"Natco Pharma Limited Q3 FY17 Earnings Conference Call"

February 15, 2017

ANALYST: **MR. DEEPAK MALIK - EDELWEISS SECURITIES LIMITED**

MANAGEMENT: **MR. RAJEEV NANNAPANENI – VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER – NATCO PHARMA LIMITED**
MR. RAJESH CHEBIYAM – VICE PRESIDENT, BUSINESS DEVELOPMENT & CORPORATE SUPPORT – NATCO PHARMA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Natco Pharma Limited Q3 FY17 Earnings Conference Call hosted by Edelweiss Securities 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Malik from Edelweiss Securities. Thank you and over to Mr. Malik!

Deepak Malik: Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for the Natco Pharma's Q3 FY17 Earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman and CEO and Mr. Rajesh Chebiyam, Vice President, Business Development and Corporate Affairs. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

Rajesh Chebiyam: Thank you Deepak. Good morning everyone. Welcome to Natco's conference call discussing our earnings result for the third quarter FY17. So as a standard disclaimer before discussing our results we would like to state that we may be making certain forward looking statements during the call because forward looking statements inherently involved 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. Now getting into the earnings details the company is very pleased with its results for the quarter and especially the growth driven by the Oseltamivir sales in the USA. For the third quarter FY17 Natco recorded consolidated total revenue of Rs.685 Crores as against Rs.293 Crores during the same quarter last year reflecting an increase of almost 134%.

The net profit for the period on a consolidated basis was Rs.195 Crores as against Rs.37 Crores same quarter last year showing a growth of almost 425%. The revenue and the profit for the quarter were driven predominantly by the sales of our Oseltamivir product in the US and include profit sharing from our marketing partner as well.

The company is also pleased to announce the launch of its cardio and diabetology division for the domestic Indian market. Coming down to segmental breakdown for the quarter, the total API sales for Q3 FY17 we did Rs.50.7 Crores. On formulation side domestic, which includes onco, pharma brand and the third party about Rs.219 Crores. Exports including

profit sharing about Rs.358 Crores for the quarter. Specifically regarding the Oseltamivir sales the breakdown for the quarter Q3, the cost plus margin we did about Rs.130 Crores, the trading income of Rs.17 Crores, profit sharing of Rs.177 Crores, so total for Q3 for Oseltamivir is about Rs.325 Crores. I will pause here. I will hand it back to you folks for Q&A and Mr. Rajeev and I will take the questions.

Moderator: Thank you very much Sir! Ladies and gentlemen, we will now begin with question and answer session. The first question is from the line of Mitul Mehta from Lucky Investment.

Mitul Mehta: Congratulations on a good set of numbers Sir. Question pertains to first the domestic business, within the domestic formulation business if you could just breakup the sales between **(inaudible) 4:57** and Hep C that we did in this particular quarter and what sort of growth that we saw in Hep C in Q3 versus Q2?

Rajesh Chebiyam: Right Mitul, so on the domestic front oncology we did Rs.88 Crores, the pharma brand we did Rs.112 Crores, third party about Rs.18 Crores, and specifically on the Hep C itself for Q3 we did Rs.109 Crores, which remains flattish if you look at Q2, Q2 also we did about Rs.109 Crores.

Mitul Mehta: Coming on the Oseltamivir product understand and read various reports like CDC and all that we monitor, certain key monetarable it looks like that in 2015 we had the peak Tamiflu sales of about $700 million that is when the flu was highest. Now what we understand in recent times also the flu has caught up very badly and the number seems to be going up, so is it fair to assume that this year also we could overshoot the estimate that most people are projecting, I mean we initially started off with $500 million, you think this number could get easily surpassed and my other question is we would have started selling from December of second week till then Roche would have also build in their pipeline, so any number as to how much Roche did for Oseltamivir, just to get some sense, so that we could?

Rajeev Nannapaneni: Let me answer your lot of questions, but I will break them down. First you said that the sale includes both the capsule and the suspension and we only have approved for capsule, we do not have approval for suspension, when you said 700 million odd I think you are assuming both the suspension and this, but I think we have approval only for capsule as you are aware that is one. Another thing is various settlements was done which split the flu season between us and them. The initial part of the flu season they got and we got the second half of the flu season and because we had a later launch date and you also have to remember after the sales would be high December quarter was obviously very good. We are hoping to repeat, we will probably have a very good quarter in March as well, but maybe not as great as December quarter, but a fairly good quarter as well compared to others business, but

typically the sale happens only in these two quarters Mitul, it only happens in December quarter and March quarter, after that the winter has gone right, so the flu cases dropped dramatically, so it is a short-term opportunity, it is not going to last beyond this quarter, March quarter.

Mitul Mehta: How has been the price erosion in this product?

Rajeev Nannapaneni: What I was told, I mean you are getting different prices from different people, different customers, but average I think about 40% erosion.

Mitul Mehta: 40% erosion right. Coming onto your next product Entocort, what I understand currently is a $25 million monthly runrate product between Teva, Mylan and Endo, so we obviously have the approval and we also would be launching it, so one is we would have also done some selling to our distributor…

Rajeev Nannapaneni: No, Budesonide sale is not reflected as much, I think we are still looking for, we are still trying to stop quantities, the quarterly sales that we had in December does not reflect any Budesonide upside. The Budesonide upside was start coming in from this quarter.

Mitul Mehta: So can we fairly assume that we can do about $4-$5 million run rate a month in Budesonide?

Rajeev Nannapaneni: I do not want to say anything, let us see how this quarter pans out, I think we will have this earnings call I will probably tell a lot better idea of where we stand, as of now it is too premature to say anything like that, but I think we should do well, it is a relatively limited competition item, so it should be alright.

Mitul Mehta: Sir coming to your Vidaza, we have seen some delays there, so just wanted to get some sense on where the product is stuck because…

Rajeev Nannapaneni: We got a CRL and we have answered the CRL, so I think you may get few more questions, but the launch we are hopeful definitely happen in the next financial year.

