“Natco Pharma Limited
Q3 FY2022 Earnings Conference Call”

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ANALYST: **MR. ANSHUMAN GUPTA – LEAD PHARMA & HEALTHCARE ANALYST - INVESTEC CAPITAL SERVICES**

MANAGEMENT: **MR. RAJEEV NANNAPANENI - VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER - NATCO PHARMA LIMITED**
MR. RAJESH CHEBIYAM – EXECUTIVE VICE PRESIDENT , CROP HEALTH SCIENCE - NATCO PHARMA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2022 Earnings Conference Call of NATCO Pharma Limited 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 Mr. Anshuman Gupta, Lead Pharma and Healthcare analyst at Investec Capital Services. Thank you and over to you Sir!

Anshuman Gupta: Thank you moderator and good morning everyone. On behalf of Investec Capital I welcome you all for NATCO Pharma Q3 FY2022 Earnings Call. Today, we have senior management team represented by Mr. Rajeev, Vice Chairman and CEO, and Mr. Rajesh. Over to you Rajeev Sir! Thank you.

Rajeev Nannapaneni: Thank you Anshuman. Good morning and welcome everyone to NATCO's conference call discussing our earnings results for the third quarter of FY2022, which ended December 31, 2021. During this call we may be making certain forward-looking statements or statements about future events and anything said on this call, which reflects our outlook for future must be reviewed in conjunction with the risks that the company faces. Like to state the material of the call except for participant questions is the property of NATCO and cannot be recorded or rebroadcast without NATCO's expressed written permission. We will begin the call with the results highlights followed by an interactive Q&A session. So we hope you all received the financials and the press release that was sent out earlier. These are also available on our website. Natco has recorded consolidated total revenue of Rs.590.7 Crores, which includes a product licensing income for the third quarter which ended December 31, 2021. This is against Rs.386 Crores for the same period last year so reflecting 53% increase in revenue. The net profit for the period on a consolidated basis was Rs.80.4 Crores as against Rs.63.4 Crores same period last year reflecting an increase of roughly about 27% in net profits. During the quarter there was a one-time expense against the product licensing income. Specifically on the segmental revenue split which has also been shared. APIs totaled Rs.61.7 Crores for Q3, formulations domestic about Rs.100.3 Crores, formulation exports which includes profit sharing, licensing income and also the foreign subs was Rs.383.1 Crores, other operating and nonoperating income 45.3 Crores, crop health sciences is 0.3 Crores for the quarter. Thank you all. We will open up 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 Tarang from Old Bridge Capital. Please go ahead.

Tarang: Hi good morning just a couple of questions from my side, one I think at the beginning of the third quarter that was bought about 100% stake in Dash for $18 million so just wanted to get a sense on the thought process behind this acquisition, how does it help Natco as you move forward that is number one, number two if you could give us a sense on revenue and EBITDA extra product licensing income which is a one-off for this quarter?

Rajeev Nannapaneni: Let me answer your first question what is the rationale for doing a front-end in the US. We have been doing partnership all these years and I think we have done well I think we are much a smaller company when we did this partnership so we needed someone to support us, so I think the strategy now is for the plain vanilla generics, I think we want to do our own front end, for complex generics we want to continue to do partnerships I think that is what we are thinking so we needed a front end I think Dash came along and came at a very reasonable valuation so we thought I think it is a high time that we start doing our own front-end. I think the value clearly is that as business gets more and more difficult as you know it will be better to keep most of the economics with us as opposed to sharing because there is not much to share anymore and that is the reason why we did the acquisition and also it allows us to brand ourselves in the front-end market where and we are moving up the value chain that is answering your first question. The second question was what is the difference in the EBITDA if you remove the licensing income. The licensing income covers most of the expenses I think our run rate of revenue is similar to what we had last quarter I think I cannot tell you exactly what the numbers are but I think it is continuing the same way I think the difference essentially is from the licensing income because we did a licensing income with a particular partner who gave us a reimbursement of certain expenses and that is the reason why he had this one-off so to answer your question directly I think there is no difference between last quarter and this quarter.

Tarang: Got it. Just to step back on the first question given that your strategy is pretty straightforward about plain vanilla genetics and wanting to do front-end there would you rather not be better off actually partnering with someone who has a broader portfolio in the front-end rather than having your own front-end with a limited portfolio?

Rajeev Nannapaneni: I think that is what we are trying to see problem with the chicken and egg question you are asking me, see basically what happens is when will I get the broader portfolio unless you start something is not it, I think this is a long journey my friend I do not think the payoff of this asset will happen in any anytime soon because all the products that we have right now are licensed and they all have five years, seven year contract so we cannot really get out of those contracts so we cannot get the ANDA back, so clearly in the nearer term it is only ANDA for which we are filing now for which let us say launch will happen five years, seven years or eight years later that is when we get the payoff. Partnerships and all there is

not much to share honestly US has become extremely difficult. There is not much to share like nowadays if you do a product it is even hard getting licensing deals now once they are more than three or four generics it is very difficult to get licensing deals, a lot of handles which are sitting with us for which we do not have a licensing deal and even if you do not have a licensing deal and you want to go direct also there is no margin so that is how hard the business has become so this licensing model where there is a lot of competition does not work I think that is more or less what we have come to I think sad but true that is what it is. Complex and sole generic it works what you are saying it might work, but somewhere you need to choose your own destiny you have to make your own destiny so to speak, so I think you have to make that call I think you have to make that, deferring the decision for many years I think now I decided I think we should do it, but I think again there is a certain nuance to it, if it is a very expensive and where the expenditure is like 10 million, 20 million type of R&D expense that we want to out partner, but for the simpler ones we will do it as much.

