"Natco Pharma Q3 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Natco Pharma Q3 FY16 Earnings Conference Call hosted by Nirmal Bang Equities Private 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 will now like to hand the conference over to Mr. Sumit Singhania of Nirmal Bang Equities. Thank you and over to you sir.

Sumit Singhania: Thanks Karuna. On behalf of Nirmal Bang Institution Equities, I welcome everyone to Natco Pharma's Earnings Call to discuss the Q3 FY16 results. Today, we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni who is the Vice Chairman and CEO and Mr. Rajesh Chebiyam who is the VP of Business Development and Customer Support. I now turn over the call to back to management team for the opening remarks and then we will open it for question and answer session. Over to you sir.

Rajesh Chebiyam: Thank you Sumit. This is Rajesh. Good morning everyone. Welcome to Natco's Conference Call discussing our Earnings Results for the third quarter of FY16 which ended December 31, 2015. As Sumit mentioned joining me in today's call is our Vice Chairman and CEO Mr. Rajeev Nannapaneni.

Just as a disclaimer before we get started I would like to state that we may be making certain forward looking statements during the call and because forward looking statements are inherently involved with risks and uncertainties actual future results may differ materially from those expressed or implied by such forward looking statements. Let me also state that the material in the call with the exception of the participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco's expressed written permission.

Regarding earning details the third quarter of FY16 was an exciting and eventful period for the company. From a commercial perspective we received approval from the Drugs Controller General of India for Hepatitis C combination drug, both the Ledipasvir and Daclatasvir combination with Sofosbuvir

We announced successful settlement for two key ANDAs for the United States market Tamiflu and Revlimid. Domestic formulation business continues to grow well as we prepare the stage for international business growth.

During Q3 of FY16, the company recorded an aggregate of 281.4 Crores in consolidated net revenues for the quarter ended December 31, 2015 as against 202.8 Crores during the same quarter the previous year, this is recording and reflecting roughly about 39% growth.

The net profit after tax on a consolidated basis was 37.15 Crores as against 14.3 Crores same quarter previous year that had a one time exceptional expense.

The solid growth in revenue and profit for the quarter was largely driven by the domestic formulation business the revenues for which grew to about 170 Crores during the quarter as opposed to 62 Crores the same quarter in the previous year.

Coming down to the segmental breakdown it is specifically for the quarter the API business overall was about 39 Crores, the formulation domestic 170 Crores and exports formulation is about 36 Crores.

On the US retail and subsidiaries about 29.7 Crores the US retail specifically was roughly around 25 Crores.

Coming down to the breakdown in Hepatitis C, the branded for the quarter the branded hep C did about 72 Crores, the third party did 29 Crores, so specifically on the split the Sofosbuvir itself did for the branded did about 50 Crores Ledi and Sofu combination did 16 Crores. Daclatasvir standalone did about 6 Crores. Our top onco brands continue to do well formulation exports remain stable.

As far as the guidance what we had mentioned during the earlier con calls our guidance for FY16 remains at a top-line revenue of 1050 to 1100 Crores and the PAT level we continue to stay roughly around 150 to 155 Crores.

So from an overall perspective I think we have touched some overview. Now, I would like to just hand it over to Rajeev and for further questions. Thank you very much.

Rajeev Nannapaneni: Good morning to everyone. So I am ready to take questions. You may start.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Mitul Mehta from Lucky Investments. Please go ahead.

Mitul Mehta: Good morning sir and congratulations for good set of numbers. My question is to Rajeev. Rajeev this on Copaxone, we understand that in the call of Mylan nothing was mentioned

about the 20 mg and secondly Teva apparently have said that they foresee no competition in 2016 so do you have any comment on this and we all understand that there has been a delay, but has anything changed from your end or the formal communication that you have been having with Mylan on 20 mg, also if you can help us to understand as to what is happening on the 40 mg side because Teva has successfully converted 78% of the patients from 20 mg so obviously the market is shrinking day by day and third is this quarter we have had some decline in gross margin so therefore the EBITDA margins also declined, is this because the product mix what more toward the hep C portfolio and do you see any change in margins in Q4 because we will be selling now the entire combination with Daclatasvir so if you can just help us to understand these three.