Mitul Mehta: If you can just allow me last question if the management allows me. Sir now coming onto Doxil, if we recollect last year we did have an inspection, which kind of triggered the inspection by USFDA and followed by in eight months we had another round of inspection. Now one is that very sudden inspection, so what was the nature of that inspection, second, was it related to Doxil, so can we hope that Doxil is now pretty much near as far as the launch goes?

Rajeev Nannapaneni: I think the inspections are one year apart not eight months apart that is first clarification, second is the first inspection was specific to Doxil. This inspection was a general inspection and typically frequency of inspection when you have an injectable plant is more often than if you have a plain oral, so it is not unusual by any means that the inspection happen with a short duration. I know other injectable companies that the audits are done every average 12 to 14 months, so it is not unusual.

Mitul Mehta: Right, but coming on the Doxil you think we should be able to launch this product in the next financial year?

Rajeev Nannapaneni: Doxil again is a complex generic, so we are hopeful I think we will get it, but again with complex generic it is hard to predict timelines of when the launch can happen, let me do the other questions and then we will come back to you.

Mitul Mehta: Sure.

Moderator: Thank you. Next question is from Prakash Agarwal from Axis Capital.

Prakash Agarwal: Thanks for the opportunity and congrats on good set of numbers. Sir you mentioned about the Tamiflu breakup, if you could give the similar 2Q numbers and also how you are accounting it in respective heads?

Rajeev Nannapaneni: What we are doing is Prakash, let me tell you what are we did in Q3 and what are we did in Q2, Q3 just repeat it again we did Rs.130 Crores of formulation sale, we have booked it as formulation exports, Rs.130 Crores essentially is the formulation in capsule plus some industrial margin, so that is what the agreement says, we have about 10%-15% industrial margin plus the cost of conversion that build in. Second portion was Rs.17 Crores in the trading, which is associated with API that we bought from our API supplier and gave it to them because what we have done is we have shifted our what you call ANDA to the US, so we did CB-30, so incidentally we also got an approval with US site as well, so now we have two sites for Tamiflu, so not only Hyderabad, we have an approval even from our US site, which is Alvogen own site. The idea for that is especially when you bid for contracts in the US sometimes they have this preferential treatment if you produce in the US, so we thought it is a good idea to have a manufacturing site and also is a good risk mitigation. Profit share was 177, Q2 we have booked Rs.100 Crores in formulation sales and Rs.42 Crores in trading income, so last quarter we booked – Q2 we booked 142 and Q3 we have booked 325 and Q4 we will only book profit share, will not book any sales.

Prakash Agarwal: So there was no profit share in Q2 right?

Rajeev Nannapaneni: We did not have a launch date; launch date was 12 December 2017.

Prakash Agarwal: Yes, so where are we booking profit share in the current quarter, would it be part of export sales or it cannot be part of other operating income right because it is low?

Rajeev Nannapaneni: It is part of a combination, if you look at our statement of our consolidate numbers, it booked as net sales 642 if you recall, if you are reading the sheets that we have that I am reading. We are booking it as formulation sales.

Rajesh Chebiyam: Let me clarify one more thing there Prakash, so usually what we had is under other operating income, so we had a section for profit sharing, so if you had to manually calculate you had the formulation sales and then you add it the profit sharing there, so what we are doing is we are actually booking it right at the formulation point.

Prakash Agarwal: This you would continue to do for your other products Entocort, Nuvigil and others?

Rajesh Chebiyam: Yes.

Prakash Agarwal: From a launch perspective I did not quite get Entocort and Nuvigil launched and started to make some dollar revenue or not really as of now?

Rajeev Nannapaneni: Nuvigil and Entocort we have launched, but it failed in comparison with this site, so the upside was not so large that it actually showed up significant number. Entocort we could not stop properly, so we just did a soft launch, we are doing proper launch in the March quarter, so I think we will see some benefit of Nuvigil and Entocort in March quarter and especially I think between the two Entocort will be more valuable.

Prakash Agarwal: Understood**,** lastly on the filing side, what is the progress in the quarter in the last nine months please?

Rajeev Nannapaneni: In the US we have filed about five files.

Prakash Agarwal: So this is last nine months?

Rajeev Nannapaneni: Yes nine months.

Prakash Agarwal: And in the quarter Sir?

Rajeev Nannapaneni: This quarter, you mean Q4, I have a cumulative number for the nine months we have filed five ANDAs.

Prakash Agarwal: And this is what we expect 6 to 7 filings is what we have said right?

Rajeev Nannapaneni: Absolutely.

Prakash Agarwal: This we would kind of continue maintaining going forward also or we…

Rajeev Nannapaneni: We want to take it up to 8 to 10 next year, I think one of the biggest problem that we are having is we do not have capacity to file because we only have one facility, which does both filings and commercials and the commercials are filling up the facility. Fortunately I think our Vizag plant is getting ready, so Vizag plant we think should be operational in June 2017. So once that facility comes then I think we can crank up our filings.

Prakash Agarwal: What I am trying to understand is Sir with the cash flow that we would be already getting the utilization of which would go for more filings or expanding ROW India or what is the thought process there?

Rajeev Nannapaneni: My thought process primarily I think for this quarter what we have done is, we are anticipating, so this quarter we have taken a good dividend, so as you know the PAT was about 194-195, so we took a dividend of Rs.104 Crores this quarter and then there is a tax on the dividend, so that works out with another Rs.21 Crores, so if include the tax the total dividend outflow for this quarter is Rs.125 Crores, this is probably be the big dividend for the year, but still we will have enough surplus, so lot of the surplus we have won, we are funding Vizag with upgrading our facilities in Dehradun and Guwahati, we have a good pipeline in domestic, so primarily we are building a backup plant in Vizag and additional capacity there and we are enhancing our domestic what do you call facilities as well. So we are bidding both on India and the US that is the primary focus and even the R&D also we are primarily investing in India and the US.