Tarang: Got it thank you.

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

Ahmed: Thank you for the opportunity Sir, just one question how is the competitive scenario in Canada for Revlimid considering how are the market share gains and the pricing erosion?

Rajeev Nannapaneni: Price erosion has been on top of my head I do not remember but it has been quite anticipated because as per anticipation it has been fairly competitive I will not say there is some margin. We have done well I cannot recollect the market share but I think we have done well is all I can say. I give you more color to it I think once when we just launched it last quarter so we are not having clarity on how much market share we have, but we have done well and I think and the subs are done well so both Canada subs and Brazil subs have been profitable this quarter so I think the Canada sub has extremely done well partly because of Revlimid. Overall I am happy erosion has been quite a bit I think it is but not unanticipated because there were multiple approvals you had as we had Reddy's, we had Apotex and then there was the authorized generic consigned also so it is fairly competitive but it is okay I am happy yes we are happy with how things have worked.

Ahmed: Okay and Sir sequential jumps we have seen in the export formulation business from Rs.190 Crores to Rs.380 Crores is it mainly because of the one-off licensing income?

Rajeev Nannapaneni: Yes because of one off absolutely correct.

Ahmed: Thank you.

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

Ankush Agrawal: Based on the comments that we made around the Canada market for Revlimid and since our launch for the US is very near so how do you think that would play out given that there are same kind of competition all the players that you mentioned Canada, you are launching in US as well so how do you see that playing out based on our experience on the Canada side?

Rajeev Nannapaneni: I think there is a difference in US and Canada so US I think we are going to be the first generic and we are going to be the only generic that is to start so I think that is probably the biggest difference and it is still a REMS product so the reimbursement will be certain costs are selling the product because of the REMS so it will be a little more different from Canada where it was all the generics came in at the same time so it is different from US.

Ankush Agrawal: But after 180 days the competition would come right like how it is in Canada?

Rajeev Nannapaneni: It will come but again see when they will come and all again I have no answer to that question from what I understand again that they will come in a staggered manner so I think that is a question I cannot answer my friend I think let us see when they come with it but I am very bullish about the product and I think we should do well with this product.

Ankush Agarwal: Right Sir and lastly have we started supplying for Revlimid in the US like?

Rajeev Nannapaneni: We are already with the product; we have already given it to Teva and Teva is ready to launch and I think as we have announced in the past the launch date is in the month of March so which is in the next month.

Ankush Agarwal: Thank you.

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

Danesh Mistry: Thank you for taking the time to talk to us. I just had two questions one was on the domestic business that you have so last quarter you mentioned that it seems like it is flattening out and it has so when do you see uptick in the domestic business that is question number one and I will comeback with question number two after that?

Rajeev Nannapaneni: I will answer your question number one so domestic see I think we started the year very nicely because we had the benefit of the COVID portfolio so that particular month the June quarter because of the delta variant I think the domestic did extremely well and I think the benefit of COVID was not there in subsequent quarters I think that is why you see a dip so this is without COVID our run rate is about 100 Crores a quarter my friend I think that is where the numbers are, but whenever there is a COVID spike then the sale goes up a little bit, but otherwise that is a base sale that is there. To answer your question about base business and all I think see domestic we are obviously present on limited spaces I think that is the reason why we are unable to grow something that we have been working very hard on so I think we have a good portfolio. I think things are stable okay let me put it things are stable and then we tend to have these one-offs because of COVID so overall the business has done well, but I think the predictability of business is not there as much as people like in your market like to have here so that is there and we are trying to address that by expanding the portfolio and that is one answer, is that answered your question?

Danesh Mistry: I was trying to understand more on the Onco side because I remember basically because of the COVID lockdowns a lot of patients could not kind of go….

Rajeev Nannapaneni: Onco has been stable my friend I think Onco has been relatively stable I think we are happy with how Onco has done, all the price erosions, all the COVID issues have been resolved, but you see this COVID is a tricky one so for example January was a bad month because of COVID the impact of what was it as bad as let us say like in Delta, but hospitalization was a lot less it was obviously not as bad as delta, but obviously there was some impact for a few weeks, but this pressure will be there, we have to live with COVID I think there is nothing we can do, but you will have one or two ups and downs, but overall if you take a 12-month view it is fairly stable business.

Danesh Mistry: Got it understood and the question number two was essentially with regards to your agrochem business if I see your segmental results you had Rs.10 Crores EBIT loss which is there so is that on account of salaries or is there some other one-off expense and does that equate to the other expenses jumping up from Rs.8 Crores last year to about Rs.24 Crores this year?