Rajeev Nannapaneni: Let us start with your question on Copaxone, so the question was when we expect our approval. That is how I am interpreting your question. We still are positive that we should get our approval in 2016 because it has been delayed for so long now I cannot give affirmative dates. I will go back to our stated position that there is nothing pending from the FDA from our side. We have answered all the questions that FDA had asked us and it is all left to the FDA when the approval will happen. I cannot say anything more on this and in terms of the second question about conversion and all the market dynamics and all, it still has a good market even though it is still fairly good market and how I generate, it all depends on how and when we get the approval, so that will be slightly speculative but we are still positive, it is still a fairly large market and whenever the launch happens I think will be fairly positive. And the third question you had was the EBITDA margin has come down and it is because of the product mix or any other reason. The EBITDA margin has come down partly because we had lot of emerging market revenue particularly from Brazil and Venezuela comparatively in the last year and this year we do not have it because of the stress that the emerging markets are facing right now and that business was more profitable compared to the **(inaudible) 9.06** that we have right now, but hep C portfolio as you know has done well for us because it is a profit share model the margin remains constant so even if the revenue keeps going up the margin is steady and constant, because the mix is, it is slightly less profitable so that is why you have that impact on EBITDA and the other thing is we have a noncash charge on our books of 5.5 Crores this quarter so what we have done is we have granted ESOPs for about 1,50,000 shares before the split so about 1,50,000 I think and x 5 so with the split it will be 150000 x 5 so that is about 7.5 lakh shares which would be vested over a period of next five years. According to the accounting standard we are supposed to expense 5.5 this quarter and about 2.5 next quarter so it is about 8 Crores this year and about 10 Crores in 2017 March and then the rest of the expense will what I understand about 30 odd Crores of which I think nearly two-thirds of it will be expensed in this financial or next financial year, the rest of the 10, 12 Crores will get expensed over the

next three years or so, so there will be a strong impact this year and next year so that is why the EBITDA seems slightly lower the 2% drop can be attributable to the ESOP expense, it is a noncash charge as you are aware.

Mitul Mehta: Sir would you have any anxiety as far as the 20 mg goes, any communication that you have had with Mylan because what I understand is the last query this was about two calls back when you did mention that there was a query and we kind of fulfilled the query by answering to it.

Rajeev Nannapaneni: Time to time we have some minor queries and there is nothing pending as of now, I think that is the understanding that I have and we speak to Mylan regularly on this. I know I am not able to give you a better answer but for sounding repetitive I have to sound repetitive again. We have done whatever we can. Just waiting from the FDA, that is all, that is the only answer I can give.

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

Ravi Dharamshi: Sir, congratulations for good set of numbers. You have guided for about 150-155 Crores the full year PAT, so I am presuming the last quarter will be very strong. I just want to understand if that includes Venezuela order as well.

Rajeev Nannapaneni: It includes two things Ravi. If you see the numbers Rajesh gave you the split of the brands, Sofosbuvir did 50 Crores, Ledipasvir 16 Crores, Daclatasvir 6 Crores. The benefit of Ledipasvir and Daclatasvir we did only in December because the approval came only in December, the two things that I am going to drive the earnings in January to March one is the uptake of Ledipasvir plus Sofosbuvir and Daclatasvir which will have a benefit of three months as opposed to one month in last quarter and bit of some third world revenue including Venezuela. So both these two items will drive the earnings and we are confident that we can meet the guidance. I think we are only a month away. I think everything is done so I think we are fairly confident we should have a strong Q4, absolutely right.

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

Nitin Agarwal: Thanks for taking my question. Rajeev, when you look out for the next four to five quarters I guess, you have gone through this before also but with the passage of time is there any more incremental visibility on the drivers for the business across US and Europe for the business?

Rajeev Nannapaneni: Absolutely and this is our best business estimate okay, so assuming these events play out I will state all the possible events that I believe will play out in the next 12 to 15 months for the next three, four quarters. As I prefaced earlier Q4 numbers will be very strong because of the takeoff on the Sofosbuvir plus Ledipasvir and the combination and Q4 will be very strong and then for March 2017 the following will drive the earnings. One is we are anticipating Entocort approval. We have a target action date on Entocort as of April 2016, so if all goes well and we get approval of Entocort in April 2016 that will be one key driver of the earnings and two, Copaxone whenever that happens so that will be the second driver, third driver would be the uptake. Now, the domestic formulation has touched nearly about 170 Crores so we see this business growing by another 15%, 20% so I see that this business should stabilize. We should be clocking domestic around 200 a quarter or so. Next year I think our estimation is that we do 800 Crores plus in the domestic so that should also help drive the earnings and of course in the next financial year we have the Tamiflu launch that so I think these four, five things will be key which will drive the earnings next year.

Nitin Agarwal: In terms of Venezuela most of the peers, although ours is a different business in a sense we deal with the government but I guess you mostly have suggested that it is difficult to get any money out of Venezuela so how are you looking at this business now?

Rajeev Nannapaneni: The difference between others and us is this, I think they have the own private subs which they sell, they import and sell and they are getting problems getting currency exchange. The difference between us and the others is that we sell directly to the government as you rightly said; we get money from the government. The reason we did not dispatch our goods for all these months is because we were waiting for a substantial advance from the government. That was the precondition in deal with them so we have received the advance from them, so that is why we are able to book the revenues in this particular quarter. I am not saying there is no risk, that will be a foolish thing to say, but I think we have done a lot of mitigation in terms of either having an insurance or getting an advance so like the earlier receivable that we have we have insurance and this receivable now it is harder to get insurance because of what is going on in Venezuela, we insisted for a tidy advance, so this at least reduces the risk a little bit and relatively default by government has been less compared to the private market but it is tough, let us be fair but we have done few risk mitigation measures.