Prakash Agarwal: Thank you so much.

Moderator: Thank you. Next question is from Afzal Mohammed from Karvy Stock Broking.

Afzal Mohammed: Good morning all. Congratulations on the stellar set of results and I appreciate your prompt disclosure of Form 483 is related to the recent January inspection. Sir my first question is the Tamiflu profit sharing part for the March quarter would it be much bigger than this quarter?

Rajeev Nannapaneni: I do not think so as well. I do not want to say a number because I do not know what the number is, it will be a good number, but maybe slightly less than what you call this quarter number I think that is the feeling I get, how much less it will be I do not know, but it will be significant number, I think most of the profit of March 2017 also will be driven by Tamiflu that I think is clear. How much and all it will be hard to say because there are two, three factors, how long the flu lasts, how February month will do and the patent expires as you know last week of February I do not know about the exact date, I think it is 23 February or 24 February, so if another generic comes then you have to do a charge battery how it works, so that affect sales, so let us see how the quarter ends and then may be we will have more clarity of how big this quarter is going to be, it is going to be significantly good, I will not say it will not be good, but the extent of the upside will be driven primarily by the persistence of the flu season and on the another generic coming in, which we should assume should come.

Afzal Mohammed: The ILI activity, influenza linked illness which is tracked by CDCs is peaking now at 4.8% and the flu really picked up in January, February, so I believe would not that be the case the profit sharing?

Rajeev Nannapaneni: But again we stocked strongly in December also as well. We have stocked heavily in December, so that some other stock of December also carried forward to January also right.

Afzal Mohammed: Most of the sales would happen in January and February because of peak activity?

Rajeev Nannapaneni: I understand Afzal, but what I am trying to say is we are still in the quarter, I love to have a great quarter like last quarter again, but as I said it all depends on one is how long the flu will last and you should also remember once the winter goes away the flu will drop dramatically you understand that is one and also another generic entry also you have to plan for right, because I am, in my mind I resumed another generic entry in the last week of February, but again how many will come, who will come, how aggressively will they come, these all questions and I do not have an answer for, so that is why I want to be a little cautious, but in overall I think it will be a good quarter, but to say that it will beat on a comparison I cannot say, but it still be a good quarter because till all of January we are by ourselves and till third week of February we are by ourselves, so it shows it has some benefits for that.

Afzal Mohammed: Sir regarding Copaxone 40mg the fifth pattern 874 and the process pattern 775 when are they up for the enter parts at the PTAP?

Rajeev Nannapaneni: I cannot recollect, top of my head I cannot recollect, I will check and I will let you know, top of my head, I do not have an answer to that question.

Afzal Mohammed: Do you believe with the process pattern can we invalidate it just like the four others had been in the district…

Rajeev Nannapaneni: I think the public position that Mylan has taken is that I think it is surmountable.

Afzal Mohammed: How long do you think this battle will last in the Federal Circuit?

Rajeev Nannapaneni: We cannot specifically say how long it will last, typically appeal stay 12 to 18 months.

Afzal Mohammed: So it will consume the entire 2017?

Rajeev Nannapaneni: Possibly yes. If you do not mind we will come back to you again.

Moderator: Thank you. Next question is from the line of Karthik Mehta from Deutsche Bank.

Karthik Mehta: Just want to understand from you on the recent comments from two of your Indian competitors who seem to be facing some delays on Copaxone file, which they have submitted, I am not asking you timeline for your approval, do you believe after your approval if it comes in FY2018 or if it comes in FY2017, so a reasonable amount of time will there be only two to three generics in that and so if it does not add to the risk launch, do you believe the smaller players may actually to launch the product in particular for 40mg?

Rajeev Nannapaneni: If you have a question on 20 and 40, so let me address 20 first. As you know our ANDA has been pending with FDA for many years and it is a very tough product to do I think as everybody is aware, there is only one approval as you know and we did a lot of work and it is not easy for everybody to replicate that work, so in our mind we think there will be limited competition; however, I am not ready to the quality of the work that the other guys have done and what the nature of queries they have got so we do not know where, how well they are doing, so that is the question I cannot answer, but I would still believe that there will be limited competitions and the other question you had was on the 40, what was the question about 40 again Karthik?

Karthik Mehta: So if the patent is still not invalid and then technically though you and Mylan may have different views it can be an at-risk launch, do you believe smaller players may not to launch 40 mg, there is the risk of **(inaudible) 23:55**?

Rajeev Nannapaneni: I do not know about other people what they think they are going to do and regarding the 40 mg at-risk launch is a call that Mylan have to make Karthik, personally we cannot make that call, I think as Mylan said in the past when the market formation happens, when we get the approval in place, I think then Mylan will make whatever decision they deem fit at that time. As of now it is too premature to talk about that, but I think right now our focus is on getting the approval and I think let us focus on that and we think 20 is the earliest one that we expect, so we are hopeful we should get it soon and we have answered all the queries that are pending on the 20, so we are hopeful that once we get 20 then I think we can talk about the other one.

Karthik Mehta: Second question is on for Revlimid based on how the court case is now ongoing for other players who have entered after you mainly in October, do you believe for you it can be FY2019-20 launch rather than a post 2022 launch as announced earlier in the settlement?

Rajeev Nannapaneni: You are talking about Dr. Reddy's filing correct Karthik?

Karthik Mehta: Yes, so there are three other players along with Dr. Reddy's who may also eventually litigate or I am not sure if they have already litigated?

Rajeev Nannapaneni: I am aware of only Reddy's anybody else is there?

Karthik Mehta: So the beginners have three others?