Rajeev Nannapaneni: We are losing money in agro there is no two ways of saying that and that is consistently we are losing and we are losing about Rs.10 Crores, Rs.12 Crores a quarter. I think the launches that we anticipated did not happen and I think that is the reason why we are getting a lot of pressure on our base earnings and I think this would not get better I think conservatively a big launch of chlorantraniliprole would not happen because court decision is unresolved so conservatively it remain unresolved then we cannot launch before August

2022 so a difference in a swing. The Rs.10 Crores EBITDA loss if you have to swing it let us say if you swing Rs.20 Crores in that particular quarter then you have 20 Crores improvement in the domestic business because you are covering up Rs.10 Crores loss and Rs.10 Crores profit, let us assume we get a Rs.20 Crores EBITDA before the launch so I think that is very critical for our improvement of base business and we just have to wait for this outcome to happen and also agro is a little tricky because last quarter we had better sales than the December quarter because the product that we had was for cotton and it can be only sold between July and September so you do not get consistent sale in all quarters so that also is there, but overall to answer your question yes there is a loss and the loss will continue until my view till the September quarter.

Danesh Mistry: Other expenses jumped from about Rs.8 Crores to about Rs.24 Crores this quarter so just wanted to check the reason behind that?

Rajeev Nannapaneni: It is 247 Crores, this is related with one-time ANDA expenditure, the general expenses are in that same region, in the same Rs.100 Crores per quarter, and this is one-time expenditure related to that particular product.

Danesh Mistry: Thank you so much.

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

Kunal Randeria: Rajeev just to pick up the previous participant's question so your domestic oncology used to do I think around 100 Crores a quarter I think around two or three years back and now my sense is more like around Rs.70 Crores to Rs.80 Crores or something like that so maybe if you can sort of break it down how much of it was because of competition, how much because of business loss due to COVID or any other factors?

Rajeev Nannapaneni: Peak maybe like 85 to 90 we will have one quarter but average it is about Rs.85 Crores – Rs.90 Crores now it is settled around that number you are absolutely correct. The reason why we see a decline on Onco I think there are two to three reasons, COVID is a one-time thing I do not want to attribute everything to COVID I think the biggest problem we have in the business are two, one is the price controls earlier we used to have X amount of margin and because of price control there is a certain drop in the base business and two is because of competition we had couple of generics which did extremely well, which have faced competition I think one particular example I can give you is there is a product called sorafenib for which we had a compulsory license, we ran the generic where we were the only generics for almost eight years so once more competition came in obviously the brand

declined. These are the two major factors that made all the difference, but just still a stable business and we will not complain that it is still a very profitable business for us, we do 250 to 300 Crores of revenue in that division with practically 60 or 70 boys, so I think it is like cash cost for our domestic business, but growth is a challenge as we rightly said and I think we are looking at new launches, we always have new launches, last quarter we launched three products I think we have launched tipiracil plus and trifluridine where we are the very only generic, we launched Cazanat, we launched Pazona so these are launches that we have done in the last three to four months I think it is a good business it is just that challenge for us in domestic is that we have to concentrate only on one or two segments I think challenges we need to expand out and I think we have done a little bit in cardiology so we are trying to expand so I think it is a long-term game.

Kunal Randeria: Sure but Rajeev what are the challenges in growing this is it because the competition is extremely aggressive in pricing I am sure in the market the volumes would be growing?

Rajeev Nannapaneni: It is pricing, the problem in oncology is the discounts are very high, there is a gross price and there is a net price I think there is always a lot of discounting that you need to do and the limited number of institutions and so if you lose few accounts and there is a dramatic decrease of sales so I think it is a structural issue I think even domestic overall the sector has done extremely well, but our portfolio being a niche portfolio we see more pressure but I think what we said is right one is the competition I think competition is probably the biggest reason why we do not see much growth and see what happens it is not like you cannot compare it with like a more stable therapy kind of setup because that has more volume and more spread out so let us say you lose one tender and two, three hospitals and it has a dramatic impact on your brand, it is not like an antibiotic or a cardiology product where the prescriptions are more widely written so then the volatility of earnings is not as much so I do not know if that answers your question, but that is broadly I think that is how I would judge that business, so I think how do you get out of this I think the way you get out of it is you expand your therapies and I think that is the only way you can grow.

Kunal Randeria: Sure just one accounting question so how should we sort of assume some profit share from Revlimid in the fourth quarter or will that come from Q1 FY2023?

Rajeev Nannapaneni: The launch is in Q4 so there is no doubt about that so hopefully there will be some profit share in March and then every quarter we will be getting profit share thereafter so that will become a significant part of the earnings so I think that when it comes I think we will see how the takeoff is, I think at this time I do not want to tell you how much and all, but I think we will have a good start so as we are the only generic so I think we should have a very good start and I think we should do well in the coming few quarters.

Kunal Randeria: Sure thanks Rajeev, a few more I will get back in the queue.

