



“Natco Pharma Limited  
Q4 FY2020 Earnings Conference Call”

June 18, 2020



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*Natco Pharma Limited*  
*June 18, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to the NATCO Pharma Limited Q4 FY2020 results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Prakash Agarwal from Axis Capital Limited. Thank you, and over to you, Sir!

**Prakash Agarwal:** Good morning everyone. On behalf of Axis Capital, I welcome you all to NATCO pharma Q4 Fiscal 2020 earnings call. Today, we have the senior management represented by Mr. Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer; and Mr. Rajesh Chebiam, Vice President, Acquisitions, Investor Relation and Corporate Communications. I like to handover the call to Mr. Rajesh. Thank you.

**Rajesh Chebiam:** Thank you, Prakash. Good morning and welcome everyone to NATCO's conference call discussing our earnings results for the fourth quarter and full year of FY2020. I hope all of you have been staying safe during these unprecedented stressful COVID times. In our call we may be making certain forward-looking statements which are predictions, projections or statements about future events, and anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces.

I would like to state to the material of the call, except for the participant questions, is property of NATCO, it cannot be recorded or rebroadcast without NATCO's expressed written permission. We will begin the call with our results highlights and then we will follow with interactive Q&A.

Regarding the earnings detail, we hope you have received our financials in the press release that was sent out yesterday. These are also available on our website. For FY2020 NATCO recorded consolidated total revenue of 2,022 Crores. This was a decline of over 9% year-over-year.

The net profit for the period on a consolidated basis was 458 Crores as against 642 Crores last year showing a decline of about 29%. For the fourth quarter ending March 31, 2020 Company recorded net revenue of 477 Crores on a consolidated basis. This is almost flat compared to 486 Crores during Q4 of FY2019.



*Natco Pharma Limited*  
*June 18, 2020*

The profit after tax on a consolidated basis was recorded as 93.2 Crores for the quarter roughly about 22% lower than the previous quarter. So, as we have stated in our press release, the overall decline in revenue profits from the previous year was primarily due to continued decline in the hepatitis C product portfolio and to an extent in our oncology segment due to pricing pressures.

Company also faced slow down in the business operation during the fourth quarter due to supply chain issues amidst the COVID-19 concerns which we believe are subsequently resolved. The details of the segmental breakdown, was also given in the press release. Now we will open up for Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:** Thanks for taking my question. Rajeev basically would you like to spend some time on the giving some color on the oncology business because what is exactly been driving the decline, is it just pricing or the fact that during the quarter there was a lot of push out on account of oncology as a practice, would you like to spend and how do you expect it to recover into that extent is the demand stable it has just been pushed out any color that would be helpful?

**Rajeev Nannapaneni:** Certainly Anmol. I think as you are aware the COVID fear started the month of March even though lockdown was in later part of the March, lot of people were uncomfortable coming for treatments to the hospital because there was a risk because more cancer patients have immunosuppression and so they could lead to COVID infection and there was lot of fear. We are seeing that fear playing out in March and playing out April, May and June, so if we look at the onco portfolio because of people not coming out and there was initial decline in sales but things are picking up now. Especially on the oral onco I think the sale has become more stable now and the things have stabilized much by the time June has happened, but I think those chemo side we are seeing a lot of pressures. I think people are not coming back at the same level as they used to so I think there was a fear of infections that continues, there is some pressures in domestic business there is no doubt about that especially which is hospital related.

**Anmol Ganjoo:** But you alluded the pricing, has pricing also suffered because whatever done...?

**Rajeev Nannapaneni:** Pricing was the overall trend for 2019-2020 we are seeing pricing pressure. Now the pricing pressure is not the factor anymore. Now it is COVID. I think what you said is right and in the press release there was an overall decline during the whole year and the primary reason



*Natco Pharma Limited*  
*June 18, 2020*

why the sale drop was because of the pricing pressure. The secondary factor that is playing now is COVID and COVID specifically to the chemo products. Our portfolio has both oral products which we can take home and chemo products which are taken in hospital set up and your question was specifically what was the COVID impact that is why stuck to that as per the question. Essentially what I am trying to say is that oral tablets have rebounded now, and I think we are seeing more stability in our business now. Things have settled down and all the pent up demand is coming back so I think I am fairly comfortable on that aspect of business but the chemo portion continues to be as strong as what it was because of the poor hospitalization but again where this is going I have no idea like everyone else but as you ask me is there a lower demand, yes there is lower demand.

**Anmol Ganjoo:**

On the second driver of the performance which is hep C and obviously it has been a long way but when do you think this steps out in terms of non-trialing or operational performance any further?