Rajeev Nannapaneni: I do not think anything Karthik, I am only aware of Reddy's, but let me give you a standard answer that we have for this. The agreement says that we should launch in 2022, but having said that if another company triggers the launch under certain circumstances our launch dates can be preponed meaning that we can launch earlier as well under certain circumstances if another generic were to invalidate the patterns. So yes that is absolutely correct, under those circumstances yes, but there are a lot of conditions, certain circumstances that are described in agreement yes, theoretically yes, we can launch earlier than 2022 provided somebody else invalidate those patents that is all.

Karthik Mehta: Is it invalidation or is it launch at-risk also?

Rajeev Nannapaneni: I cannot tell you privy to the agreement because there are lot of caveats to the agreement bound by confidentiality, but broadly you can say if somebody else launches it and if under certain circumstances yes we can also enter the market yes.

Karthik Mehta: I have some more questions I will be in the queue. Thanks.

Moderator: Thank you. The next is question from Girish Bakhru from HSBC.

Girish Bakhru: Thanks for taking my question. First again on Tamiflu how much is the tender market and if you could clarify, given the two sites, so all the US manufacturing part will be under profit sharing right?

Rajeev Nannapaneni: The same profit share stands even for US manufacturing and India manufacturing and the tender size and all it is very hard to predict Girish, I will tell you why, basically this year numbers will be good and next year we should assume that other generics will also come into the market, so if other generics are also bidding and how much of that profit will able to retain next year is all based on the amount of competition that we see on the generic, so it will rather premature to say anything about how the business is going to be next year, but we are hopeful we will retain some portion of it, but again the degree of it will, it all depend on how the competition was next year.

Girish Bakhru: How much is the Government directly buying from the manufacturers?

Rajeev Nannapaneni: I do not have a number on that as of now, let me honest with you, I do not have a number on it as of today. Second whatever the amount maybe it is a function of the generic competitors right, you understand what I mean, if you have one person that is one way you are looking at it, but if you have five approvals then the value of the tender can or the business or whatever, we are looking at various businesses, just not one or two businesses, the value of that comes down dramatically, so the entire **(inaudible) 28:41** is hard to judge unless we know how many competitors are there, so I think we will get probably more clarity in next two, three months and then may be we can make an estimation of where we are going to be, I think I will have more clarity in May of when we do our annual call in May right, so in May we will have more clarity on how we will probably do with that product next year.

Girish Bakhru: Second question on Fingolimod, I see you still do not have a tentative whereas some other filers who file later than you already got tentative, do you have a CRL on the product?

Rajeev Nannapaneni: We have a CRL, I think we have answered it recently I think, what I understand we have answered it. Everybody files the same time I think Girish, I think there are multiple filers, I do not think later file, I am not sure if there are any later filers.

Girish Bakhru: I think the Aurobindo filed very late and they already got a tentative?

Rajeev Nannapaneni: They do not have first to file in your opinion?

Girish Bakhru: Not the right thing, but I do not know I may be wrong.

Rajeev Nannapaneni: But anyway it does not matter Girish, as long as each one of the first filers gets an approval in 30 months I think we are good.

Girish Bakhru: Right and you think this could be a possible launch in FY2019?

Rajeev Nannapaneni: Top of my head I do not recollect, but I do not expect much out of the product honestly Girish because there are too many guys in it and I do not see too much of an upside on this product.

Girish Bakhru: Thank you.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: Thanks for taking my question. Rajeev you mentioned about launch of a diabetes and cardiac team in the domestic market, so can you just walk us through your thoughts on that initiative given the fact that it is a fairly competitive marketplace at this point of time?

Rajeev Nannapaneni: I think Nitin what we are doing here is, if you do a Me2 obviously I am not going to make much money, I am extremely clear on that. As you know, our domestic is going to hit about Rs.850 to Rs.900 Crores this year, so it is a fairly nice business, so I think part of the growth strategy as we are trying to in the next few years is that, we obviously wanted to ramp up the domestic business to go past 1000 Crores and a lot of thinking that we have in the cardio and the diabetes is to launch first time generics in that portfolio also, there are some opportunities, that is where I think the real value lies. I think our objective is to do these first time opportunities. The portfolio we launched right now is a fairly Me2 I do not think it is going to move the needle as much, but what I am betting on is in the next 18 months we have a very interesting a lot of first time generic ideas, I mean even if you execute we have at least seven, eight ideas on those. Even if we execute three or four of them smartly I think the division can do easily Rs.150-Rs.200 Crores, but provided it is all execution and also could involve some litigation, so we have to see how that plays out, but I am very excited about this division, I think this will drive us go past Rs.1000 Crores and take business forward.

Nitin Agarwal: That is helpful and secondly on the Hep C franchise in the emerging markets any sort of updates on that?

Rajeev Nannapaneni: I think last quarter I think if you compare it with Q2 and Q3 I think Hep C has been fairly flat, I do not think it has done that much better and part of the reason is there has been a slight impact of demonetisation and also it is a fairly competitive place, numbers are fairly steady, but what is going to drive the Hep C portfolio is essentially the export. Exports now we are doing like Rs.8 Crores-Rs.10 Crores a quarter, so our export business is a lot lower than the domestic business, so one is we are expecting the offtake, we are getting more registrations for our export business, so that should drive the earnings and another thing that we are expecting is **(inaudible) 32:44** also I think the file is pending in DCGI, so that is another big launch that is pending, so that also I think should drive the earnings, so it should do well, I think next year also we expect the portfolio should do better, so I think this year we should probably end with the portfolio around in that 450 to 500 Crores region, so I think next year also I think if everything goes well in terms of the launch of the new molecule and our uptake of the exports takes off well I think the portfolio can grow another 20% at least that is our expectation.

Nitin Agarwal: Thanks and best of luck.

Moderator: Thank you. Next question is from Abhinav Ganeshan from Canara Bank Securities.

Abhinav Ganeshan: Good afternoon Sir! Thanks for taking my question and congratulation on a great set of numbers. I just wanted to understand about this Hep C how do you feel that there can be the growth going forward, if you could give some ballpark numbers?