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

Rahul Veera: In the earlier comments you mentioned that X of the licensing income broadly Q2 and Q3 would be similar so now also if we do a little bit of reverse calculation whether it is a Revlimid Canada or Afinitor or Zortress then there has been no impact of any of these molecules so again just trying to understand whether the domestic and other businesses have gone down which have not just been offset by these launches?

Rajeev Nannapaneni: The question is why the business is not growing is that the question?

Rahul Veera: Yes even after the launches.

Rajeev Nannapaneni: I understand the question I am just saying it the way it is, it is not growing that is a fundamental challenge that we have in our business because we have a very heavy exposure in the US and we have seen like the products that used to make good money for us are not making as much money they are used to for example, doxorubicin used to be 100 Crores profit share every year so that has dropped dramatically so because we are more generic so we have seen more competition in other smaller products so that is the nature of the business that is all I can say I do not have an answer to your question I think the new launches will come and then hopefully they do better than what you have done in the past and then you can offset the laws and so I think as we have discussed I think Revlimid is going to be a very critical one which will give us growth.

Rahul Veera: Sure and any update on Nexavar and Imbruvica?

Rajeev Nannapaneni: Imbruvica want to have a legal update, Nexavar launch and all we will discuss closer to the date, which was bound by confidentiality, not we discuss about the launch at this time but when we are coming closer to the launch we will discuss.

Rahul Veera: But just any rough estimate over the next 12 months or 18 months?

Rajeev Nannapaneni: I cannot answer that question it will happen, will discuss closer to the launch.

Rahul Veera: Sure. Fair point. Thank you.

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

Ritika: Thank you for taking my question so what I understood was Q-o-Q growth and income was completely offset by the Q-o-Q growth in the other expense and which was due to this licensing product, could you explain more about what products did we in license and what is the future outlook of these products?

Rajeev Nannapaneni: I think what we have done I think at the beginning of the call we have already said what the nature of this, the complex products we decided that we would do through partnership so essentially the income was a reimbursement of cost that is what it was, what products at this time I do not want to speak about it I think at a later time I would like to speak about it but at this time I do not want to speak about what products they are I think once the filings come to a certain stage I think we will discuss about that.

Ritika: Reasonable to assume these are for the US market?

Rajeev Nannapaneni: They are reasonable to assume the previous market it is also reasonable to assume that it is complex generic product..

Ritika: Sir second question in the Q1 quarter we had commented that we expect to file a two to three FTFs by the end of this year so could you tell us where are we in the process have we already filed any FTFs?

Rajeev Nannapaneni: So far in this year we filed two FTFs, one I think our partner asked us not to disclose the name of the product so I am some holding off on that, the one we filed by ourselves I am going to disclose is Ibrutinib it is already there in the public domain, a couple of articles that were written about it but again it is such a competitive market even though we filed I think five other people are filed on the same day so it is what it is, so I think there are two FTFs that we got this year.

Ritika: Sure Sir last question if I may last quarter we saw in our balance sheet we have 900 Crores of inventory comprising of all models and other COVID drugs and CTPRs, molnupiravir not picking up so much what is the kind of inventory that we currently hold in that drug and do we expect any write-offs from these inventories going ahead?

Rajeev Nannapaneni: I think there are two inventors we are holding, we are holding inventory on the agro products, the agro intermediates which we are carrying in our books because we believe that we will be able to liquidate them in the next financial year so that is fine. COVID yes I think we are sitting on a lot of inventory some we are able to sell, some we are unable to sell. We have to make a call I think what I will do is I think after March quarter I think we will make a call of what we believe will be able to liquidate and what we are unable to

liquidate and I think we will make a call and we will speak about it in the next quarter, but you are absolutely right I think we need to make a call about this inventory. I think molnupiravir we did reasonably well in January month again suddenly it collapsed and then we also know that in lot of the market molnupiravir will move slowly I think that is also our understanding and we have a reasonably large COVID portfolio this is not the only one we have Apixaban, we have Baricitinib, we have amphotericin b, we had chloroquine in the past so we have a whole bunch of portfolio so we had to make a call but I think in March I think we will communicate what call we have taken on this inventory.

Ritika: Okay very helpful could you give any sense of what is the total COVID inventory that we hold currently?

Rajeev Nannapaneni: I do not want to answer that question I will speak about it in the March quarter so I think I can say this much that we have to make a call, we will speak about it in the March quarter once we make an assessment once the year ends and we see some of the stocks you can sell some of the stock will have longer dating so I think it is a very complex calculation see certain things you believe will be able to sell in about a year's time then you will not make a provision, things that you believe will expire in shorter duration or you do not think have value, so there is a calculation if we had to sit and make I will not want to get anything right now. I will come back for the next quarter and we will discuss that.

Ritika: Thank you so much Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod: Is there any way Natco can protect itself from any sort of litigation post Revlimid launch, we have recently seen in **(inaudible) 30:08** how do you protect this profit pool which we will be getting like from such litigations which may arise after two years or one year of launch?

Rajeev Nannapaneni: I think we have been legally advised that I think we will pass this market and secondly Anda is owned by Teva as you are aware and I think this question is better directed to Teva.

Ritesh Rathod: Thank you.

