pull up something or the other. If you look at it initially we pulled out Tamiflu there was a few season that we benefited. Then we had the Capoxone launch then Canada had an upside and this year the US upside. This we see consistently. We are able to pull something every year consistently if you look at 5, 6 years. Before that we pulled up the SP portfolio, so I think that is the nature of our business. I mean all I can do in my calls I can tell you like this is what I am trying and this is what we are speculating and this is what we get from these earning and if these event happen and this is what I will get extra, so that is nature of our balance sheet my friend. I do not know how to answer your question. It were not like your other figures which had strong more diversified larger balance sheet. I think we always try things which lot of people do not want to try but I think there is always a high amount of risk in what we do, but if we get it right then there is a reasonable upside, I think that is how it is.

Rajat Sethia: Sure. As an investor what should we take away from Natco if you want to understand the next five year of business? In the next five years right now it seems like Revlimid is there and seems like we are going to be squeezed down again once Revlimid goes out, so can we make a solid core in the next three to four years or you think we will be dependent a lot on one off pay off.

Rajeev Nannapaneni: Okay let me just lay out for example what I think are interesting I mean in the next few years. I mean for example Revlimid US is obviously interesting but I also mentioned about Revlimid Canada and epitinor in the US both will contribute to the base business. It is not that we are not working on the base business for example in the next few years we have for example we have track layers we have segmented suspension tabs so it is an interesting product. We have CTPR. We have not won the case. The launch date as of today is August 2022 that will be reasonable. We have for example we have a settlement with our partner in Australia launch for Limididmide so that is an interesting up side that will play out in the next few quarters. We have filing with Sun for Europe hospital business and the US para 5

guided SPF. I mean these are some examples of products which could do reasonably well which are not like Revlimid size but reasonable 10 million, 15 million, 20 million type, 30 million type of opportunity and that kind of fits into that sort of business and all this will play out in the next four or five years. It is not that we are not one fixed pony we have other filings but, the litigation did go well but again we have SPF and I also said few minutes ago we have two FDA filed and that will reveal what they are in the next quarter based on the instructions by the FDA, so the pipeline is strong and has I said few minutes ago you get three Revlimid type of opportunities right and you get like 10 on these midsized opportunities you think it is done, so I think that is the focus and regarding the core business and as I said we have enough money I think that is not the challenge. I think the biggest challenge is how we deploy that money to strengthen our core business. I think I will not say that we have not done it but I have not done because I do not think I do not want to do a bad acquisition certainly I think we have time and I think we will do it at the right valuation. I think that is what it really comes down to.

Rajat Sethia: Sure Rajeev.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Hello thank you for taking my question and good afternoon. I had just two questions, the first was one your domestic business. In earlier calls you have touched upon how the onco piece has taken a bit of punch because of COVID situation and patient's not going to hospital so has that kind of turned around for us now, how do we see traction in the domestic business going on. The second one was that in the agri chem whatever we read we get the idea that possibly the product is going to go up next year and we can look at our full fledge launch next year so is that assumption right or are there any more cases etc., to kind of crossed over before we can launch the product. Lastly we have also talked about trying to get into other therapy like diabetes and cardiac so any further progress on that.

Rajeev Nannapaneni: Okay let me answer one question at time so first you asked me about how the domestic business particularly onco, so onco has been stable now. I think we have seen some price erosion but I think things are more stable now. I think we will see more steady revenue and volatilities would have dropped now. I do not see more volatilities now. I think the whole HC portfolio has now collapsed to 2 Crores in a month now so I think and now I think you will not see much volatility so I think particularly everything has settled down. The second question you had was what is that we are doing to enhance the reach. We started a new division recently called Natco Reach. I think one thing we have done very well is covering only specialist. I think we have done gastro very well, onco very well. We have done

cardiology and little but of endocrinology. We have never done the mass market large volume, so we started a division called Natco Reach which covers the easy segment. I think particularly I kept Molnupiravir in mind because a lot of times when people get sick COVID the first step is they see their GP doctor so we have a segment that covers consulting physician and GP physician. Molnupiravir we are pushing very hard so we have specific focus. Our division focus is completely on Molnupiravir so that is why we are very worried about the product. Again I am also mindful of the fact that COVID is on the lower side, so you have to position the product for the future and you had a question on the agro business. I think based on the pace just let me conclude yeah, so based on the patent that we have been sued so far I think our understanding is that we could launch in August 2022 and this is not the only product as I said we are looking for other agro products. We see other opportunities like CTPR. We have not publicly disclosed what these opportunities are, but there are other opportunities and I think the litigation in agro and I think there are lot of opportunities in the business and I see that we could do more interesting filings both in agro and in pharma so I think I am bullish but obviously the outcome of litigation is what is going to determine the upside of the business. I think that is the challenge. I think when we are actually filing these products initially in litigation I think we will obviously speak about it when it comes to that.