Moderator: Thank you. Next question is from the line of Mitul Mehta from Lucky Investments. Please go ahead.

Mitul Mehta: Sorry actually in my opening question you forgot to mention about the 40 mg status as to how things are looking on that front, and second sir I just want to understand your thought process on the Revlimid settlement that we seem to have pushed the product in 2022; earlier

we were hoping to kind of litigate and may be if things would have gone well there would be an early launch in 2019 or 2020 but here we have kind of **(inaudible) 17.46** and now the launch is certain with some limited volumes and then gradually we scale up. So I just want to know your thought process to what triggered this settlement.

Rajeev Nannapaneni: Sure absolutely. Let us go back to your 40 and then I will come to Revlimid, 40 mg I think the two events which are happening are ANDAs under review so that is under active review, so there is nothing much to get back on that. On the 40, litigation from what I understand, I have not checked lately, there is obviously the court litigation with 30 months stay which is ongoing and the second thing that is happening is the IPR proceeding against the 40 mg. I think sometime this year there is a decision expected on the 40 mg on the IPR proceeding. So theoretically the IPR proceeding goes well from what I understand and again I subject myself to correction, we have to check with Mylan I think if the IPR knocks off the patents I think there is a good chance for generic income earlier.

Mitul Mehta: How early sir if there is any knock off?

Rajeev Nannapaneni: I do not want to speculate I have to check with Mylan what is the strategy is I am not I think Mylan can better answer that question. The second question you had was about Revlimid. The thought process on why we have settled and the way we have settled. See, what we have done is, this is what we have done, as you know there are patents going on from today till 2026 or 2027 so what we have done is we have said we will have a launch date in 2022 March. It is a limited quantity as the press release said but the quantity keeps scaling up every year and goes to unlimited quantity over a period of time. So you think mathematically there are two three scenarios here. I will cover each scenario and tell you why this is advantageous. Let us assume that there is no generic in the next few years even in 2022 or 2023 so then we are getting a chance to launch **(inaudible) 19.53** and we are getting a good upside and even though it is a limited quantity the erosion also will be low because there will be only generics, I am yet to make good money. Scenario number two is if something triggers a launch date earlier than 2022 so the agreement has standard accelerated clauses with respect to everything, so if such an event were to happen so it is 22 limited quantity which will increase over a period of time to unlimited quality till 26 or in the event that something happens to the patents or certain events which are defined in our agreement, there are whole slew of events that are defined, standard accelerated clauses kick in which allows us an earlier entry as well. So it is not that everything is set in stone but based on certain events you can accelerate the launch date and accelerate the quantities and all but again what those are if certain predefined events were to happen.

Mitul Mehta: What is the share you have with Alvogen on this particular product?

Rajeev Nannapaneni: I think if I remember right about one-third of the revenue. This is not Alvogen. This is Allergan.

Mitul Mehta: Now in terms of the number of filings what I understand is that obviously this year will be a good growth year for us so we will have enough cash flows and also in terms of derisking our plant and the regulatory bit of it because USFDA is catching everybody, your thought on this in terms of how you can derisk or it makes sense to have one plant where you can focus all your energy on that front.

Rajeev Nannapaneni: I think we have done couple of derisking. One is that if you see our revenues now, our revenues from ROW has improved dramatically because of our hep C franchise, now if you look at the profitability of the company it is driven primarily by ROW and if you look at this quarter earnings our revenue from regulated market formulations is barely 10% of our revenue, of course the upsides are from the US, I do not deny that, but if you look at the base business, it is extremely strong and driven completely by India and the third world. That is one derisking we have done. The second is we are building alternate facilities, now as you know we have two API facilities, in Hyderabad we have one API facility which is FDA audited and the second one has been triggered recently so that also I think we should completely audit soon and if that happens we will have two API facilities which are FDA audited and formulation we have one and the second one we are building in Vizag which we hope will be ready by March 2017, so that is our risk mitigation as of today.

Mitul Mehta: And lastly Capex for the next two or three years if you can tell?

Rajeev Nannapaneni: As of now I think our capex in budget was about 180 Crores and I think we have spent about 120, 130 so I think we are spending whatever we are making so we are not spending beyond what we are making, so in terms of the position right now I think before we gave the dividend I think our cash position with cash and equivalent whatever all put together is about little less than 100 Crores and our debt without bill discounting is about 45 Crores so I think we are fairly comfortable and I think the business is generating good cash flow and our Capex going forward even next year it is about 250 to 300 Crores. It is more or less, whatever we are making we are spending, we are not borrowing anything substantial.

Mitul Mehta: Where are we spending that 250, 300 Crores of money?