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

Prakash Agarwal: Thanks for the opportunity my question is one clarification so the licensing income and the cost that has gone up Q-o-Q so they are both related to the same products?

Rajeev Nannapaneni: Correct.

Prakash Agarwal: Okay so basically you got in a partner who will reimburse those expenses?

Rajeev Nannapaneni: Yes correct.

Prakash Agarwal: Okay and it would be currently under what development stage or it is nearing filing?

Rajeev Nannapaneni: Some we have filed and some are in close to filing yes both.

Prakash Agarwal: So it is a handful of products?

Rajeev Nannapaneni: Yes it is about three products.

Prakash Agarwal: Okay understood and in terms of the big ticket launch obviously we have Revlimid coming and then you spoke about couple more but assuming Revlimid is a blockbuster for say maybe next 12 months, maybe 24 months and maybe thereafter what are the other known variables we have in terms of bigger products, I think we have been talking about complex filings in the last three to four years?

Rajeev Nannapaneni: In terms of what we have publicly disclosed at this time I think the first file we have I think that they are on our website and we have spoken about Revlimid and I think we have Sorafenib, we have Nexavar, we have 180 days, the Carfilzomib we have 180 days one strength and other strength we have shared 180 days and then Imbruvica is there and then we have **Tracleer TFOS**, so these are the major ones that we have, they all staggered out I think they are non-disclosure dates but these are staggered out in the next few years.

Prakash Agarwal: So our exports seem to be quite on track and with very good strong growth visibility I just wanted to understand outlook for the India business which has seen some ups and downs given that FC also down, oncology also down and now a little bit stabilizing with some COVID portfolio so how do we see the growth going forward, what are the steps we are taking and do we still plan to use some cash to scale up the business or is there other thought to that?

Rajeev Nannapaneni: We are in a way trying to strengthen our domestic business and I think we are trying to find an acquisition which can respect that. We are seriously looking at a branded generic portfolio to acquire, now that we have plugged the US front end gap, now we are looking to

plug the gap in the branded generic portfolio as well so we are looking hard for an acquisition, hopefully we will be able to get something in the next few months I think we are trying very hard, we are looking at two to three acquisitions. Now we have the cash in the books and we are putting some cash flow in the next few months so I think we are looking at some opportunities. I think we are able to bridge the gap I think that is where we are.

Prakash Agarwal: These would be more like the chronic portfolio that you are looking at which are more sustainable or what are you thinking in terms of building?

Rajeev Nannapaneni: More sustainable established brands which would allow us to have more in predictable revenue and that is what we are looking at those type of acquisitions.

Prakash Agarwal: Okay and any other areas you are looking at in terms of deployment of the cash that you would be generating over a period of next 12-24 months?

Rajeev Nannapaneni: This is probably the biggest one and see Prakash we have something good that is going to happen and we are going to use this cash, it will last however long I do not want to give any timelines on that but we will use this cash wisely to build a more broader portfolio in terms of more sustainable and more critical cash and so I think that is more or less what we are looking at. We are looking at different acquisition targets I think once you reach a stage where we are close to an asset I think we can discuss what we are able to do, but I think we are actively looking for it.

Prakash Agarwal: Okay and what is the cash balance as on now the net cash?

Rajeev Nannapaneni: December 31, 2021 we have a total cash excluding stocks of 775 Crores and total debt is about if you remove foreign bill discounting which is about Rs.90 Crores we have a debt of including that is 300 without the formal discounting it is about Rs.210 Crores.

Prakash Agarwal: Rs.210 Crores is the debt and Rs.775 Crores is the cash?

Rajeev Nannapaneni: Yes and if you include foreign bill discounting the debt is 300 if you remove the foreign bill discounting against the receivable those gets negated each other, but actual what we owe the bank in cash is about 210 and cash on books is about 775 and this is after the Dash acquisition I removed cash from whatever we have spent on Dash.

Prakash Agarwal: This includes MedPlus stake that you have done?

Rajeev Nannapaneni: Yes that is shown in the comprehensive income as you see my earnings it is 80.4 but the gain of the MedPlus is shown in the comprehensive income if you include the way the MedPlus gain is captured it is captured through the comprehensive income so if you include the MedPlus shareholding gain our profits are Rs.108 Crores this quarter.

Prakash Agarwal: Is there any other stake in MedPlus remaining?

Rajeev Nannapaneni: We still have like 325000 shares of MedPlus sitting in the books and reflect in the cash flows.

Prakash Agarwal: Okay got it thank you so much.

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

Nitin Agarwal: Rajeev just taking forward from the previous questions you talked about the landscape for the US getting tougher given the fact that our business model historically has been driven around built around doing complex filings, how are you seeing the landscape for these kind of opportunities over the next week, are there enough of these $50000 million opportunities around or they are very difficult to come by or how are you doing?