Rajeev Nannapaneni: Why do I see growth or?

Abhinav Ganeshan: How much will you see growth Sir?

Rajeev Nannapaneni: That portfolio has always been a surprise to us, I think when we launch the portfolio we thought 100 will be a great number, but it is five times that number. I think the way going is the numbers are strong, the pricing is very comparative, but the patient recruitment, the brand is doing fairly steady. Our sense is that it will probably grow for another few years at least and then it will start slowly declining because you will have lot of cures, but as of now the portfolio is growing well and I think at least volume wise and value wise we are anticipating about 20% growth is what our expectation 20%-25% growth?

Abhinav Ganeshan: One more clarification needed Sir, how was the domestic oncology doing?

Rajeev Nannapaneni: Domestic oncology has done extremely well Abhinav, let me just Rajesh can help me out.

Rajesh Chebiyam: On the domestic oncology we did about Rs.88 Crores for the quarter Abhinav.

Abhinav Ganeshan: That was helpful Sir! All the best for the future Sir! Thank you. That is all from my side.

Moderator: Thank you. Next question is from Sangam Iyer from Subhkam Ventures.

Karan: This is Karan from Subhkam. My question revolves more on Tamiflu only. Going from Q3 to Q4 onwards we have seen an increase in market share also, certain data points suggest that we have a market share of 80% and thus we have two months of exclusivity left, January and February, would not this Q4 should be a good quarter than Q3?

Rajeev Nannapaneni: I think Q4 will be a good quarter, what I was trying to tell earlier gentleman who asked the question was we have stocked a lot of product in Q3, so there is some stock of Q3 that we have built, which is consumed in Q4 and the upside of Q4 will be a good quarter, I am not denying that it will not be a good quarter, the extent of how big it is going to be will depend upon how the flu season sustains and also another generic coming in possibly on when the patent expires in the last week of February, so that also will impact the size of the upside in Q4, so again I am not really to who is going to be come end of February we should reasonably assume that somebody will come right, so the extent of the upside we will only know in the quarter end, I think that is what I was trying to say earlier.

Karan: But Sir with the inventories building up the profit sharing component will come in Q4 right with the increase in market share also?

Rajeev Nannapaneni: Profit share will come, what I am saying is the extent of profit share will completely depend upon, if another generic comes on February last week then it will not be so high and there will be charge backs, stock adjustments and all, so I am being a little cautious, so I think we still had a good quarter, conservatively I think we will have a very good quarter, it will not be as good as Q3, but it will be still a good quarter. If you want it to be an exceptional quarter I mean if I script it then there should not be anybody who will come till March and then the flu should continue into April then okay fine then I will have a different number to tell. Typically you should understand that as the winter ends the flu drops dramatically, I said just I cannot predict how good it is going to be, so as I said we need time, but these are the factors that will play out.

Karan: Sir can you throw some light on the charge backs also since we expecting one player to come in February end, so how would it be?

Rajeev Nannapaneni: I would not know, I spoke to Allison about this issue, I think they said they are cognizant of this issue, they are hearing about at least one or two guys going to come. The charge backs and all it all depends, it is hard to predict honestly I do not want to come and say something that then I have to take it back. Let us see how this quarter plays out then I think if you want to have a feel of it I think this is what we need to look for, we need to look let us see whether another generic turns up, which is reasonable to see whoever will turn up and how the flu season continues in February and March, I think these are two factors that will determine the upside honestly. So both these factors are not in my hand, I cannot tell you the flu will be great in March, I mean that is something I cannot control and second is I cannot control who the other person is going to come, so I think that is why I am not able to predict the extent of the upside, but as I said still we have that one-and-a-half months of exclusive, so that we should have some benefit from it.

Karan: Sir could you just help us with the potential launches that we are looking forward in the next 15 to 18 months?

Rajeev Nannapaneni: This is what it is as you know this year has been great, I think our expectation is that we should end the year around Rs.1900-Rs.2000 Crores topline and PAT depending on how it plays out we think we should do about Rs.430-Rs.440 Crores I think that is our expectation and being conservative, if anything upside happens then we will see how it plays out, but that is what I think reasonably we can possibly do and for next year I think you have to remove Tamiflu from the numbers, so if you remove Tamiflu from the numbers that has to be seen how much of the Tamiflu will able to repeat next year, it all depends on how we do in the local US business and how many competitors come in, so that is something that we cannot determine at this time. Another factor that will play out in next year's earnings could be, we also file the suspension with our partner, so we are expecting a suspension approval for the next flu season. So that will also play a strong role on how our Tamiflu franchise does and few more things that will play out next financial year would be Copaxone 20 approval obviously that has been discussed earlier. Doxil again it is a complexed generic, so I do not want to give you timeline, but both are products that we are expecting, if they come next year that will have a significant impact on earnings. Another few smaller products are there, Lanthanum is there, Bosentan is there, Azacitidine is there, so these are the smaller approvals that are there, so these are five factors that will determine next year, so I think just summarize it quickly Copaxone 20, Doxil, how much of Tamiflu will be retained and then Lanthanum, Azacitidine and, Bosentan, so there are the things and then the India domestic franchise and then how Budesonide scales up that will determine the base business, so these are things that will play out in the next financial year.

Karan: One last question, can you just breakup between Tamiflu suspension and capsule, how is the market?

Rajesh Chebiyam: I personally do not have the IMS with me. Broadly suspension is about it is maybe more like about 150-200 million is about suspension.

Rajeev Nannapaneni: No, no, it is much bigger. If I remember right last year, again I do not you are asking me from memory, but typically about 400-450 capsule means suspension sales to be about 350 or so, but I do not remember the exact numbers, but broadly it is a fairly suspension also a fairly large market.

Karan: Thank you very much. All the best.

Moderator: Thank you. Next question is a followup question from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: Thanks for the opportunity again, so just trying to understand the Hep C QOQ sales, so it is largely volume led or as we assume that the prices would have come up?