**Rajeev Nannapaneni:**

I will tell you, if you understand and put this in perspective, in sales of hep C we had about 500 Crores 3 years ago and the sale is down to 117 Crores this year so we have declined 400 Crores but if we look at it, that is very unusual portfolio, when it came it had a huge pool of patients and in three months curing everyone so once we start curing people then obviously patient pays drops dramatically so it is not like a cardio or a diabetic probably one may get someone and you get for a very long time, it is not that kind of product, so now you can get at it like this I mean now the contribution of hep C has dropped to about 20% of business it is to be about 50%-60% of the business so because of COVID now when people are coming and getting tested for the hep C because the hospitalization dropped so there is pressure I will not deny there is no pressure but the impact is less now so let us say degrowth is another 20%-30% and the impact is only 20 Crores – 30 Crores but it was degrowing earlier the impact was larger in numbers but now it will be less and things are stabilizing but that is the nature of the business. I mean it cannot do much, but it will leave that issue out, overall it is a portfolio has not been reasonably well. I think this year our sales of crossed, total formulation sale is about, Rajesh what is the number?

**Rajesh Chebiam:**

The total domestic formulation was 540 Crores this year and oncology recorded about 308 Crores out of that and hep C and non-onco related 117 Crores as Rajeev was just alluding to, CnD did about 45 Crores this is the thing we can jump on that where we had almost zero sale about year and year and a half ago. We are trying to diversify, and I think we are doing well but I mean dealing with hep C it is the nature of the business, there is no better way to answer that question.



*Natco Pharma Limited*  
*June 18, 2020*

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

**Anand Bhavnani:** Thank you for the opportunity. Sir answer to previous question as remark you mentioned that we are seeing challenges in chemo, so can you give us break up of between chemo and oral in terms of revenue for us?

**Rajeev Nannapaneni:** I think overall back of my head I cannot tell you but I think about 65%-70% tends to be oral, about 30%-35% tends to be chemo typically I am giving a rough estimation.

**Anand Bhavnani:** Sir my second question is on Revlimid now in US in the state of California a new law has come up in January 2020 which renders all the agreements between innovator and generic company to limit marketing or sales of generic product as anticompetitive. This law has just come up in January so do you think this kind of legislation can be a problem to our kind of settlement with the innovator in case of the agreement?

**Rajeev Nannapaneni:** I need to check with my legal advisor but my understanding is that we have entered this agreement much before the law has been enacted and I do not foresee a problem. I do not know the details of the law actually to comment but I think that is my initial comment. Further analysis at this time I do not think can give on the call. I think it will be little unfair to ask a question because I am not aware of all the facts and I do not have the opinions in place, I think if you want to answer that probably that is my understanding but again we probably have to do a deep dive to get a better understanding.

**Anand Bhavnani:** Sure Sir I completely appreciate that and I will send it whatever data I have on this law I will send it to your Company Secretary and may be you can have a look in anything in due course of time we can have discussion.

**Rajeev Nannapaneni:** Thank you.

**Anand Bhavnani:** Thank you. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Rahul Vaidya from Abacus Asset Manager. Please go ahead.

**Rahul Vaidya:** Good morning, just wanted to understand what is the status on Revlimid at Canada?

**Rajeev Nannapaneni:** Canada, we are scheduled for a trial in first week of July, so that is we are.

**Rahul Vaidya:** We are definitely not going for settlement?



*Natco Pharma Limited*  
*June 18, 2020*

**Rajeev Nannapaneni:** It is premature to talk about things at this time. I understand as stated position is that we are going to trial in first week of July.

**Rahul Vaidya:** Thank you.

**Moderator:** Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

**Tarang Agrawal:** Good morning. I have the following quick questions. The first one has there been any progress on CTPR counter suit filed by FMC?

**Rajeev Nannapaneni:** On the court case you are saying or on approval you are saying or both?

**Tarang Agrawal:** On both.

**Rajeev Nannapaneni:** The file is moving well. We are anticipating approval shortly, but things are moving well. I think we filed it about nine months ago but again I do not have clarity on the actual approval date but I think things are moving well, we have answered all the queries and will have clarity on this issue shortly and on the court case and all I think there is nothing much to report at this time. There is a pending court case. We all reported that so there is nothing to report on the court case at this time.

**Tarang Agrawal:** So progress is pending from the judiciary or where are we, are we waiting for some action from FMC something to come back from judiciary where are we exactly?

**Rajeev Nannapaneni:** Both questions. I think one is said we got some queries from the agricultural department and I think we have answered those queries and we are waiting approval. That is the aspect on the regulatory approval. The court case, as of now there is not much progress, they have sued us, there is no order against us so that is the position today. That is what I said. There is nothing to report right now as things change, we will probably update but as of now that is the position.

**Tarang Agrawal:** The second one on your investment and associates so basically wanted to sort of get a sense on the purpose on investments on OMRV, Veda Seed Sciences and AACT and what is the financial commitment that made in NATCO is willing to provide prospectively for each of the above?

**Rajeev Nannapaneni:** You asked for OMRV, Veda and AACT. I will start with Veda, so Veda our investment I do not recollect the number I think like 7 Crores to 8 Crores, I do not know remember the exact number, but it was done some time ago. When we started the agro business, we



*Natco Pharma Limited*  
*June 18, 2020*

wanted to understand how the distribution works and how products were sold so it was for us this company is not engaged in chemical manufacturing, they are engaged in seed distribution BT cotton so I think for us it was a learning curve some time when we do an investment, we get a better idea what it is so that is what it was. I think OMRV is also similar size investment we have done this financial year and also the same logic to understand how hospital business works and it just gets a seed root, it is all small minority stakes we are not taking management control, they are all high single digit of positions, they are nothing large and AACT is a drug discovery company based out of US and again it is an area where we are doing limited work so generally I would like to associate with companies, let us say in the future you want to do some work in drug discovery it will be a nice see through when we do this investment because there are feel of how things are done, this company especially works on oncology drug discovery so we would also we gain programs internally as well, so what these investments do is all the way to give you see through on how things are done, give you fresh perspective. It is all just to understand it, because it is small way to learn, that is way how I look at it and these are not overtly large amount where things all numbers below 10 Crores.