Rajeev Nannapaneni: There are opportunities Nitin, it is harder than before obviously clearly it is harder and I think there are opportunities I think you need to take a global approach to these opportunities. It is not completely better on the US you need to look at multiple markets so that the R&D expenditure that you are incurring is spread out over multiple markets, return on capital is much better, but US is hard clearly I think US is extremely hard now and I think you need to have a more diversified geographical spread. I think I have been saying this for many years and especially in the last two years I have been very vocal about this time. US as a business model has become extremely difficult and I think that is why we are propped up by other subs Brazil and Canada has done extremely well, if you look at our consolidated numbers significant part of our profitability is coming now from subs in Brazil and Canada so both the subs have been profitable so some of the margins captured in the Indian subs and some of them margins captured in the US subs so clearly this is the way the world is going to be and I think very clearly I think you need to have a strong strategy which takes you out of the US even though you are present in the US you need to have a strong strategy which takes you out of the US, otherwise the decade is going to be very hard. This is my personal view.

Nitin Agarwal: Take that a little further so if we are talking about $100 product hypothetically where you are saying you need to have a pan global strategy typically in products like these how much US would be for example 50% would be US and then you make the balance in the non-US geographies or how do you think of opportunities like this will crystallize in general?

Rajeev Nannapaneni: How do you want to look at it see I am just giving a simple mathematical example that you understand, you look at earlier people would spend let us say $100 product they would either do it in India and US and they would have been very happy because that would cover like 70%, 80% of your balance sheet revenue and if we got these two markets right you were very happy, but now what has happened is US is not giving you the return that you want so at least you leave out US and India you need to find four or five other countries where you can monetize your assets, what are these countries we found Brazil, we found Canada and maybe one big western European country which we are not present and maybe a little bit in ROW like Indonesia or South African countries so you need to have a model which diversifies you from India and US and you include like seven middle income or high income countries which where you have a reasonable presence so that whatever you are spending you get a little more return on your capital because if you look at the Indian generic model is primarily a US and India driven model and I think we need to get out of that and I think build a model which is more global which is a lot of guys are doing now and more strongly than before I think that is the only way this business is going to work.

Nitin Agarwal: On China where are we, have there been any progress on China initiatives?

Rajeev Nannapaneni: We are not having front-end in China or we are all doing partnership model, we have filed about few products I think four or five products, we have not got a single approval, we are expecting at least a couple of approvals this year but as of now we do not have an approval.

Nitin Agarwal: Thank you.

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

Ravi Purohit: All my questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Shivram from Aster Minds Enterprise. Please go ahead.

Shivram: Thank you for giving me a chance. There is some news about Natco signing long-term contracts with Government of Canada for the supply of Revlimid can you confirm if that is true?

Rajeev Nannapaneni: The question of the gentleman was have we signed contracts with Government of Canada I think Canada works in a provincial basis I think our guys bid in different provinces and they win different contracts in different, different states that is how it was in different provinces. I think there is like routine tender stuff that happens I cannot specifically say that top of mind I cannot recollect which particular province they won some they have lost but I think this is something that happens on a routine basis that makes sense is that answer your question.

Shivram: Yes.

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

Nikhil: One question just on the US part when you said that Doxorubicin was contributing almost 200 Crores on a yearly basis and now that has dropped off even if I do a back of envelope and say add 25-30 Crores and remove the licensing income it seems the new launches which we did in Canada and Afinitor and 180 days with Zortress and everything the number seems to be pretty low as compared to what we were even thinking in Q3 so has there been a significant execution fallouts or is my understanding wrong?

Rajeev Nannapaneni: Also what happens is based on the surplus we plan expenditure also so I think that is what it is and I think we have done for example we run two first files last quarter and so there is a significant amount of R&D expenditure so I think that is the reason. Basically what you do is you look at the surplus that you have in this particular year and then you budget how much surplus you are going to have based on that you plan your expenditure, if you believe that you want to have let us say Rs.100 of surplus then you say okay fine I am going to spend Rs.30 or Rs.40 on R&D which I will expense in my balance sheet and that is the reason why for example this particular product that we out licensed, if we expense that completely on our balance sheet then we would have had a loss in the quarter so I think you need to make those calls all the time and I think based on the surplus you make these decisions.

Nikhil: Rajeev sorry to interrupt I was more focusing on the revenue side so we have reported 383 Crores on the export business including the license income and everything and during the call you said that some of the products have seen a significant price erosion even if I just add back those numbers and set off the license income considering the launches which we did in Q3 like Revlimid Canada and Afinitor it seems the numbers are they completely in the books in terms of profit sharing and everything or is it like it is not completely reflected in our revenue that is what I am trying to understand?

Rajeev Nannapaneni: Everything is reflected all the profit shares are reflected see Revlimid that we are selling in Canada and all and Lenalidomide are reflected in our books directly there is no sharing of revenue.

Nikhil: So it seems that market share in Revlimid Canada and even in the products FTF and other products which we launched seems to be pretty low or either the price competition is too high as compared to what we were thinking we could be building in terms of the revenue?