Rajeev Nannapaneni: Prices have come up a bit so as the raw material price also has come down dramatically, so that is kind of netted off, it is primarily volume led, but value wise it has been flattish as I said there was some impact of demonetisation, but not a large impact, but nevertheless there was some impact, so it is not strictly comparable, I think this quarter will probably give us a greater clarity on where we start.

Prakash Agarwal: When you said outlook for the next year for Hep C this was for the overall Hep C, which included exports is what I understand?

Rajeev Nannapaneni: Correct, absolutely yes.

Prakash Agarwal: Not the India line basically what you have done on the Rs.12 Crores?

Rajeev Nannapaneni: I think what I said was that our sale in the exports is very low, we have a very low base in exports, there is a dramatic increase that is possible on the exports, overall on the franchise we are expecting about 20% growth.

Prakash Agarwal: The Rs.8-Rs.10 Crores per quarter that you book for Hep C exports is in the export formulation, it is just a clarification?

Rajeev Nannapaneni: Absolutely that is correct.

Prakash Agarwal: Last question Sir, there is one more item, which came in Q4 2016, which was some sales to Venezuela, so I think it is a annual tender or something like that, which comes every Q4, if you could give more colour and whether we receive the money for the last tender?

Rajeev Nannapaneni: So that tender we booked Rs.81 Crores of revenue if I remember top of my head and we have received some amount of money, but some amount of money did not come through, so we waited almost nine months now and then we finally decided that we just ride it off, because as you know Venezuela is going to some really hard time and there is a lot of political unrest there and oil prices slightly improved. We are continuing to pursue the outstanding, but what we thought the prudent thing was to write off the whole outstanding, if we collect that will be a bonus, but what we have done is we have written off some of the outstanding, so from which I think our profits would have been higher by 23 Crores were for the write off.

Prakash Agarwal: This quarter only we have written off?

Rajeev Nannapaneni: Yes this particular we written off, so we do not have any further exposure in our books on Venezuela after this write off.

Prakash Agarwal: Rs.23 Crores is what you said?

Rajeev Nannapaneni: Actual gross we written off is Rs.36 Crores of receivable, the way it was written in the contract was if we collect all the money then the agent would have got the commission of 13.62 Crores. So we booked the expense in the March quarter, so total receivable that we did not receive from Venezuela is about 23.78 Crores plus 13.62 Crores, which works out to be about Rs.37-Rs.38 Crores, so what we have done is because we did not receive the Rs.38 Crores we written off all the 38, we also written off what commission that we need to pay on that transaction.

Prakash Agarwal: And this write off is, is it routed through P&L?

Rajeev Nannapaneni: Yes, absolutely.

Prakash Agarwal: So that is the reason why SG&A is higher or it is due to the India build out?

Rajeev Nannapaneni: No, this is reflected in the other expenses column, if you see this one other expenses column for Rs.157.4 Crores.

Prakash Agarwal: Yes, that is what I meant.

Rajeev Nannapaneni: Rs.157 normally it would have been, it is higher by Rs.23.78 Crores.

Prakash Agarwal: 23 point is sitting there okay.

Rajeev Nannapaneni: 23.78 is sitting there and the receivable that we wrote off is 23.78 plus 13.62 because the Rs.13 Crores commission linked with the collection of payment, so we written off both the commission and the receivable, if you collect the receivable then obviously we will do two entries, we will show the receivable has come back, we will net off the commission and show the rest as profit.

Prakash Agarwal: So cost has not increased due to the India build out per se that diabetology, cardiology, so how many MRs you have there, if you could just give?

Rajeev Nannapaneni: It is not such a large number.

Prakash Agarwal: It is not a large number and Venezuela tenders will now stop because of the payment issue or you would still continue to participate?

Rajeev Nannapaneni: Venezuela tender we won another tender also, but the thing is we are not able to go forward on the documentation because of the political chaos, so we are not able to execute the tender because we are not getting clarity on how to go forward, they are not able to close it because of the financial problems that they have, so in an ideal world yes I think we should it, but Venezuela is usually profitable tender, but having said that there is always a risk on some of your receivable and as of now Q4 we are not assuming any revenue from Venezuela, but if there is a tender to be done definitely we will look at it and we will disclose whatever we are doing in Venezuela, but we should all understand that in a Venezuela tender you will make money, but it is always a risk that some of the receivable may not come back, but on a net-to-net basis even if you take the write off it still a profitable business.

Prakash Agarwal: Understood. Thanks. Great.

Rajeev Nannapaneni: Business call sometimes we had to make these calls, but if we make these calls based on assumption that at least we are able to recover the invested amount and we make some notional profit and the extra profit that you have is the risk that you run, sometimes we collect, sometimes we not, so that is the way it goes.

Prakash Agarwal: Thank you Sir and just one request on the split of the export revenues going forward if you could just explicit split of US because that piece is getting larger that would be great.

Rajeev Nannapaneni: Sure.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Thanks. Good morning. Quick question on Copaxone suppose as and when you do get approval for 20 mg what implication would that have on your 40 mg file?

Rajeev Nannapaneni: That will be a good indication Sameer because if you look at the queries logically the queries are revolved around the characterization of the API and if you have 20 approval on hand it gives me tremendous amount of confidence that 40 will come obviously subjected to the court cases and all, but actually from the regulatory side I will be extremely comfortable that we can get the 40 range.

Sameer Baisiwala: Wonderful and what could be the potential time gap between the two, is it going to be a short three, four months or is it going to be a longer than that?

Rajeev Nannapaneni: At this time I cannot predict Sameer, again I think as of now I think for what my understanding in discussion with Mylan is 20 is first in queue, so I think let me get 20 and then I will speak about 40.

Sameer Baisiwala: Fair enough, what I am trying to say is 40 may also under active review?

Rajeev Nannapaneni: Absolutely, it is under active review, yes, correct.

Sameer Baisiwal: Thank you so much.