**Tarang Agrawal:** Sir in case of Copaxone the last five sets, Mylan had achieved a 18% market share so what is the status currently players are there in the market?

**Rajeev Nannapaneni:** It is much higher over 30%. That is what I remember but I stand to be corrected, it is 30% I think that is what my gut tells me.

**Tarang Agrawal:** Are there any new entrants in this market?

**Rajeev Nannapaneni:** No, there are no new entrants. That is fairly stable market I mean continuing to do well.

**Tarang Agrawal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kshitij Joshi, individual investor. Please go ahead.

**Kshitij Joshi:** Good morning Sir. There is an enabling resolution at the board level to explore opportunities across the specialty chemicals, it is not just agri chemicals right, so what are your thoughts around that please?

**Rajeev Nannapaneni:** Enabling resolution particularly it is meant for agro related business, that was may be the languages are all encompassing but to specific investments are making are particular to agro.



*Natco Pharma Limited*  
*June 18, 2020*

- Kshitij Joshi:** Is it safe to assume it is for agro and not overall?
- Rajeev Nannapaneni:** No, there are two areas that we are operating, we are operating pharmaceutical chemicals and agro. I think agro is a strategic decision we have made from term call yes these are two areas we are operating.
- Kshitij Joshi:** My second question is about NATCO started with the strong API base, so given derisking from China to other countries such as India do you see an opportunity to scale up API because some companies have announced huge capex for APIs?
- Rajeev Nannapaneni:** I think our API business is a specialty niche business where we make lot of our intermediaries. There is some dependence on China for some intermediaries, but it is not such a large dependence and whatever government has announced in terms of for incentives and all this more commodity chemical so business we are not in.
- Kshitij Joshi:** Alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ravi Dharamshi from Value Quest. Please go ahead.
- Ravi Dharamshi:** Good morning. Just wanted to check what is the status on Revlimid US approval. I am not sure if this question has been asked earlier but if you can just give us some light on what is the status now that under this COVID is there an inspection that is pending or are they going to do virtual thing or what are the timeline now going forward for US approval?
- Rajeev Nannapaneni:** I think we had some queries again so it took some time to answer these queries so we answered those queries and we replied back to the FDA recently, so we have not got target action date at this time but we have replied everything so we are hoping again I mean saying this again and again but our understanding is that we have answered everything and all the major questions have answered.
- Ravi Dharamshi:** If you get a target action date will that lead to new round of inspection or how does that work?
- Rajeev Nannapaneni:** My sense we have been inspected, I do not expect any inspection, inspection is holding anything back. My sense is if we get action date and everything goes well, I think we should get the approval. I am very confident that will happen in the next few months. I am hoping again the extent of expense of taking a risk of being optimistic it should happen very soon and that is first sense that I have so we have wanted everything we are in good shape. I





*Natco Pharma Limited*  
*June 18, 2020*

am hoping to get some good news in the next few weeks at least in the next quarter I am hoping that we will get the approval I think that is our expectation.

**Ravi Dharamshi:** Just one last question on the Copaxone side, Mylan has been funding Mapi Pharma for once a month Copaxone, how do you think the market will shape up when this product gets an approval so what are the timelines on that and how will the market shape up post that?

**Rajeev Nannapaneni:** I do not know Ravi. I do not know where this trail is. I do not know where that stands, so I cannot answer you.

**Ravi Dharamshi:** But Mylan is your partner as well as their partner?

**Rajeev Nannapaneni:** I know. Good question but I do not have answer, I do not know where the trial is, I do not know where it is going, I have no idea. Unfortunately, I do not have answer to that question.

**Ravi Dharamshi:** Sure. Thanks.

**Moderator:** Thank you. The next question is from the line of Kush Agrawal from Stalin Assets. Please go ahead.

**Kush Agrawal:** Thank you for taking my questions, if you can just give some color on the new launches of the domestic formulation side specifically on the Dapnat which we launched in April and others in the portfolio which you launched in the last quarter and any other launches that are pending?

**Rajeev Nannapaneni:** I think during this year we have a strong aggressive portfolio. Last year we launched 10 products and this year also we are expecting to launch about that 8-10 products, Dapnet we launched dapagliflozin. Now we have a court case against us so I do not want to speak about that and that is just what I can say that product at this time, but what we can say is we have launched a product in the last quarter, I want to limit myself to that. Second question is how do we see the portfolio going? I think it is a challenging time to launch. I mean overall in COVID because the ability to meet the doctor is limited now and all doctors have not come back but their optimistic things are picking up except in the containment zone so overall I am fairly bullish I think the domestic business should grow, how much will grow will be little hard to say but overall I see that I am fairly optimistic about how things are.

