



Natco Pharma Limited

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February 21, 2024

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Scrip Code: 524816

Scrip Code: NATCOPHARM

Dear Sir

Sub:- Transcript of earnings conference call held on February 15, 2024
Ref:- Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements),
Regulations, 2015

We are herewith enclosing copy of the transcript of the Company's earnings conference call for Q3 FY24 held on February 15, 2024. The transcript will be available on the website of the company i.e., www.natcopharma.co.in.

Thanking you

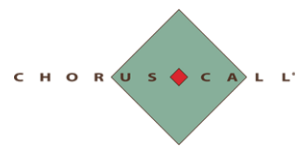
Yours faithfully

For NATCO Pharma Limited

Ch. Venkat Ramesh
Company Secretary &
Compliance Officer



“Natco Pharma Limited
Q3 FY '24 Earnings Conference Call”
February 15, 2024



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

MODERATOR: **MR. HRISHIKESH PATOLE - B&K SECURITIES PRIVATE LIMITED**



Moderator: Ladies and gentlemen, good day, and welcome to the NATCO Pharma Q3 FY '24 Post Results Earnings Conference Call hosted by Batlivala & Karani Securities India 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, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hrishikesh Patole from B&K Securities Private Limited. Thank you, and over to you, sir.

Hrishikesh Patole: Hi. Good morning, everyone. On behalf of B&K Securities, I welcome all to the Q3 FY '24 Earnings Conference Call of NATCO Pharma.

Rajesh Chebiyam: Good morning, everyone. Thank you, Hrishikesh. Again, welcome, everyone, to NATCO's conference call discussing our results for the third quarter of FY '24, which ended December 31, 2023. Our discussion during this call will include certain forward-looking statements, which are predictions, projections or other estimates about future events. While these forward-looking statements exemplify our judgment and future expectations, please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied.

NATCO Pharma undertakes no obligations to publicly revise any forward-looking statements to reflect in future events or circumstances. I'd like to state that except for the participant questions, property of NATCO cannot be recorded or rebroadcast without NATCO's expressed written permission. We'll begin with the results highlights, and then we'll follow up with an interactive Q&A session. So, we hope all of you received financials and the press release that we had done earlier, including a presentation. These are also available on our website.

So first of all, we are very excited to state that NATCO has achieved a big milestone in its evolution by surpassing INR3,000 crores of revenue and INR1,000 crores of PAT year-to-date, and we have 1 more quarter to go. So, I think we are quite pleased with the results.

For the third quarter of FY '24, NATCO recorded consolidated total revenue of INR795.6 crores as against INR513.3 crores same period last year, reflecting a growth of 55%. Net profit for the period on a consolidated basis was INR212.7 crores as against INR62.3 crores during the same period last year, showing roughly about 3.5x growth. The company has shown strong growth across businesses compared to last year and is confident of its strategy going forward.

Very briefly on the segmental split for the quarter, for Q3, API clocked INR46.3 crores. Formulation domestics, INR99.4 crores. Formulation exports, which includes profit share and foreign subs, was INR605.6 crores. Crop health clocked INR14.1 crores. The rest were in operating, nonoperating income. Thank you, all. We'll open up for questions.

Moderator: Thank you very much. The first question is from the line of Abdulkader from ICICI Securities. Please go ahead.



Abdulkader: Congrats on good set of numbers. So, my first question is with regards to your guidance for FY '24, where earlier you had stated -- or we were expecting profits of close to INR1,000 crores to INR1,200 crores. So, sir, I mean, since you already achieved that in the 9 months, are we revising it or holding to the guidance?

Rajeev Nannapaneni: Sure. As of now, I mean we're looking good. So, my expectation now is that -- again, we have to see how things work out. But it looks like we're going to be on the higher end of the expectation. We are hoping to go past INR1,200 crores PAT, I mean that's our expectation. And our sales as well, I think, will probably be a little less than INR4,000 crores. I think that's our expectation where things are.

Abdulkader: Okay. And sir, just to have a better understanding of your Q3 numbers. So on the face of it, it more looks like in the export business has driven the quarter. But within that, how have your subs at Brazil and Canada performed as well as in the U.S., if you could throw some light there?

Rajeev Nannapaneni: Certainly. I mean the subs have done well, Abdul. And I think, specifically, all the subs together, out of the total sales, I think INR163 crores has come from all the subs and primarily driven by Canada and Brazil. And this quarter, we had a onetime tender order that we executed in one of the markets. So that was one of the reasons why the sub has done well. And so that also has improved the emerging market profits.

Overall, it's a very balanced quarter. I think we got profit from all the major markets. And also all -- Glatiramer also did well this quarter. And overall, even though lenalidomide contribution was on the lower side, still we had a pretty good quarter. I think we're very pleased how things went.

Moderator: And the next question is from the line of Purvi from Kotak Securities.