Danesh Mistry: So is it safe to say the domestic business would continue with the formulation with about 100 CR run rate going forward or do we see that kind of slowly inching up.

Rajeev Nannapaneni: They do inch up. I think stable now. I think my expectation is very high on Molnupiravir so I think Molnupiravir will help us all. As I said few minutes ago even if we get 50 Crores on that business then that is almost like hiring 15% growth to our business, so for our low based type of business I think it is a reasonable jump and so I am bullish and at the same time if there is another pandemic or any small level pandemic I think we know that COVID is going to be among so then they are well positioned in the extra 150 to 200 Crores profit.

Danesh Mistry: Got it, understood. Thank you so much.

Moderator: The next question is from the line of Ritika Agrawal from Value Quest. Please go ahead.

Ritika Agarwal: Thank you for taking my question. My question is on the capex front. We spent 85 Crores in the first half on capex. Could you explain the nature of this and what is our capex guidance for next 2 to 3 years?

Rajeev Nannapaneni: So far I think in that region we have spent about 72 Crores I think that sounds about right. I think these are just maintenance capex and all. During the large capex we required replacing

reactors, replacing block and so on and so forth and we are just replacing lot but nothing dramatic. I do not think we will spend more than budgeted capex per year about 314 Crores, so my senses will probably spend about 60 to 70%.

Ritika Agarwal: And Sir over the next two years**.**

Rajeev Nannapaneni: I do not see any large capex spend honestly. I think we have enough assets now**.** I think like if you look at export business we have one plant in Hyderabad, we built another plant in Vizag. So both are FDA approved so we have enough capacity there, so we are trying to get more products in so that we can utilize the capacity, so APR also that same effect. I think we have one facility in Hyderabad and one facility in Chennai. Domestic also I think we have one facility in Dehradun and what you call in Guwahati and agro I think facility wise I think we are good. I think we did lot of capex in the last three years and I think we are well positioned. I do not see any large capexes as of now, nothing dramatic

Ritika Agarwal: Sure Sir**.** Lastly on Coragen and imbruvica litigation that is going on any timelines you would like to call out. When do we see things materializing or things coming to some conclusion?

Rajeev Nannapaneni: I cannot answer that question but I will try answering it, August 15 or 16 I think is the next schedule hearing for the Coragen in India so let us hope we are able to wind up the hearing and judges got the decision but again you cannot say how these things go, so little bit hard to consider, so 15 and 16 so that is the next date of hearing. imbruvica we have filed an appeal in US based in about 18 to 24 months so let us see how it plays on. I think more or less I think that is my understanding about what is going on okay.

Ritika Agarwal: Okay thank you so much Sir and all the best.

Moderator: Thank you. The next question is from the line of Nikhil Upadhay from Securities Investment Management. Please go ahead.

Nikhil Upadhay: Hi good afternoon. Just two questions. One is if we look at the export business with the profit contribution. Like for last three quarter we were doing a run rate of 150 Crores and in this quarter we have done 190 but if we go by TEVA call they said the prescriptions in US have declined further so have you seen a further decline in Copaxone revenue and like 60 Crores to 70 Crores is from the new businesses or that 150 Crores was the base and the 50, 60 is the new product which we have launched. If you cannot give the numbers just an indication of how is the…

Rajeev Nannapaneni: I do not remember the market share. I think from what I understand our market share has increased. I think we are actually doing well now in Copaxone market share and in terms of sale it has been stable. I have not seen a decline in revenue. It has been fairly stable in the last few quarters. In terms of increase and all I think we have not lost anything. Last year same time Q1 and all we were selling a lot of chloroquine so that vanished. Now I think there is a pickup because of Afinitor so we had Tamiflu clocking last year. This year we do not have it so these calculations keep happening. This is part of the business. Did that answer your question.

Nikhil Upadhay: Secondly in Zortress what we understand it was a two player market and we were the third player to enter and I think it was 200 to 250 million product so as there seeing more players entering the market or is it still a three player market, just some sense if you can give.