Rajeev Nannapaneni: No, Revlimid has just been launched the product has been launched only last quarter and even Everolimus also has been launched recently only the market reflection will come as we go along. To answer your question I think Everolimus and Lenalidomide is what is driving the export business right now, Revlimid and Afinitor is what is driving the export business and Lenalidomide Canada is driving Canada's profitability. To answer your question about price erosion, price erosion is the nature of the base and you cannot really do much about that it is not in my control and I think in terms of market share another thing we have reasonable market share I think somebody has specifically asked me what is the market share on these numbers I said I cannot come back because we have just been launched I think we will give more color to it as we come along in the next quarter I think we will have more clarity about our market share because the databases do not get updated within three months of the launch it takes a little more time.

Nikhil: Sure lastly on domestic side in one of the participant question you said that we will have to broaden out our therapy areas and you mentioned that one is acquisitions which we are looking at but parallelly are we looking at something organically developing ourselves or the focus of new therapy addition be completely through inorganic route?

Rajeev Nannapaneni: Both organic and inorganic.

Nikhil: So anything in the next one year in terms of organic side, any new therapy area or division?

Rajeev Nannapaneni: We are sticking to these divisions only, I think we have some ideas, typically we do not reveal the pipeline in our call so when we launch we can articulate what our pipeline.

Nikhil: Sure thanks I will come back.

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

Rahul Veera: Again now coming back to if you consider X of the licensing income with EBITDA of 70 to 80 Crores what will be the share of US within this mean just to understand because there

will be limited contribution from the tamiflu this season so seeing the base erosion in Doxil or Copaxone?

Rajeev Nannapaneni: What is the contribution of US and what is the contribution of India in EBITDA is what you are saying?

Rahul Veera: Yes.

Rajeev Nannapaneni: I do not have the number.

Rahul Veera: Going back to the previous participant's question all the launches Everolimus or Revlimid is there a front loading of cost in the number and probably the higher profit share will start flowing in with a better market share next quarter, is it something that is what we are expecting?

Rajeev Nannapaneni: No I am not expecting I think fairly the numbers are the way they are and I think if you get more market share then you get more sales and more profit shares, but there is always pressure in, it is very tough to judge what you are asking me is to predict revenue in the next few months for products where there is significant number of competition honestly I cannot answer your question, we just have to go with the flow and I think I can speak about it as things go along. I cannot make any predictions of revenue.

Rahul Veera: Sure fair point so in terms of Copaxone, Doxil and Fosrenol are we making any substantial money there as of now?

Rajeev Nannapaneni: Copaxone we are making, Copaxone is still our number one product so in terms of revenue, Doxil is down quite a bit, Doxil is down 80% compared to what we used to make before. Lanthanum we make reasonable amount of money but from what I understand there are two other generic competitors we have got approved last month, I think Cipla and Teva I think both of them got approved I think in January I think is what I understand.

Rahul Veera: Sir one of our peers in Tamiflu has written off a lot of inventory because of the expiry dates so are we seeing that pressure for us also in Tamiflu side?

Rajeev Nannapaneni: Our contribution from Tamiflu has been low but as I said we will make a call in the March quarter on the COVID inventory I think we will make a call. We will speak about it in the March quarter.

Rahul Veera: Tamiflu I am talking?

Rajeev Nannapaneni: I said all inventory will make a call in March quarter now that the COVID wave is over so I think we will make a call in the March quarter, basically you make different provisions based on your dating of your product so we will make a call in the March quarter based on how the portfolio is moving.

Rahul Veera: Sure as of now whatever we spoke in the past one hour it seems like whatever the profit that is going to be we are generating where Revlimid is going to be set off by all the write-off now?

Rajeev Nannapaneni: See my friend I think what I can tell you is that you see the numbers are the way they are, you cannot what we are communicating is the nature of the beast and that is how it works so what I can tell you is about strategy I cannot tell you why you are not getting better realization on this product because it is the nature of the business is not it and I think it is also very clear I think Revlimid is going to drive our profits clearly I think that is the way it is and there is no two ways of hiding behind it I think it is what it is.

Rahul Veera: Sure.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. This is a slightly higher level question if you look at three Copaxone FY2016 and versus you know let us say the annualized run rate currently we had roughly moved Rs.1000 Crores sales to about Rs.1600 Crores and EBITDA from Rs.250 Crores to Rs.260 Crores to Rs.360 odd Crores right of course over the last five years we have accrued reserves but pre-Copaxone versus now the base business has not moved materially, we are again at a juncture where we are going to get windfall gains from another large product Revlimid in the US so the question there is how different do you think the next five years are going to be for the base business versus the last five years?

Rajeev Nannapaneni: I think if we look at our journey over the last five to six years we had windfall gains in both tamiflu, we had windfall gains in Copaxone and we are anticipating some gains in Revlimid so that is the nature of our way the business works is not it. So we have had the ability to deliver something every few years which has allowed us to do something special, Doxil did well for a while it was there, but that is the nature of the beast, the business if you have a smart idea you do very well with it and holds on for a while and then it goes away you just have to come up with a new idea I think that is how it works and that is way we are. So in terms of how the future holds I think we are very acutely aware that we need to strengthen the base business I think this is something we have been working on for the last two to three