Purvi: Yes, sir firstly, congratulations on a strong set of numbers. Sir, I have 2 questions. First is on the Kothur facility. If you could just give us an update as to where do we stand with the FDA? And secondly -- yes. Secondly, on the tax rate. If -- for the past 3 quarters, we've seen that to be in the range of 16% to 17%. How should we expect this for the full year of '24, '25 and '26?

Rajeev Nannapaneni: Sure thing. Okay. I'll start with the tax rate. The tax rate, I think, will be around at the same rates. Our expectation is that we' will be around 16%, 17%, I think that's my expectation, will continue even going forward. Regarding Kothur, we replied to the FDA about the corrective action that we have taken post inspection. And we've not received a classification as of now.

So as of now, we're still waiting for a classification. And we believe that we have done all the remedial measures based on the observations and we're still awaiting the classification. And yes, that's about it. And as I said in the past and I'll just reiterate it again. We have always implemented our risk mitigation strategy on our top products. And I think we are there. Yes. Thank you.

Moderator: And the next question is from the line of Ashish from JM Mutual Funds.



Ashish: Yes, sir, 2 questions. So first on the AgChem business and our long-term vision to also set up the business in the international market. And secondly, on the M&A. So earlier, we were wanting to add M&As to our portfolio with revenues of somewhere between INR1,000 crores, INR1,200 crores. So an update on that.

Rajeev Nannapaneni: So I'll start with the AgChem. I think usually December is a slower season. So the sales have been on the lower side. Overall, far for the year, Rajesh, can you give us an update on how much you've done so far for the last 9 months?

Rajesh Chebiyam: Yes. So just to add to that, Ashish. So year-to-date, we have done roughly around INR110 crores, right? So as Rajeev was just mentioning, the sector itself has been facing quite a bit of headwinds during this year. Starting from broadly the weather pattern and the El Niño effect has caused quite a bit of disruption in some of the key crops, right?

I mean if you look at our key products of CTPR and related to CTPR, now there's been failure in the Soybean crop, cotton crop has failed, poor rain. So, the South -- Rabi has also been impacted. And so we've seen multiple issues. And Q3 is generally expected to be on the lower turn anyhow seasonality wise. I think broadly, that's where we are.

Rajeev Nannapaneni: And I think on the guidance, I think we thought we are in the range of INR150 crores to INR200 crores. Looks like we're going to be on the lower side, not on the higher side because of the slightly lower offtake in the agro division this year. But overall, I think we're fairly excited about how things are. And our foray into international markets, we have started registration of our key products in the major markets in U.S., Australia and Middle East. So, I think things are moving well -- and Brazil as well.

So I think the impact of that we'll probably see in a couple of years. And regarding the acquisitions, I mean, we're looking at a big one. I mean that's what I think, instead of doing a smaller one, I think we're looking for a big, large one. We are scouting and we're looking around. And as I stated, we're looking in the Emerging Markets. So we're looking hard. And I don't have an answer whether we have a deal on hand right now. But we're working hard.

But the company has become stronger now, I think As on December 31, our cash position and investments are at INR1,929 crores and our borrowing is about INR129 crores, including foreign bill discounting. So I mean net cash we're at INR1,800. So we've gone up a little more from last quarter. And so I think we're in good shape. that way, I mean, to execute a transaction. To answer your question, do we have a transaction we're going to close? we're looking hard, I think that's all I can share at this time. But hopefully, we'll be able to consummate something in the next 12 months, that's our expectation. Yes.

Moderator: And the next question is from the line of Anuj Momaya from Ideal Investments.

Anuj Momaya: Congratulation on good set of number, Rajeev. So my first question is on the U.S. market, ex of Revlimid, how are you doing in those products? Or can you give some light?



Rajeev Nannapaneni: We're doing well, ex of Revlimid. I mean, Copaxone is one of our biggest products. So, we have very good market share on it, we are the number one generic on that. And the other products Everolimus does well. Lanthanum does well, Lapatinib does well. I mean all the portfolio is doing reasonably well. I think, overall, we are happy with our business and all our key products, we supply from both the sites, both from our Vizag and our Hyderabad sites. So, it's fairly stable.

And things are well. In terms of U.S. business, I mean, going forward as well, Our strategy continues to be to get those key critical complex products. We have delivered good complex filings, You are familiar with our semaglutide filing and some of them we have sole FTF on some strengths and some of the products and idea is that we'll deliver Olaparib, and we've spoken about that. These are some of the big filings we have in the near future and going forward, we have a stated goal. I think this next 12 months, we'll deliver at least 2 or 3 products, which are as interesting as the ones I just mentioned. So, I think we're working on them. Hopefully, in the next 12 months, we're able to announce something positive by achieving a filing. The strategy is still -- again, I've said this for many times, I'll reiterate again. The way U.S. is going to work is we got to do the complex generics. I think that's where the real money is or the FTFs. Otherwise, the regular products, it's harder to make money.