Rajeev Nannapaneni: I do not remember exactly what you are saying. I think the first generic on that is the Sigma and I think we got approved after Sigma and I think third Instas got approved if I remember right. I do not remember who the third player is. I do not want to speculate, but what you said is right. I think that is a three player market. You have put me on a spot. I do not answer for your question, but I think it is a three player market. I think that is my understanding. The market size is little smaller than 200 million but I think in terms of sales wise I think we are doing better that is what my understanding especially 10 mg has done extremely well for us. I think that is what my understanding is.

Nikhil Upadhay: And lastly in September we generally used to fill this Tamiflu API for the flu season and which used to reduce our gross margin, but there is no Tamiflu API and API sales are largely in line with what we have been doing, but still there is almost 500, 600 bps fall in gross margin. If you can just help me understand what has changed actually because even if I compare against June quarter there was lot of this COVID sales which was there in our numbers and which was a lower gross margin which I suppose is not in this quarter so I am not able to add this two.

Rajeev Nannapaneni: If you look at traditionally you can look our numbers for last four, five years. We used to have a lot of talking point and now we do not have it. The reason we do not have it because of behavior change and this is what has happened. See what is happened because of COVID and the mask thing and the vaccine and all those, the number of people who get flu has dropped dramatically. There is practically very little retail selling. As far as pandemic supplies or few government supplies we are doing here and there and some directly, otherwise the sale has completed collapse and that also has affected our sales revenue dramatically because there actually is no sales and we are seeing that across the world. If you observe number of cold medicines, allergy medicines, sales have dropped dramatically

because of COVID that is be in one more challenge, even if it has happened so we are trying to adjust now. I think early that EBITDA has completely gone missing around so I think that is the challenge we are getting. It does not look like it is going to get better. I do not see that it is probably coming back the way it used to be.

Nikhil Upadhay: Sure thanks.

Moderator: The next question is from the line Gagan Thareja from ASK Investments Manager. Please go ahead.

Gagan Thareja: Can you give some idea of the Eliquis sales bump up which would have had because of COVID because if I understand it pre COVID Eliquis would have been on annual rise basis at 60, 70 Crores for you.

Rajeev Nannapaneni: Generally I do not give split for competitive reasons my friend. I stopped doing that for last few years, so comparative reasons you are not just giving away I mean broadly I will tell you friend I think you are right about Q1 having a good representation Apixaban and Q2 onwards this bunk is not there. I think what you said is absolutely right. Split by product I am not doing.

Gagan Thareja: Second question is around the onco portfolio last year took a sharp dip because of COVID. Would it be fair to assume that when onco normalizes you would have hit back FY2020 sort of number on oncology or has it settled somewhere below that and with new product additions it will go up.

Rajeev Nannapaneni: It just settled down, but it has settled down slightly lower than what it was pre COVID and I think mostly because of price erosion but it has settled down. I think the sort of swings that you saw in the past are not there.

Gagan Thareja: And the other product which you did not see other than Eliquis if you could give some idea of how those are faring for you.

Rajeev Nannapaneni: It has done reasonably very well, diabetron has done reasonably very well, but Apixaban did extremely well because of COVID because they are all used in COVID treatment so in that sense I think there has been a pop but now they are settled down to more normalized sales, but I think all the brands are doing well but Apixaban is probably our biggest one.

Gagan Thareja: T2 therapeutics came out with data on for multiple sclerosis and at least the data that they have put out seems pretty healthy and strong do you consider this in future of this are we a possible competitor to go back Sir.

Rajeev Nannapaneni: Which product is this concerning?

Gagan Thareja: Oblitoximab.

Rajeev Nannapaneni: I do not know my friend that is the question I cannot answer. I do not have an answer the question. I am sorry.

Moderator: The next question is from the line of Nithin Agarwal from DAM Capital. Please go ahead.

Nithin Agarwal: Rajeev on the oncology business in India has there been any change in the market competitive dynamics over the last couple of years.

Rajeev Nannapaneni: I think this is more by price erosion. Things are more settled down now right. Two years two things have happened one is price control because of price control MRPs were dropped. Because MRPs were dropped then there were further discounting that was expected by the supply chain so which brought down further margin and then you had couple of event like COVID. We had COVID in May, June, July and we had early COVID in May June of last year, so whenever you have these events and then patients coming back, so we have fairly fair amount of disruption but right now things are stable. You will see more consistent revenue now except when we stock product for new launches but otherwise this seems fairly consistent numbers but they are lower than what they were pre COVID numbers because of competition.

Nithin Agarwal: But Rajeev just to push that has the market being impacted by entry and more competitive pricing action by some of the newer guys or has it been multiple new guys who have entered the business, anything like that which has happened in this place.