**Kush Agrawal:** Just to pick on the Dapnat so is it like that we have stopped marketing the product since we have a court case against us or how is it working out?



*Natco Pharma Limited*  
*June 18, 2020*

**Rajeev Nannapaneni:** I do not want to talk about it my friend. There is a court case pending. I have been advised on legal counsel not to speak about this product. I am sorry I have to decline.

**Khush Agrawal:** Thank you so much. That is it.

**Moderator:** Thank you. The next question is from the line of Ritika Mehta from Axis Bank. Please go ahead.

**Ritika Mehta:** I have just one question, as the percentage of revenue how much do you draw from oncology and if you can share some rough figures on EBITDA margins or EBIT margin from oncology?

**Rajeev Nannapaneni:** I do not have specific EBITDA on hands for the oncology but overall our last year turnover on oncology was 307 Crores and that is about 15% of our sale. EBITDA of that portion income is higher than the general EBITDA of the company, that I can tell you for sure, how much I do not have a number on hand and overall EBITDA of the company is about 690 Crores in financial year March 2020.

**Ritika Mehta:** Generally, in oncology what is the range of EBITDA that one can draw because I have heard saying it can be 16% it can be 30% and more.

**Rajeev Nannapaneni:** Ritika it is much higher than the regular business. There is no doubt about that. Now it could be in accordance I do not want to say because I do not have the number on hand. I was not prepared for that question but if you can give me some time I will come back and we will probably speak about in the next conversation. I will come prepared but today I am not prepared to answer but what I can say it is much better than our regular there is no doubt.

**Ritika Mehta:** Any thoughts on you just mentioned that you see recovery in the medicine business but when do you see that recovery from 2Q onwards because when do you said it has not been too great?

**Rajeev Nannapaneni:** I will just give a general view of the business. Honestly, I do not know where this is going because we do not know how the interest rates are going to be, I do not know how the hospitalizations are going to be. But my sense is just going with this quarter I think as a base case I will be happy if we repeat the revenues EBITDA last year because our export business is doing reasonably well. I think we have seen a lot of up and down in the domestic business, but our export business has done much better than and we are also benefitted from the exchange at loss I mean depreciation of the Indian rupee versus Dollar. So, overall, I feel I think on base case is that we should be able to repeat the numbers that



*Natco Pharma Limited*  
*June 18, 2020*

we did last year. But optimistically again we cannot sit with the same conviction like in the past because of there are so many uncertainties that adds to it. I think we should grow this year by about 15%-20% across all our businesses and especially I am very comfortable saying that for our export business. For a domestic I would like to step back a bit and say that I want a little more time to speak about it because it just been about two and a half months into this financial year. I think we will probably get more clarity and how this year is going to domestic going to play out may around the first quarter numbers which will be around late July or early August so any way we announce that.

**Ritika Mehta:** Such as this clarifying you are saying zero percent that new growth is what you would be expecting in FY2021 with 15% to 20% growth from exports is that right?

**Rajeev Nannapaneni:** What I am saying is I am saying two things okay, what I am saying is one at a base case we think that we will be happy repeating the same numbers that we did last year okay that will be in the base case, and in optimistic case what I am saying is because this so many uncertainties attached to it because it is very difficult to predict I mean lot of people are shying away from predicting. I am being a little more brave, I am giving you a lot of caveats at the same time I am saying I do not know where this is going but really push me and say I will say it with lot of caveats because I do not where this COVID is going we do not how things are going to be we do not know how the geopolitical situation is. I would say we will actually grow I think we should grow 15% to 20% this year even better and the factor determining that is primarily because we believe our export order book looks good and our export prospects looks very and in spite of the uncertainty in the domestic market I think that has offset by the export business and to answer your last part of the question to get clarity on the domestic where the domestic is going I need a little more time. What I am saying is that give me till August I think late July to August to understand to get catch a trend. As of now it is difficult to even to suggest a trend.

**Ritika Mehta:** In terms of hospitalization what percentage of hospitalization has begun now say June month?

**Rajeev Nannapaneni:** Again, I was answering the other question a few minutes ago. I think the challenge in hospitalization is twofold, hospitalization leads to chemotherapy, chemotherapy always gives you sale. That has not been as robust as you wanted to be, that is first challenge. Second is, people are not visiting hospital to get prescription you know what mean even for products which you take at home people are not coming to the doctor if you a small ailment people are saying I do not want to come because I do not want to catch the COVID infection in the hospital because there is fear that hospitals are hotspots for infection. So, lot of people are actually deferring their hospital visits. So, even that is putting stress on the



*Natco Pharma Limited  
June 18, 2020*

system. As I said I do not want answer that question because I do not have answer to that question. Let us give it some I think we will get more clarity. What I am saying is April may be see reduced demand but June we are seeing good demand because there is lot of pent up demand and the things are picking up and to predict how it is going to be in domestic I think I want a little more time. So, I think that is best way to answer that.