Moderator: The next question is a followup from the line of Afzal Mohammed from Karvy Stock Broking.

Afzal Mohammed: Thank you again for taking my question. Are there any pending queries remaining from FDA for COP 20?

Rajeev Nannapaneni: Copaxone 20 no, we have answered everything.

Afzal Mohammed: Everything was answered okay and how the pricing pressure playing out particularly in especially generic vis-à-vis simple generics because we have launched two specialty

generics Armodafinil and Budesonide, so how is it playing out for you in the US marketplace?

Rajeev Nannapaneni: It has been very tough Afzal honestly because what has happened is the buyers consolidation is really hurting us and what is happening is, if you have a generic whether it is four or five guys the value is just deteriorating very dramatically I think we are finding it very hard honestly, I think our earnings are nice because we have exclusivity, but if you remove limited competition or exclusivity out of the picture, it is a fairly tough business, it is very tough, I mean you ask specifically about Budesonide. Budesonide we did not start aggressively, so we are not really book much earnings on that. Armodafinil even though there have been only two approvals it is not done as great as I thought because of the consolidation.

Afzal Mohammed: When you expect launch of Epclusa in India because that will?

Rajeev Nannapaneni: It is pending in DCGI as of now, so it depends on, all the generics are applied for clinical waiver so the file is under process, so we have to see how that plays out.

Afzal Mohammed: Do you expect to again take a bigger chunk of the market share of the hep C market in India post launch of Epclusa because expecting you will be the first?

Rajeev Nannapaneni: I hope to be in the first wave literally I am not able to tell, but I expect to be in the first wave and yes this will be the last piece in the puzzle, I mean as you know that portfolio, I think there is still another two, three combinations left and this is probably one of the most important one left.

Afzal Mohammed: Correct, yes, Sir how much is the volume growth for Hep C for this quarter?

Rajeev Nannapaneni: Volume growth, in terms of revenue we have been flattish, if you compare it with September quarter and December quarter and it has been flattish.

Afzal Mohammed: Would you be able to share the US revenues ex Tamiflu?

Rajeev Nannapaneni: Top of my head I do not have it, but I think I will get back to you on that.

Afzal Mohammed: Sir one last question how much money you spend on Vizag still now?

Rajeev Nannapaneni: As of till date, one second Rajesh will answer this question.

Rajesh Chebiyam: Year to date we spent about Rs.45 Crores on the Vizag plant.

Afzal Mohammed: How much more do you plan to spend until it is completed?

Rajesh Chebiyam: The budget for this year is Rs.100 Crores and year to date the total capex we have done is about Rs.176 Crores, we are budgeted about 260.

Afzal Mohammed: About 260?

Rajeev Nannapaneni: I think Vizag, the idea is that we want to build a strong oral franchise there, so both for cytos and non-cyto tablet, so total project I think will end up spending 150, I think by the time it gets started next year and this will be a strong backup for our Hyderabad city.

Afzal Mohammed: Alright Sir. Good luck. Thank you.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: Thanks. Rajeev on with the cash flows that are coming through now in the business, does it begin to change anything for you on the R&D side or from future development perspective, does it increase the ability to take some risks going forward?

Rajeev Nannapaneni: Yes we are, what we are doing now is we are asking for more profit share than before and so that is one big difference and we are sharing legal with partners, which we did not do in the past, which is another big difference, so the same work that we are doing we are trying to get more value out of it, so that is probably the biggest difference compared to the earlier trend.

Nitin Agarwal: In terms of your ability to go for more risky development projects, is that changing?

Rajeev Nannapaneni: Absolutely yes. Now I think we are thinking about few more ideas R&D ideas, we spoke about the India domestic piece similarly even the US as well, we are looking lot of interest in launches, which are riskier launches, which have patent and environmental hurdles, now we are fairly excited I think – now we have the money to do it and the sharing also we do not have to share as much as what we used to share in the past, so I think I am very excited and there are enough opportunities and a lot of people think there are not, but there are, but you have to spot them and execute them.

Nitin Agarwal: If I just take it forward of the five that you filed for the CRL, a couple of more that you are looking to file, I mean how many of them would you say probably which fall in that sort of interesting categories as you mentioned?

Rajeev Nannapaneni: I mean, of the ones that we filed in the US, of the five filings four are para-4.

Rajesh Chebiyam: Yes four para-4, one…

Rajeev Nannapaneni: I think out of the four, I think four are first to file I think.

Nitin Agarwal: In your assessment, any of them sown or they are all for multiple sort of first to file?

Rajeev Nannapaneni: Unfortunately they are all shared, unfortunately each one of them are shared, so what is happening even the FTF now it is not as easy it used to be, earlier you would get away with being the only one or doing one or one of the two or three, but now it is like there is one particular one I heard there were 18 of them, so kind of decrease the value.

Nitin Agarwal: The point that you are making is when you say that you still see interesting opportunities and given the dynamic in terms of people just going after everything, where do you see the opportunities going forward?

Rajeev Nannapaneni: I think the real opportunity lies and probably if when you do harder products, when you do something where there is technology barrier it could be peptide or it could be a delayed release formulation, it could be a hard to handle API on the chemistry side, those are the opportunities now and biggest one is patents, I think when you go after patents the opportunities that you see are when you go after risky patents, the straightforward patents everybody is able to do now, I think like where we spoke few minutes ago and you ask me about see for India, you have to do the risky launches in India where you really go after the hard to do patents, you design your own patents, you build facilities, which design around the patent, which allows you to design on patent that is where the real opportunity is. Do you plain vanilla para-4, NCE-1 there are seven patents you do an announcement of one or two then you get the first to file those I think pretty much everybody is doing, so I think the real challenge as I said is the technology and the risk you go on patents.

Nitin Agarwal: Thanks and best of luck.

Moderator: Thank you. Ladies and gentlemen we will take a last question from the line of Rakesh Naidu from Haitong Securities.