Rajeev Nannapaneni: Generally domestic is fairly hyper competitive when we look at the last 2 years the emphasis on domestic has increased so dramatically now and people do not leave a single order. I mean it is almost because everybody loves domestic right. I mean all my questions are always revolving around domestic so people find themselves more stable business compared to the export business which will be exact opposite in perception wise few years ago. I think that is the way of the land, we have competition and I think we are not doing generic and the way you sustain this you build you brand at the same time you do new launches and that is how the momentum is maintained. We had some very good launches this year. For example we launched Eltrombopag so we are the only generic for that at this time in India so that has done well and as I said before we are launching this bottle tablets. It is a good business. It is a good stable business and I think we have a good set up and I say

we do well, but I just said you have to keep the machine running by the new launches so I think that is the mix of base business and new launches okay.

Nithin Agarwal: Thanks Rajeev.

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

Vishal Manchanda: Thanks for the opportunity. Sir lately Delhi High Court has granted an injunction with respect to interest owe so will that impact Natco.

Rajeev Nannapaneni: We were injuncted on that product some time ago Vishal so as of now we do not have sale on that product at all. As of now if it turns out financial impact is zero but if you pitch on opportunity that was missed I mean if we have the opportunity to launch that product and market size of the product is very good right now. I do not know about the numbers but it is like upward 100 of Crores so it would have been nice to have the generic version of that but as I said that is how the business is. I think just go at it.

Vishal Manchanda: Earlier during the call you hinted at some launches beyond the ones, beyond the large one. One I heard was Trabectedin (Yondelis) was that in Europe of in US.

Rajeev Nannapaneni: What I alluded to I think the gentleman was asking specifically what are the products that we have and I identified about 7 or 8 opportunities which I felt was reasonable opportunities among them is Yondelis. Yondelis is filed in both Europe and US market so US we have a para 4 we have NTF on that, so it is a partnership with Sun Pharma. Similarly we have a partnership with Sun Pharma in Europe as well for the Yondelis. I have not speculated the time of launch because at this time, but more interesting products that we have in our pipeline.

Vishal Manchanda: And you also said Lenalidomide in Australia also is scheduled sometime from now.

Rajeev Nannapaneni: Yeah we have settled it recently Pomalidomide and Lenalidomide. Both together we have settled in Australia so that is another interesting factor. We may not disclose the date for contract confidentiality but we have approval on both these products in Australia already. They are hoping on the day of launch I think it should do reasonably well.

Vishal Manchanda: Natco's working capital is significantly higher versus peers, so is it just because your sales is lower because you report only profit share and not the end sales, is that the reason for the working capital to appear apparently higher.

Rajeev Nannapaneni: Sir working capital is higher because of the stocking point because we take a lot of risk my friend so I build inventory I think that is it. We have inventory on all the pandemic products, either you have it or you do not have it. We built significant amount of inventory on CTPR that is one of the biggest contributor of the increase in working capital. I will give you an example what the problem is. CTPR you have to build inventory before the karif season before June because majority of the sales happens between July and September and if you do not have inventory then you cannot launch the product. You see what I am trying to say right and if the launch is delayed then you are sitting on the inventory because all the sales gets concentrated under three months so that is such a nature of the business because we do so many pandemic and stocking products I think that is the reason why we are high in inventory and what I also said was that we are hoping that we definitely liquidate it in the next few months based on expedition and assumption.

Moderator: The last question is from the line of Nikhil Upadhay from Securities Investment Management. Please go ahead.

Nikhil Upadhay: Thanks for the follow up. This is regarding one comment which you made that in Canada if we make 10 million dollar kind of profit on Revlimid. We would be very good. Is it your expectation is much lower than that considering the market is between 4 players and you believe you have a better presence with the innovator ramp that is one and secondly do you think whatever profit we make can sustain for three to four years or do you think that will go off in 1 or 2 years? It is a 1 or 2 year opportunity or do you think it can sustain.

Rajeev Nannapaneni: See my friend I have no answer for any of your question**.** See the 10 million number is something that he threw at me and I said it will be a nice number to have. In generic we cannot never predict what will happen. I will not make a guess, what I said was if it holds up that level I think I will be very happy. I think that is from the expectation and how market formation plays out and all is a question that only time will tell. I said I will give a better insight because if you ask this question in our call for December earnings, hopefully we will have a call maybe from January, February so then maybe I will have a better idea about it. He was speculating and I had a speculating answer. Thank you guys.

Rajesh Chebiyam: Thank you all. Again any questions pertaining to what we discussed in the call. Please feel free to reach out. It will be also put up on the website.

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