**Moderator:** Thank you. Ritika we requested to please come back in the queue as we several participants waiting for their turn. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

**Nikhil Mathur:** Good morning everyone. Sorry for harping on the domestic business again so my question is bit backward looking. I am not trying to gauge out in FY2021. If I look at domestic oncology in FY2020 it has kind of declined by 22% now there could have been some bit of disruption in Q4 because to COVID but still can you help me understand what has been the decline in volume what has the decline in pricing and has there been two-three products launches in FY2020 that has countered the negative impact to a certain extent?

**Rajeev Nannapaneni:** There have been some new launches in FY2020 which has countered the decline that is absolutely correct there were two-three things happened that have happened last year, I think we spoke about in the previous call I will just repeat myself again. See one factor that has happened was if you recollect before the general election that was May of 2019 just before the elections and the government did a price control on whole set of cancer products okay. So, there were heavy discount so what they have said is if your transfer price your distributor X you cannot have an MRP greater than 30% of that X. so, initially what happened is we readjusted the MRP. But we started getting push back from the hospital saying we are not happy because you are giving higher discounting earlier and we want to be compensated for the discounting. So, there is pressure back on us to give higher discount which is what has caused a decline in the revenue of our portfolio. So, that explains why it happened and the reason why it happened, and second part of your question was did it get offset by the new launches. Yes, there has been some off setting that has happened and to answer the position today I think things are little more stable now. I think lot of these factors is now factored in. So, our numbers are now stable we are not seeing any further decline.

**Nikhil Mathur:** Would you say that there has not been any kind of a negative volume impacts in FY2020 or that could reply us and there has not been any market share loss?

**Rajeev Nannapaneni:** I do not think so. We have not lost so much market share I think more is to do with the pricing scenario.



*Natco Pharma Limited*  
*June 18, 2020*

**Nikhil Mathur:** Okay and secondly on for this Cardiac and Diabetes still correct me if I am wrong here, I think we have done 6 to 8 launches over the last two-three years in this big space and you are at an annual run rate currently at around Rs. 45 Crores. Now my point here is that in a way the way of strategic position it is more to do targeting products that are going off patent and being the initial entrant with the new or the higher next addition products that are going to sum up over the next four-five years. So, in a way your growth is kind of linked to the number of products that you can target in the market over the next two-three years. So, can you give some sense on the number of products that you can target over the next four-five years and whether the run rate can be Rs.10 Crores, Rs.15 Crores or Rs.20 Crores, Rs.25Crores in each of these individual products?

**Rajeev Nannapaneni:** I think we have an interesting portfolio I think we have lot of first launch portfolio. So, I think we are targeting about 10 to 12 products a year. I think do I have a pipeline this will see us through for the next two-three years yes, we do, do we have a strategic intent yes okay that is the target that is the business model.

**Nikhil Mathur:** Okay and even in this particular year now because of so much of virtual connect happening between Salesforce, reps and the doctors where you see it as a disadvantage versus the larger player specially at a time when NATCO is trying to grow in this particular segment. So does it put you off a bit in FY2021 and may be beyond that things can be a bit more under control given your strategy in this particular segment?

**Rajeev Nannapaneni:** See your question specifically is because of COVID as your ability to launch and market your product limited the answer is true for everyone right it is not true for NATCO that is the question. But people are using different strategies you are doing online strategy, you are doing webinars people are coming out with more creative ways of doing things. My sense is things will settle down. Again, as I said to give some sort of guidance about 2020-2021 at this time I think I do not want to say anything right now. Let things settle down and I think then we will get more clarity on where things are. But see what do you always say is that we have good strategy it will work in the long run I think that is how we have to look at you cannot say what is going right now is obviously, these are all difficulties that are everybody has the same challenge it is free environment you cannot do much about that. But you cannot dilute a strategy for it right, so you stick to the strategy that you are doing, and you get your dividends in the long run. You cannot take three months, six-month view on this we have to take three years, fiver years view on this. I think that way you build value for your brand.

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



*Natco Pharma Limited*  
*June 18, 2020*

- Kunal Mehta:** Thank you for the opportunity. My first question is I wanted to understand the situation in the facilities in Canada. Can you just throw some light and how you are progressing on that front and how after COVID things will get difficult especially in the Brazilian market?
- Rajeev Nannapaneni:** I think this year in terms of the subs, they are doing well. I think front and sub-sale is about, of course the front sale last year was about Rs.50 Crores. I think the subs are doing well except for Brazil, all the other subs are not losing so much money Canada is profitable, Singapore, Australia we do not much sales, Brazil we have lost because of the exchange rate a bit. But overall, I think we are positive about things I think we have a good portfolio the demand is good for the oral products I think I do not see much challenges in the subs.
- Kunal Mehta:** This is your base case would you expect subs to achieve give you some additional revenue this year?
- Rajeev Nannapaneni:** They will do well. I am very optimistic. We have some very good litigations pending in Canada where we are expecting favorable outcomes. We have some very good launches lined up in Brazil and in Canada I am fairly optimistic.
- Kunal Mehta:** Second question I have, this is on the domestic oncology business. So, if I look at the data of this whole space in the last three-four years what we observe in that there is competition in this space is increasing at a lot faster pace and now we have a lot of good large and small companies trying to launch products even ahead of us and lot of the small products and whose space I am sure you also agree that those with the pricing pressure which have but the whose space is getting a lot more competitive than it used to few years back. So, I wanted to know your views on this and how would you approach the strategy. Would you change something in the strategy front on the oncology business or what are your views on this Sir?
- Rajeev Nannapaneni:** I think our portfolio is unique and we have a very good base portfolio. I think we have done well now we have a very large base in oncology to start with. Second is growth strategy wise all that products that we target there always try to be first in the market. So, our strategy is always unique, our strategy is not like the others and either we have a very good technology base, or we are always challenging patents so those are too differentiating factors compared to the other companies. Is it more competitive than in the past? Yes, it is competitive like everything else in generics is competitive. I mean you cannot really say one business is easy and that business is hard. I think you just must be strategic, and you have to be very smart you have got to execute it I think that is what really comes down to. If you can do it in the first phase you will make money in any business, I can say that I think that is always the target of the company.