Rajeev Nannapaneni: For next year you are saying, what we primarily we will do is we will spend in Vizag completing the formulation plant and we are expanding in Chennai to build a backup site. Right now Chennai has only cytotropic chemicals, it does not have noncyto large volume chemicals so we will do a Capex to take care of that in Chennai and in general upgradation

for our Guwahati plants and Dehradun plants for our domestic market and general maintenance for R&D and stuff like that, so I think that would make up most of the investments.

Moderator: Thank you. Next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Hi, just first one is again on India, if I understand your guidance of 800 Crores is and there is significant traction from last year is that largely from the said products or what is driving this significant growth?

Rajeev Nannapaneni: It all hep C, I think, if you see our numbers I think we used to have 250 Crores domestic business before hep C happened about nine months ago, we precisely launched it in March, exactly less than a year ago so what has happened is the HEPC business has grown to this size now. So hep C business has added about another 40 Crores per month that is exactly what is leading me to give you a guidance of 800.

Girish Bakhru: So just on that leading Sofosbuvir aside on Ledipasvir and Sofosbuvir combination and Daclatasvir can you give us color how many players are there in India now who are selling this.

Rajeev Nannapaneni: Over there are many.

Girish Bakhru: Even Daclatasvir?

Rajeev Nannapaneni: There are many. See basically what happened was it just happened the way Sofosbuvir happened. Sofosbuvir plus Ledipasvir and Daclatasvir the manufacturing license was issued to Natco and Hetero again. What happened was we both launched our own brands and all the other guys who launched took it from either Hetero or Natco. Again we had the first mover advantage so that has benefited tremendously but each party I think we probably supply to four five customers, Hetero also supplies to four, five customers so there are about eight or nine generics on each one of them. Manufacturing license is only two so I think that is the benefit that we have.

Girish Bakhru: On the US side I know you said Tamiflu being of course the first big kicker in next year, can you throw some color on Fosrenol, you had mentioned earlier this was probably somewhere in FY 2016.

Rajeev Nannapaneni: I think recently there was a fresh litigation that were instituted by the innovator again and that got dismissed recently, **(inaudible) 27.36** launches. We have an FDA query which was

asked and we are in the process of answering, so once we answer it I think I can give you a guidance of when the launch will happen. I think we are hoping to complete all the queries, so once we answer it then I think it will be fair on my part to sort of give you guidance on launches. If it goes well and we answer soon I think we can probably launch it in the next twelve months I hope.

Girish Bakhru: Next 12 months, okay, that is helpful and this there is no other filer on this product right.

Rajeev Nannapaneni: There are two other filers know Mylan and Teva, but surprisingly nobody is approved on the products.

Girish Bakhru: On Budesonide what about the European launch?

Rajeev Nannapaneni: We are not pursuing Budesonide. There are different kinds of Budesonide. There is an inhaler Budesonide and there is the capsule Budesonide.

Girish Bakhru: I am talking about Entocort only; Entocort was not it supposed to be in European first launch.

Rajeev Nannapaneni: No my friend we did not file in Europe at all, we have filed only in the US.

Moderator: Thank you. Next question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Hi, thanks for taking my question. On the hep C franchise currently as you mentioned that we are clocking at around 500 Crores of annualized run rate given the competition what kind of growth rate potential do you see in this market and in terms of the manufacturing rights I believe that Strides as well as sister company Sequent they were also seeking this so if you can throw some color on this.

Rajeev Nannapaneni: No everybody has it Kumar, I think from what I understand, again I am going from what is available in the public domain there are about seven to eight licensees for the Sofosbuvir and Sofosbuvir plus Ledipasvir, top of my head if I recollect there are eight companies I think, we, Laurus, there is Cipla there is Sun and the whole Cadila there is lot of people have the license.

Kumar Saurabh: But everyone sources from either you or Hetero?

Rajeev Nannapaneni: For the newer combinations yes but for Sofosbuvir now I think Mylan has got their own license, I think Cadila got their own license.

Kumar Saurabh: I think Cipla is also trying.

Rajeev Nannapaneni: I think they have got their own manufacturing license. The license for the patentee is already there, they already had it about a year ago but anyway the third party business is not that profitable, it is only of 15%, 20% margin business. I think what drives the profitability is the brand business. 75% to 80% of our revenue comes from the branded business not from the third party and profitability wise I think more than 80%, 90% comes from the brand business.

Kumar Saurabh: You think in terms of price competition the market is matured.

Rajeev Nannapaneni: I think things will take probably another six to twelve months to settle down, see hep C and all we know that Gilead has done extremely well, you probably follow the numbers of Gilead, they have gone from 0 to 20 billion on this portfolio in just a matter of two years you have seen those numbers right.

Kumar Saurabh: Yes.