years I think Brazil and Canada edition is part of that. We have built that business from scratch organically building a business organically takes six to seven years and I think we went through that journey in these markets and our agro foray is also part of that so that we can diversify our revenue so that we are not so highly dependent on one-offs from the US market. I think this is what we have been working on continuously. The benefit of that you will see in the next few years I think by the time Revlimid tapers off in the US I think we would have built a large enough businesses in all these segments so that when it tapers off the base continues to be strong I think that is continuously our endeavor and this is what we have been working on, but when you try to build things organically you would not see results like overnight if you say Rajeev next quarter you show me 300 Crores in a non-US revenue in this particular market it does not happen like that it takes time, see a lot of the articulation that we do in terms of agro and all that it is a process what I can tell you is that like this is what we are doing and this is what we believe will launch will happen this will happen in this particular month and based on this particular event, so I think to answer your question I think this is what we have been working on, I think we are very conscious of what you have said and I think we are very clear that this has to be done and I think we are working towards that and I believe by the time Revlimid goes away I think we are going to build this business to a significant size so that the base is much stronger.

Chirag Dagli: Okay understood and just the second one on CTPR do we have approvals across multiple crops, etc., because I understand this product is sold across multiple crops, do we need approval for all the crops before we start scaling up?

Rajeev Nannapaneni: I do not want to hazard a guess on that one, but I think we have a proof of multiple costs.

Rajesh Chebiyam: When we register it is applied for the multiple crops Chirag.

Chirag Dagli: So we can immediately access the entire 1400 Crores market?

Rajesh Chebiyam: I think that is my understanding.

Chirag Dagli: Understood thank you so much. Best of luck.

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

Kunal Randeria: Thanks for taking my question again Rajeev just building upon one of the previous participant's question on complex generics so there are a dearth of products in the US right some of the US companies have actually revealed their pipeline, products like Risperdal Consta, Sandostatin LAR and Invega and so on so I am just wondering why is it that a lot of

Indian companies which were developing it have not been able to sort of develop this because these can be very lucrative long-term opportunities?

Rajeev Nannapaneni: Okay I will answer your question why do we are not revealing the pipeline, revealing and all you do not reveal at the time in R&D, we only reveal it when you reach the stage of filing where you have done the clinical, you have done the filing with the ANDAs that is when people start revealing, nobody reveals at the time of R&D because it is only an idea right so unless you execute your idea you do not reveal it that is one. Second is your question why do not Indian companies are not successful in complex generic as opposed to US you are saying is that the question?

Kunal Randeria: Yes at least in some of these products right I remember for Sandostatin for example a lot of the Indian companies are trying to develop I think in the last five years.

Rajeev Nannapaneni: I think these are very tough to deliver Kunal. I think that is what you need to appreciate. I think they are very hard to deliver and when they come through obviously there is a huge upside but it takes a lot of time to deliver, if you are able to pull off like two of these products in a decade you have done a great job. Look at our own Copaxone success we have done it 10 years before the actual launch actually happened and now it is a fairly stable revenue stream for us so these are very hard to deliver Kunal, it is not easy as I have said but everybody has their own conflicts and pipeline, so again we are privy to what is publicly said. I think Indian company is also doing that I do not say that they are not doing it but success is very hard to come by I think clearly it is not easy.

Kunal Randeria: Sure and I am not sure if you reveal this but would you be sort of comfortable making a domestic acquisition in excess of let us say 2500 Crores given the kind of cash flows you will be generating in the next few years?

Rajeev Nannapaneni: I am open to any transaction but as long as it is right for the company, we should do what is right. We need to fill the gaps in our pipeline as the gentleman asked me earlier but we need to use this cash in a way that we are able to fill the pipeline and strengthen the base business. I think the right valuation, the right price and the right synergy I think I am open to any transaction.

Kunal Randeria: Got it thanks a lot.

Moderator: Thank you. The next question is from the line of Sai Pawan Kumar, an Individual Investor. Please go ahead.

Sai Pawan Kumar: I am individual investor in Natco for the past couple of years Sir my question is what I have understood from the other, almost my queries got answered but one question I have said futuristic like next financial year we are going to have very good revenues from the Revlimid US and you also said that the base of the business you are going to strengthen by the time Revlimid gets phased off or you may have and you also have staggered launches going forward in couple of years so can I assume that the revenue what we are going to see in the next financial year is sustained for a couple of years maybe next three to five years Sir?

Rajeev Nannapaneni: That is the question I cannot answer honestly I do not know but we are hoping it will hold up for a bit. It is a reasonable opportunity I think let us see how it plays out.

Sai Pawan Kumar: It maybe two to three years we can maybe down the line or two years?

Rajeev Nannapaneni: I will never make a definitive time commitment on how long it will hold up, it will be a good thing it will hold up for a while, again I cannot judge what the market dynamics are, that is all I can say, but the question I can answer is what will I do with the money I think the question I would like to answer is that and I think clearly we have to use this money in a judicious manner which allows us to strengthen our base business I think that is essentially where we are at this time.

Sai Pawan Kumar: Got it Sir, Sure Sir and all the best.

Moderator: Thank you.

Rajeev Nannapaneni: Thank you very much. Again the transcripts would be up when it is available. Thank you all again. Have a good day.

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