Rakesh Naidu: Hi. Thanks for the opportunity. Rajeev did I hear correctly when you said that USFDA's queries on Copaxone 20 mg were primarily related to characterization data package?

Rajeev Nannapaneni: Say it again, is the question related with characterization is that what you said?

Rakesh Naidu: Yes.

Rajeev Nannapaneni: Yes, they were I think, yes that is correct.

Rakesh Naidu: So in terms of your expectation on this product and the conversation that you have been having with the regulators, what is your view in terms of the approval timelines?

Rajeev Nannapaneni: I think we should – I think my sense is the 20 we should get the approvals.

Rakesh Naidu: And the data package, which was submitted to them was not part of the initial submission?

Rajeev Nannapaneni: Rakesh I will tell you about Copaxone basically we file with a certain data package and over the years we have got a lot of queries and based on the queries we did a lot of data and we generated a lot of data, a lot of changes we did, so this process has been fairly dynamic, we worked with regulator and we have done lot of work, so what we started off and what we ended up today is completely different, but that is the nature of doing complex generics that you work with regulator and evolve with the questions and that is how it works and what we start off the question is what you start off with and what you end up with is completely different.

Rakesh Naidu: So does it imply that when you say the course correction had to be changed, your approach towards data generation had to be corrected as the conversation with..

Rajeev Nannapaneni: I think based on the questions that they ask you do, yes absolutely, do a lot of work.

Rakesh Naidu: Right, because it has been a pretty inordinate delay like Sandoz is already there, so..

Rajeev Nannapaneni: It is delayed, but if you want the big jackpot these are the ones, we spoke few minutes ago and we spoke about customer consolidation, do I see a value if there are four or five filers on day one, unfortunately there is no value in this, there are multiple guys in the business. If you are doing the harder ones they make take longer to happen, they might be more complexed, there is more uncertainty, you cannot predict timelines on launches, but that is where the real value is Rakesh either you do that or you do a patent challenge that nobody wants to do, you do uptake a position that nobody wants to take and suddenly you get a

decision, which is in your favour and then suddenly you were in a very good situation, but unless you do that leap up face and invest and take that chance, it will be very hard to generate value, at least the way I see it.

Rakesh Naidu: Would you want to commit any timeline in terms of or it is difficult take a guess?

Rajeev Nannapaneni: On the 20 approval you are saying or?

Rakesh Naidu: Yes.

Rajeev Nannapaneni: I think it should happen, I have been saying it for so many years now it becomes so difficult to again come back and say the same thing. We are still confident that will happen, I think we are still confident that should happen shortly, I think I am very positive, I am more positive than before, but again I have been saying it for a year – I think everybody gets a little bold with what I said, but that is all it works but obviously you put the caveat on the table, yes we are positive, but at the same time it is a complex generic and you do not know how long it actually takes and when you do a chemistry product that is more or less you can predict whether you have it right or you do not have it right and how long will it take you to fix, but with something like this, it is harder, but that is where the real value is Rakesh I mean that is the challenges of business unless you are willing to do that then you cannot go up to the next value changes.

Rakesh Naidu: Right, one more followup, in terms of your commercialization strategy approach for this particular product, how do you think you can, you and Mylan can differentiate vis-à-vis what Sandoz has been doing right now?

Rajeev Nannapaneni: As of now I have not discussed about the strategy with them, as of now I do not have any views, I think once you get closer to the approval, we have the approval in place and when we have a call I will probably have more clarity on what the strategy and then I can lay it out, as of now I do not have an answer to that question.

Moderator: We will take last question. One last question from the line of Mitul Mehta from Lucky Investment.

Mitul Mehta: Thank you Sir for listening my question. You mentioned that you filed about five ANDAs of which four are F2F I mean just ballpark number as to how big are these opportunities at the innovator price the traceable opportunity of these five products?

Rajeev Nannapaneni: We do not have that full information Mitul, we are not disclosed either. I think once we get sued we will start disclosing it, we have not publically disclosed I do not want to get into it. We will probably do it shortly before our next call I think we will probably do it.

Mitul Mehta: When you file for ANDA does it mean that the innovator sues you immediately or it takes time for wealth?

Rajeev Nannapaneni: After the acceptance they will sue you I think.

Mitul Mehta: Once it gets accepted they will sue you?

Rajeev Nannapaneni: The way it was you file, acceptance takes 45 days to 90 days depending on how long it takes and after getting acceptance you send your Para-4 letter to the innovator and then as he replies to your Para-4 certifications by suing you so the whole process takes at least five to six months.

Mitul Mehta: In Hep C we have been in a good step, is not it a natural progression to also market ARV in our own name?

Rajeev Nannapaneni: I am doing a couple of ARV, but in gastro we are looking at other gastro portfolio, other gastro is like typically liver diseases, Hep B and Hep B was September portfolio not retroviral wants it because retroviral has different doctors, those are HIV doctors, that is not gastroenterology. You understand this is done by gastroenterologist. HIV done by HIV doctors, it is completely different field. It is different and different way of selling and HIV typically in most countries is a tender driven product, it is not a private market product, which is what it seems today and what happens with tender driven HIV businesses, it is a fairly large business, I do not want say it is not the problem is it becomes API plus business and Hyderabad friends, Mylan is there, Aurobindo is there, Hetero is there and then other guys non-Hyderabad guys primarily Cipla is there, McLeod is there, so these are the major players in these tenders. It is a business that we are not doing, again that is a different set of things, as of now it is not interesting as of today.

Mitul Mehta: Great Sir. Thank you very much.

Moderator: Would you like to add any closing comments Sir?

Rajeev Nannapaneni: Anything else Deepak, any questions you have?

Deepak Malik: No Sir, thank you, we can close it Sir!

Rajesh Chebiyam: Thank you all for your participation and great set of questions. Any questions related to what we discussed today, please feel free to reach out to us. Thank you.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.