Rajeev Nannapaneni: I was positively surprised by the offtake, it is not everyday you get to launch a 200, 300 per brand which we have and I think our timing was right and I think we got lucky and we were there early in the market and we were able to established market share, the potential of this product is humongous because it is a complete cure. I think when I started off, I think had you spoke to me about year ago I would have said I will be very happy if we do a 100 Crores brand now the numbers are much larger than that, so if you stop somewhere I do not know where it will stop but my feeling is, that is why I am being little conservative, we have done about as you said 170, given a guidance of 200 Crores every quarter next year and I anticipate it will probably peak around 200 or if it does better than that I am assuming two things it will peak around 200 and there will be more price pressure and we probably make it up with higher volume and opening up our export markets. So the export markets have not really opened up yet so it will probably open up in the next twelve months. The registrations will come through slowly in the next few months. So I think we will probably peak on that franchise, so that is the feeling but there is a potential that we can even do more than that possibly but for us it is probably a 100 Crores franchise right now so we will probably do about 500 to 600 I think that is the feeling I get, if you were to make an estimate but obviously it is subjected to erosion and price competition and all that stuff, I will probably settle somewhere around there, that is the feeling I have here.

Kumar Saurabh: And in export market as you mentioned that there is still some time away what kind of potential do you see in that market and what are the challenges because none of your competitors also have been able to explore that market.

Rajeev Nannapaneni: No, I disagree with you with that. What happened is India is probably the first market where the market formation has happened isn't it.

Kumar Saurabh: Yes.

Rajeev Nannapaneni: When you look at the market, they gave licenses to about 110 or 115 countries which probably represents 2.5 to 3 billion people of which 40% of them are in India, so if you wanted to run in a Sofosbuvir franchise I think 40% to 50% of puzzle is in India which we got it right. We are little brazen to say but I think of all the guys we are probably the best among all the hep C franchisees. The export thing takes longer because the registration requirement and the process takes longer, you will probably see that play out in the next 12 to 18 months but my feeling is that there will be a lot of competition on that but even if you are able to replicate like 20% or 30% of success that we had in India I think I will be very happy and it is more dissipated because of different countries Vietnam, Nigeria, Myanmar we are just giving an example so it is not that a single market that will give you all the revenues.

Moderator: Thank you. Next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Hi, two questions from my side, Rajesh had given in the beginning the sales breakup, I missed the number.

Rajeev Nannapaneni: Why did not you reach out mail for us then you off line call him he will repeat the numbers again for you okay?

HR Gala: My second question is what was the reason for other income to drop by 10 Crores in nine months? Other income and other operating income put together it was 52.5 Crores in nine months of FY 2015, it has come down by 10 Crores, any specific reason?

Rajeev Nannapaneni: What you are saying is the other income has dropped is it?

HR Gala: Yes in nine months the other income and other operating income put together has come down to 42 Crores from 52 Crores, just wanted to know.

Rajeev Nannapaneni: One is we are de-emphasizing; job work we have de-emphasized a little bit that is one reason. Second is lot of this other income comes from profit shares from the US and that is from the existing portfolio that we have and that portfolio has faced a lot of pricing pressure in the US because of consolidation of buyers in the US and there is slight deceleration of revenue especially for the existing portfolio of the US generics.

HR Gala: Was there any element of forex gain et cetera in that?

Rajeev Nannapaneni: Very minimal, basically the forex gain that we have is essentially dollar outstanding which is there on such date and then you redo the earnings the next quarter and if the receivable has not come and the value goes up for the receivable, because we do not do any hedging of our receivables so it is just a restatement but that will be a very minor impact and the only thing we have is we have one ECB for about 10 Cores, it gets netted off, 10 Crores loan it is a very low cost of borrowings see the rupee depreciates about 7%, 8% so that there is a 1 Crore hit there, so the receivable will be 2 Crores, it will get restated because the dollar has changed from the time we sold and when we actually received the dollar but net it off it does not make much difference.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from IDFC securities. Please go ahead.

Nitin Agarwal: Rajeev, for the last quarter, as per your guidance, we are probably looking at about a 50-55 Crores sort of a PAT number, if we were to look through FY17 the business is going to be there in Q4 is it going to be largely sustained through the year.

Rajeev Nannapaneni: The way I look at it is the Venezuela piece will not be sustainable minus the Venezuela piece it will be sustainable.

Nitin Agarwal: Sir, apart from the Sovaldi scale up, the whole Sovaldi scale up as well as the Entocort and Copaxone, Tamiflu are there some other triggers which can drive business for us which are right now not very clear but potentially would crystallize for us going forward in FY 2017?

Rajeev Nannapaneni: We have filings of Bosentan Azacitidine and Imatinib also. Imatinib is going generic in this year I think from what I understand, so that is possibly some earnings there and then Bosentan Azacitidine I do not have clarity on the launch date so it will be unfair to speculate on that, these three are probably the newer things that could possibly happen we will get some clarity during the next year on that.