*Natco Pharma Limited*  
*June 18, 2020*

**Kunal Mehta:** Just a follow up on this. This is my last question; I definitely appreciate your point that what I am trying to understand is that does this business lend itself to scalability in terms of the whole opportunity side which you are looking at Sir. Can we grow this business and make it almost double of what it is in the next three-four years would you see that our strategy will make that possible?

**Rajeev Nannapaneni:** I am optimistic yes. If you give me three to four year perspective yes absolutely we see this business can double over a period of time because with increasing I mean if you remove the COVID issue generally the affordability of products is increasing dramatically and lot of people are getting affected with cancer there is lot of interest in treatment especially from Tier 2, Tier 3 you see lot more demand than what you saw in the past. So, it will grow over a period of time certainly but this is a high base effect so that sort of compounding growth that you see with a low base business you will not see in oncology, but you will see a reasonable growth.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Thank you for taking my question. Rajeev you talked about the export being 15%-20% of the revenue something like growth in exports in FY2021. What could broad contours or driver for this sort of a number because US we do not have much to launch this year?

**Rajeev Nannapaneni:** We had a good quarter in April and June because some of it was also in March quarter and we had a very good quarter because of we had a good take off on Chloroquine. Now it has sort of slowed down a bit because the infection rates in US have dropped a little bit. So, we are also doing a clinical trial for prophylaxis use of Chloroquine. I think but those trial date numbers are not out yet. I think we need to wait for any further jump on that one. But overall there are two things have happened in the export market, one is that we have couple of good pandemic products we have Chloroquine and Oseltamivir which is helping might be the export business. The second is, there has been the exchange rate benefit is also there and the third factor is there has been especially for the export products, there has been reasonable amount of stocking that has happened. The people are buying product which is also improved the export orders and we are seeing very good demand for oral oncology products. I think we are with and differentiate that few minutes ago on the domestic. What we are seeing is because people are not going for chemo there has been a general improvement in orals so if the doctor is unable to treat a patient for obviously goes through a chemo he may not be comfortable doing on, he probably will do on oral after the chemo but because in order to do chemo doctors are prescribing oral onco products as substitute to



*Natco Pharma Limited*  
*June 18, 2020*

chemo. So, we are seeing very good demand on that sense. So, I think net-net I think whatever volatility that we are seeing in the domestic has been offset by base of the exports.

**Nitin Agarwal:** I am saying in terms of the new product launches, Rajeev, how should we look at US this year and may be US and Europe this year?

**Rajeev Nannapaneni:** Canada and Brazil have a strong launch portfolio. US we have couple of launch and nothing big but we generally seeing improvement in the US portfolio because of the higher demand and more stable pricing. It is more to do with the core portfolio which is driving the US business and Brazil and Canada has been driven by newer portfolio.

**Nitin Agarwal:** Doxil in Europe?

**Rajeev Nannapaneni:** We are doing some work on this I do not have clarity on the launch of this not currently.

**Nitin Agarwal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

**Kunal Randeria:** Rajeev one question. This year you will not get any revenue from say Agrochem business so but what are the costs that you are incurring in the P&L because of that?

**Rajeev Nannapaneni:** I did not say that we will not get revenue in Agro business. I said we will get revenue subject to the approval and resolution in court case. So, that is answering first part of your question. In terms of the capex I think our total capex is little over Rs.100 Crores on the Agro business that is how much capital we have thrown at that. So, in terms of the expenditure there will be obviously depreciation plus operating cost. It will not impact so much it will have a minor impact on our earnings.

**Kunal Randeria:** Even if you get approval is not that a seasonal product sales and few months of the year?

**Rajeev Nannapaneni:** Generally in agro I think there are two seasons okay there is a Kharif season, there is a Rabi season so Kharif season now the sale happens, Rabi happens about three months from now. So, Kharif tends to be 60% to 70% Kharif and the balance of that 35% to 40% is Rabi depends upon the crops so it is about 30%-35% three months from now.

**Kunal Randeria:** Can you share what is your cash position and what are you intending to do with that?





*Natco Pharma Limited*  
*June 18, 2020*

**Rajeev Nannapaneni:** The total cash we have in our books is including deposits, shares, bonds, liquid investments is about Rs.999.31 Crores and our total debt position is Rs.314 Crores of which foreign bill discounting is about Rs.167 Crores and borrowing is about Rs.148 Crores. So, net-net we have cash left about little less than Rs.700 Crores.

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

**Vishal Manchanda:** Thanks for the opportunity. On your limited competition portfolio in the US has the profit share remained stable in FY2020 or has that seen a decline in the current year?

**Rajeev Nannapaneni:** No, it has been very stable Vishal.

**Vishal Manchanda:** When you like in your base case you are assuming the revenues to remain flat in FY2021. So, does that assume there will be no incremental competition in Copaxone in the US in FY2021?

**Rajeev Nannapaneni:** I assume that there will not be any incremental competition in the near future may be in the later part of the year but yes. See there are so many factors so do not hold me to something because very difficult to that so many moving parts to judge. Yes I assume that there could be cognition by the end of the year. I do not see an assumption.

**Vishal Manchanda:** On Copaxone anyone who launches Copaxone in US does that require a sales force effort or some infrastructure that would be an entry barrier in terms of the ramp up in market share that can happen for the new player in the market?

**Rajeev Nannapaneni:** Yes, that is the understanding. I think you need some sort of sales set up.

**Vishal Manchanda:** Could you guide something when China we had some filing in China so where are we on that?

**Rajeev Nannapaneni:** We have few filings. I think our marketing team is saying we have done two successful vials we have submitted two products. So total under review we have about four to five products in China. Our marketing team is saying at least we get one or two approvals this year. I think if we are optimistic, we will get one or two approvals. We will see that how that goes. As of now I do not have any clarity, but we are awaiting something hopefully this year.

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



*Natco Pharma Limited*  
*June 18, 2020*

**Nimish Mehta:** Thank you for the opportunity. Rajeev two questions, one you comment on the nature of queries that we have seen in Revlimid and basically trying to understand is it a complex product and what kind of product it is? Second I just wanted your view on the domestic market overall because for quite long time we have seen increase in price across the market and whatever is happening due to the pandemic is there a risk of a price decline across the market may be more so in our sector?

**Rajeev Nannapaneni:** Let me answer your first question, your question was what is the nature of the queries are relevant and were they answered? The nature of the queries was not difficult. I think we have answered them all of them so I think there was one query on the Rem set up and clarity on that and there were other general technical questions. We have answered all of that. I think we have comfortable that the answers that we gave I think we are optimistic that we will get the approvals soon. The second question that you had I did not understand that question could you just rephrase that question you said something about pricing?

**Nimish Mehta:** Domestic market if I am not wrong as so many years the last three-four years let us say largely a big portion of the growth is due to the aggregate price increase that has happened. I would assume that that would be true even if the law comes?

**Rajeev Nannapaneni:** It is not true my friend we do not raise as far as.

**Nimish Mehta:** What is not true I mean for the market or for us?

**Rajeev Nannapaneni:** Our portfolio will never raise prices only in one or two cases and the price control on raising prices also. In non-control you cannot raise more than 10% that is the law and second we generally do not raise prices because in cancer there is lot of price sensitivity. If raise your price then the affordability drops dramatically it is not like Rs.5-Rs.10 tablet where people raise by 0.50 paisa that does not have much impact you cannot do that in cancer.

**Nimish Mehta:** Okay, so the overall thing is that with whatever happened in pandemic and is there a risk of further price decline in the our segment because people I think other companies would want to push their products in some manner so that you can take?

**Rajeev Nannapaneni:** Again, Nimish I will come back to the same point that I made this pandemic has really disrupted so many things you cannot make a prediction about what is actually happening in the market until you have more clarity. I would again reserve my judgement is give it another two-three month. I think what I can tell you is two-three things, one there was reduced demand in April and May. Things have picked up now and that is the only thing. I



*Natco Pharma Limited*  
*June 18, 2020*

can see I am only judging it for this two and a half month that we have gone through. I do not want to say anything about what is actually going to happen in this business until July end or August because then you will actually catch a trend when you would have experienced but five months of this pandemic. As of now I would just reserve all my judgments because there are too many moving parts it is even to make an affirmative statement that this happening.

**Nimish Mehta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Anuj Momaya from Valuequest. Please go ahead.

**Anuj Momaya:** Thank you Sir for the opportunity. I have couple of questions. Can you just share from which facility have we filed Revlimid. It is from Vizag or from Kothur?

**Rajeev Nannapaneni:** From Kothur.

**Anuj Momaya:** Okay and have done another filing on the Agrochemical piece because we have just talked about Coragen filing only so last time we had said that we will be doing some more filings in agrochemicals space any more color on that?

**Rajeev Nannapaneni:** We have filed another product. I do not think we will disclose the name of the product but we have filed another product.

**Anuj Momaya:** That will be commercialized this year?

**Rajeev Nannapaneni:** Then the review time takes typically agro licenses take about nine to twelve months for approval so nothing at this time.