Nitin Agarwal: And on the non US market in Europe is anything meaningful that can contribute?

Rajeev Nannapaneni: The Gleevec generic and the Bendamustine generic.

Nitin Agarwal: And what timeline you are looking for those?

Rajeev Nannapaneni: In the next financial year it will happen.

Nitin Agarwal: And how big this opportunity could be?

Rajeev Nannapaneni: Top of my head I am not able to recollect maybe probably 30, 40 Crore launches put together. It does well. Our own complaint it is not a bad number for us but it is not if you want a big jump it is not a big jump so to speak.

Nitin Agarwal: Even 30, 40 Crores on the profit.

Rajeev Nannapaneni: It takes care of the sales I am saying; it kind of takes care of the base business growth of 15% can take care because of that. You can sometime see a price erosion on some of the older products, so to net it off that will add to the base business, it is not spectacular, a launch of Entocort, we have substantially profitable product provided there is not much competition on that on the day we launch, this will not move the needle as much from what I feel.

Nitin Agarwal: And lastly on the R&D front how many filings have we done this year and what is the thought for next year?

Rajeev Nannapaneni: I think we have done four filings in the US and we have some ROW filings for Sofosbuvir and then we have some sub filings in Canada and Brazil.

Rajesh Chebiyam: Another filing we did during Q3 for the US, another ANDA filing, so we are 38 today and four filings during the fiscal year so far.

Nitin Agarwal: And for the next year how many are you looking to file?

Rajeev Nannapaneni: The general attempt is still about five to six for the next fiscal year and I think that rate of filing again historically has been more like three to five, so the target is at least as I said five, six or may be little higher than that for the next fiscal year.

Moderator: Thank you. Next question is from the line of Mihir Mehta from ICICI Securities. Please go ahead.

Moderator: Thank you. We have next question from the line of Brijesh Kasera from Edelweiss. Please go ahead.

Brijesh Kasera: Good morning Sir. Congratulations for good set of numbers. Sir just wanted to know whether you have already launched lansoprazole OTC, the approval that you got last quarter.

Rajeev Nannapaneni: I am not able to recollect. I think we gave this stocking contract to Allergan but whether they launched or not, I do not know. I will just check. It is not a meaningful launch so we are not talking much about it; it is a very small launch.

Brijesh Kasera: Sir you talked about the margins that year-on-year because of the Venezuela impact the margins are down but even on quarter-on-quarter basis the gross margins have come off from around 70 odd percent to around 67 odd, have we taken some price cuts on hep C portfolio that is impacting the gross margins.

Rajeev Nannapaneni: Hep C portfolio itself is very comparative, hep C will only make money by volume, you do not make money by sales, the more you sell, the better it is for you, and so hep C is seeing some pressure. I always said hep C is going to be competitive. Because the contribution of hep C has become so large in our balance sheet that is why we are seeing that pressure and in terms of the EBTIDA numbers.

Brijesh Kasera: What would be the sustainable kind of an EBITDA number that we could look at going forward?

Rajeev Nannapaneni: It depends. If you assume there are no one times let us assume there are no one times, when I say one time it is special launches then I think the present EBITDA number for the whole will get slightly better I think because of ESOP it dropped a bit but I think 25, 26 seems reasonable.

Rajesh Chebiyam: Around 25 still is sustainable assuming that there are no special launches in it.

Moderator: Thank you. Next question is from the line of Afzal Mohammed from Karvy Stock Broking. Please go ahead.

Afzal Mohammed: Sir regarding hep C franchise in how many countries have you filed for product registration.

Rajeev Nannapaneni: 23, I think, were filed.

Afzal Mohammed: How much revenue do you expect to generate from these countries in FY 2017 in the coming two months?

Rajeev Nannapaneni: I think it depends on when the registrations come. It will slowly ramp up it will happen over a period of time I think the potential for these markets I suspect is about 150 to 200 Crores over a period of time, but it will slowly ramp up probably it will start with about 30, 40 Crores and move to 70 then slowly it will increase.

Afzal Mohammed: Would you be one of the first few entrants there?

Rajeev Nannapaneni: I hope so, but I think we have good competition also so I think all our friends also have caught up, it will be fairly competitive but I think we should do it.

Afzal Mohammed: And Daclatasvir was Natco the first launcher in India?

Rajeev Nannapaneni: Yes.

Afzal Mohammed: How much have you priced that at Sir, MRP?

Rajeev Nannapaneni: MRP of Daclatasvir Rs.6000 for one month.

Afzal Mohammed: Compared to **(inaudible) 45.05**.

Rajeev Nannapaneni: No, it is how it works, 19900 is Sofosbuvir standalone, Sofosbuvir plus Ledipasvir the combination is 25000, but Daclatasvir does not work by itself, you have to use it in combination with Sofosbuvir that is why we added 6000 plus 19900, so the price is equal to Ledipasvir. Basically the drugs do not work by standalone, they work together, so that is why price is in that manner and see Daclatasvir competes with Ledipasvir on one particular genotype Daclatasvir is pan-genotype. Ledipasvir is specific to genotype 1 I think if I remember right.

Afzal Mohammed: Sir what is the **(inaudible) 45.58** of imatinib given that Sun will be ending exclusivity in August.

Rajeev Nannapaneni: I have no idea about that. I can speak only about our filing. We got sued and it is ongoing and our ANDA was filed nearly little over 20 months ago.

Afzal Mohammed: You have gotten a tentative approval right sir?

Rajeev Nannapaneni: It does not look like that, I think we are still stuck in the backlog; I cannot give you any guidance right now?

Afzal Mohammed: How was the European launch for imatinib?

Rajeev Nannapaneni: Europe is expected in the coming financial year. We will see some revenues on that in the next financial year, how is it coming along, coming along well but it is very comparative, the problem with cancer drugs is if the price is good **(inaudible) 46.55** but the moment the price drops, see if you remember in cancer the volumes are never large, it is just the price is very high, if the prices crash too much then there is not much money to be made so that is a trick, you have to launch and you should hope that the price does not erode too much it is not like a volume product like in hep C you can still make a lot of revenue even if you price it very low because the markets are very large, it is not like that in cancer, is not it.

Afzal Mohammed: Sir for Tamiflu you said that you can launch anywhere before 2017 so the earliest you could launch is August 23, 2016, is that correct?

Rajeev Nannapaneni: I cannot answer that question my friend because the agreement forbids us from telling you the launch date but it is definitely in the next financial year and it covers a good part of the flu season, that is what I am authorized to say.

Afzal Mohammed: I am just asking the range would it be, we have to…

Rajeev Nannapaneni: I am sorry my friend, it violates the agreement, there is bond confidentiality then I cannot tell, I am sorry I am being evasive but I am bound by confidentiality.

Afzal Mohammed: Sir for Copaxone since you have reverted back to FDA so does that reset the clock again, if you look at the GDUFA timelines how much time typically they should take?

Rajeev Nannapaneni: These are all pre GDUFA. With Copaxone and all I am not able to put a timeline it is very tough to put a timeline, I am not able to put a timeline other drugs at least we are able to give some, like Budesonide we actually got a target action date so those at least we are able to get some guidance, does not mean that we will meet it but at least we are able to say something but these products it is hard to set timelines.

Afzal Mohammed: Sir for Revlimid if the generic manufacturer challenges a patent and invalidates any code of law does that trigger you to launch it earlier before the date you have put it.

Rajeev Nannapaneni: In certain circumstances yes, I cannot get into the details of it yes there are certain accelerate clauses in certain circumstances it will trigger it.

Afzal Mohammed: If the patent is invalidated for Revlimid Celgene would allow you to launch earlier right?

Rajeev Nannapaneni: At the expense of sounding repetitive under certain circumstances yes the accelerated clauses get triggered.

Afzal Mohammed: Sir API margins have fallen down this quarter by 500 basis points so what is the reason sir?

Rajeev Nannapaneni: Same time last year we had a tender in South America that we won for an API product and we are not able to repeat those numbers and the API business has been weak, it has dropped about 20%, 25% I think compared to last year and part of it is because we did not win that tender and part of it is because lot of the capacity has been used for internal consumption that is two primary reasons. We are trying to improve our API business but we trying to hire more sales people and putting a larger emphasis but having said that yes I think we have not done well in that division.

Afzal Mohammed: For hep C franchise are you making it in house or are you sourcing from Laurus?

Rajeev Nannapaneni: Of the three drugs that were launched Sofosbuvir and Daclatasvir is from Laurus, Ledipasvir is made at Natco.

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

Nimish Mehta: Thanks for giving me the opportunity. Congratulations for great set of domestic numbers one question on the domestic business especially for the hep C portfolio have we actually increased any sales force to support this portfolio?

Rajeev Nannapaneni: Yes we have. I think as you know Nimish ours is a very niche company. We never hire thousand reps and all to do what we do because we cover only niche number of doctors. So if you look at our sales onco we have about 80 people and for covering the gastro we have about 100 people so earlier we had about 50 to 60 people we have ramped up to 100, they want to increase it forward 125 from what I was told, so whatever business we get we are getting with about 200, 220 reps in that region.

Nimish Mehta: There is not much increase, it use to be how much, 150 earlier?

Rajeev Nannapaneni: It used to be about like 50, 60 in onco and 70 on the thing, we have probably doubled it, little less than double but if you look at the yields on hand that we have we probably have the highest yield per man in the industry today and so the domestic sale yield per man is nearly 30 lakhs a person both in pharma and onco, earlier it used to be only in onco now it is in both the division together the average sale is 30 lakhs, which is probably I think highest in the business.