**Anuj Momaya:** Thank you.

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

**Rajat Sethiya:** Sir just wanted to check have we taken any settlement in Sorafenib because we had thought that Mylan would take a settlement which could have.

**Rajeev Nannapaneni:** They have a settlement. We have a settlement for Sorafenib launch and we have possibly 180 days exclusivity on that product. We already have a settlement.



*Natco Pharma Limited*  
*June 18, 2020*

**Rajat Sethiya:** Our understanding was that now that every recent patent November 2020 and 2023 have expired, every other patent except for these two. So, how do we get the benefit from this exclusivity?

**Rajeev Nannapaneni:** We have not launched it. I think we have not allowed to disclose because of the confidentiality. I think that launch date is sooner is coming by then we will talk about this. We expect to benefit because we believe that we have 180 days that is our understanding, but I think we will speak a word when it is closer to the rather premature to talk about this at this time. What I can confirm to you at this time and this call is that we have a settlement with the innovator.

**Rajat Sethiya:** What could be the market opportunity size for this launch?

**Rajeev Nannapaneni:** How big is this product? I understand this product is about if I were to guess it is about \$300 million US in that region. Exact IMS numbers I do not recollect but I think if you were to hazard a guess it is around that region. I subject myself to correction but in that region is what I understand.

**Rajat Sethiya:** In terms of our supply chain now that the cases are again emerging in China, do you think we really to be worried about that in terms of securing our supply chain?

**Rajeev Nannapaneni:** I think what I have done is at least for the key products I think we have discussed this with the supply chain. At least for our key products we are keeping about eight months to nine months of inventory for the key raw materials for our key products. We cannot do for every product of course. The key profitable large volume items where large value items we are keeping almost eight months to nine months inventory. I think we have been successful doing that for most products, few products we are still working on it. I think as a policy we decided to keep long inventory. If the infections do happen I think that is the risk and will happen in a particular facilities there could be possibly a downtime where you will lose few weeks of production so I think we should be mentally prepared for that but our view is that because we are keeping such large inventory stock, I think we should be able to deal with this and generally our portfolio is also very fairly high value so I think we are covered I think cost of it is also not too large and I think we should be able to deal with that. I think we made a strategic decision to do that.

**Rajat Sethiya:** In Copaxone would you be able to comment in terms of the absolute profits that we would have generated in this year versus the last year, what kind of change would have happened in percentage terms?



*Natco Pharma Limited*  
*June 18, 2020*

- Rajeev Nannapaneni:** Could you say that again, could you rephrase that question I did not understand?
- Rajat Sethiya:** Big profit that we would have generated from Copaxone in FY2020 that kind of a change we have seen compared to FY2019?
- Rajeev Nannapaneni:** We have been fairly stable. I think there is a slight increase in FY2020 and the revenues have been fairly stable. In fact we got more market share as compared to what we had previously so we are doing well.
- Rajat Sethiya:** So pricing wise there is not much pressure in the market?
- Rajeev Nannapaneni:** It is stable my friend, we have got higher market share and the pricing has been stable.
- Rajat Sethiya:** Thank you.
- Moderator:** The next question is from the line of Shruti Joshi from We Invest.com. Please go ahead.
- Shruti Joshi:** Good morning. Thank you for giving this opportunity. This is a follow up question on what asked on the oncology and its competitive intensity. So as we launch as we can see the norms everyone is moving towards the complex generic order which is more wherein we come on oncology, so how do you see going forward competitive intensity in these therapy especially in the area of the portfolio that we are targeting in this therapy?
- Rajeev Nannapaneni:** I think you asked two questions, I think as a challenge we decided not to do Biogenetics, we have decided to focus only on the big chemistry products. So that answering one part of your question. The second part of your question is do we see a lot of competition? I think there is competition I think there is a competition. I think every business has competition. There is no difference between onco and other segments I think it is fairly competitive business but I think we specialize in doing difficult to do generics so that is what it has always been our marquee and we have done well with this and I think we have an interesting portfolio and we have also done lot of good patent litigations which has allowed as early entry so the strategy remains and I think we are still positive about the future.
- Shruti Joshi:** Just a last question, can you throw some light on what could be a business strategy in agrochemicals like is it going to be like we are targeting like challenging the patent or it is cost competitive, if you could throw some light on agrochemical business strategy?
- Rajeev Nannapaneni:** I think the model that we have adopted in agro is similar to what we do in pharma is one, do products where you believe you have a technology advantage and that you are able to start first. Second, is to do patent challenges. I am not big fan of doing cost competitive I mean



*Natco Pharma Limited*  
*June 18, 2020*

look at our portfolio is always very profitable, look at our cost to raw materials we are probably one of the lowest in the business, raw material to sales ratio if you see and I think I never like to compete on price and I think that is never the philosophy of the company, focus on technology, focus on trying to launch in the first phase and that has always been the philosophy and the same philosophy we are continuing into the agro business.

**Shruti Joshi:** Thank you again. Thanks for your question.

**Rajesh Chebiyam:** I am just saying like any questions or clarifications with respect to what we discussed today please feel free to reach out to us. We will also be putting the transcripts shortly, as soon as it is available. Have a good day and stay safe everyone. Thank you.

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