Nimish Mehta: You mentioned that the third party sales margins are very low 15%, 20% how much would be that for a branded business roughly?

Rajeev Nannapaneni: Branded business the onco is much higher, do you want to have a mixed margin, and you want to have a split margin?

Nimish Mehta: Hep C margins branded business?

Rajeev Nannapaneni: Hep C particularly in the long run I think 30% is sustainable 25% 30%.

Nimish Mehta: And on Tamiflu we have settled the product, what I am trying to understand better is we have settled it such that it will be launching it before February 2017 and if we had won it which we actually have won it we could have launched it in August 2016 so is there anything?

Rajeev Nannapaneni: We did not win Nimish, because what we got is a favorable court order which asked us to go back to the lower court to go for a trial and see there are two things that could have happened in the trial Nimish, one is the trial, there could not have been a verdict of the trial or we would have won the trial as you said, three the trial would have been negative so there were three possible scenarios, so if we had won okay fine that is great, if there is no verdict from the trial then there is a theoretical risk there we are launching it at risk, if the trial was not completed on time, the third risk is that we would have lost the trial then obviously had nothing and it damages more than all that stuff, to remove the uncertainty I think Allergen says it will be a good idea to settle and I think after playing on our circumstances we felt it is a right choice and that is why we settled.

Nimish Mehta: Because post February 2017 the patents are virtually expiring, all the patents are expiring.

Rajeev Nannapaneni: The sale is all during the flu season, 90% if you look at the product, people take out IMS 500 millions of sales but the sale is all in the flu seasons, most of sales happens in the flu season, it does not happen in July of the month so to speak.

Nimish Mehta: So you kind of ensure exclusivity during the flu season.

Rajeev Nannapaneni: Without giving the details we made sure our economic interests are protected.

Nimish Mehta: Finally on the Revlimid settlement we will start supplying starting 2022, is there a risk of any therapeutic competition like we have seen in Copaxone 40 mg versus 20 mg, my understanding is that and correct me if I am wrong that Celgene is developing Pomalidomide.

Rajeev Nannapaneni: They already have it.

Nimish Mehta: But they are trying to get the indication for which Revlimid is also prescribed, so is there any risk like that or it is not there?

Rajeev Nannapaneni: As of now I think Revlimid is a very strong franchise, if you look at Celgene guidance I think lot of the guidance evolves around Revlimid not om Pomalidomide and Pomalidomide from what I understand, I subject myself to correction is a second line therapy, not first line.

Nimish Mehta: They are developing it for the first line is what I understand that is where my question is?

Rajeev Nannapaneni: In cancer what happens is you get to use different drugs based on the efficacy, you use one if it does not work use the other one. If you look at the portfolio of multiple myelomas I think Celgene only has the oral portfolio everybody else has an injectable portfolio. Revlimid looks like a blockbuster. If you look at the guidance that they have given they have given very obscene numbers on how big the brand will be, right now it is about 3.5 billion. I have seen projections in the US and globally I think it is doing 5, 6 billion, they are saying it will be a $8, $9 billion brand so I think it will stay and I am still very positive about it as it is persuade.

Nimish Mehta: The growth in Revlimid would be through new indication but we will not be eligible for that market right because our patents whatever would be limited only to the current.

Rajeev Nannapaneni: We have a launch date. The launch date is clear. It allows us to launch without paying a license fee that is the arrangement that we have.

Nimish Mehta: So you will be able to launch for the entire Revlimid with additional indications if at all it is coming?

Rajeev Nannapaneni: If you are specifically asking that question in that manner I have to look at the agreement. I do not recollect, therefore what I understand I subject myself to correction but I think, I do not know the way I look at it we can launch it on 22 I think that is the fact that is my understand.

Moderator: Thank you. We have next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Good afternoon and thanks for the opportunity. Just one clarification you mentioned that our revenue without the Venezuelan order but I do not think we had any Venezuela order over the last nine months.

Rajeev Nannapaneni: In this year yes we have not, last year we did.

Nikhil Upadhyay: Yes, this year we do not have it.

Rajeev Nannapaneni: This year so far we did we are doing it in the March quarter.

Nikhil Upadhyay: And what was the net cash position if you can just help.

Rajeev Nannapaneni: If I recollect correctly I think our deposits with financial institutions and shares and net is little less than 100 Crores what I was told and our debt we have two parts of debt we have working capital and long-term loans which are about 45 Crores and then we have bill discounting debt of about 30, 35.

Moderator: Thank you. That was the last question from the participants I would now like to hand over the floor to Mr. Sumit Singhania for his closing comments. Over to you sir.

Sumit Singhania: Thanks everyone for participating the call and thank you to the Natco management team for sparing their valuable time. Rajesh you would have to add some closing comments.

Rajesh Chebiyam: No that is about it thank you very much have a great day.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Nirmal Bang Equities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.