Anuj Momaya: Yes. And my second question is on this domestic formulation. So, we have been flattish around INR100 crores of quarterly run rate. So, is the oncology piece of business flat or the non-oncology? Can you throw some light how are we doing on the domestic front because that has been lagging for quite some time now?

Rajeev Nannapaneni: Good question. I mean, yes, we are lagging. I think there's no running away from that. I think we have a reasonable pipeline. We have some couple of very interesting products that we're working on. We believe that will drive the growth. But then the launches are not in the near term. I think I mean that's a challenge. Overall, the business has been stable. I think oncology volume-wise is growing. I think we're doing all right. Again, as I said, I think one big challenge we have in this business is what do we acquire to increase our portfolio because we're only strong in the mid-segments, we are not strong in the more volume, large, coverage, general GP segment.

I mean we looked at different acquisitions and I think I always found them to be very expensive and the return on capital expectations that I have is honestly it's not meeting. And whatever deals that I've seen are slightly better than the lending rates of a bank. So that's why I'm unable to close a transaction, I'll be very honest with you and that's why we are stuck. But I think we have a reasonable pipeline. I think my expectation is that, that business will grow. Our expectation is that it will grow around 8% to 10%. But the strength that we're seeing in our export business, we're not seeing it in the domestic business, I think clearly, yes.

Anuj Momaya: But the growth is coming from Oncology, or the non-Oncology means of business?

Rajeev Nannapaneni: Oncology is driving the growth. I mean, most of the portfolio is still -- I think 60%, 65% of the portfolio is still oncology here. Yes. Okay.

Moderator: And the next question is from the line of Saumil Shah from Paras Investments.



- Saumil Shah:** Sir, congratulations on a good set of numbers. Sir, in the previous call, you mentioned that most of our Revlimid quota was done for this year. And next quarter, there won't be much quantity left. But still the performance for this quarter in terms of sales was very good. So, does that mean that our other products did really well in this quarter?
- Rajeev Nannapaneni:** I think the other products did better. We got some tail on the Lenalidomide. But, a significant part of the profit came from non-Lenalidomide for this quarter. I think that's our position, that's correct.
- Rajesh Chebiam:** Yes, as mentioned earlier, the Emerging Markets have done fairly well here.
- Rajeev Nannapaneni:** And also, we had few hits in onetime tender and all. They're all non-U.S. Revlimid driven business.
- Saumil Shah:** Okay. And that performance can continue further for the next quarters, non-Revlimid?
- Rajeev Nannapaneni:** These are onetime, so I think they're done. So again, next year is a new year again, you bid for new business, and you see how things go. But overall, I mean the Emerging Market piece - the other products have done fairly stable. And we obviously have Lenalidomide, starting from March will get a new allocation. So, I think we're expecting that things will be better starting from March.
- Saumil Shah:** Okay. And sir, if my understanding is correct, that from March '24 to Feb '25, that would be a third year for Revlimid, correct? And the contribution to overall sales from this product will increase compared to the previous year? So can you please guide on the EBITDA margins. Will it be similar to the previous year? Or if the sales increases, will the margin will also increase?
- Rajeev Nannapaneni:** Good question. I don't have an answer. So, we'll just see how the market spawns. We'll have more color, when once some quantity goes into the market. We're optimistic that we'll do well. Again, the extended erosion all is very hard to judge. And I think we have to speak to our partners, Teva, and get more clarity. But once we get more clarity, hopefully, in May, when we have our March quarter numbers and the annual for the financial March '24, I think we might be at a better place to answer that question. At this time, it's too premature.
- Saumil Shah:** Okay.sir, any guidance for the next financial year for revenue or profit?
- Rajeev Nannapaneni:** Not today. I'll guide you for March '24. '25, I'll -- I think maybe in the next call, I'll have more clarity, yes.
- Moderator:** And the next question is from the line of Nitin Agarwal from DAM Capital.
- Nitin Agarwal:** Rajeev, on the U.S. market, which -- I mean, are there any -- over '25, '26, do you see any of those P4 launches coming through for you?
- Rajeev Nannapaneni:** I can't speak about dates, Nitin, because they're all bound by confidentiality. I think I'll give you a general picture of what Para IV you can expect in the next few years. I mean, Bosentan 32mg, Carfilzomib 10 mg, we have sole FTFs. So those are probably coming in the next few years.



And then we have Olaparib, and then we have Semaglutide. So, I think those are the big Para IVs. And then we have trabectedin as well and pomalidomide. So, these are all there in our investor presentation. But these are the ones that will play out in the next few years.

Nitin Agarwal:

Okay. And in terms of the new filing that you talked about potentially that can come through over the next 12 months. I mean these would be what, a potential impact from a monetization perspective, this would be FY -- post FY '30 event?

Rajeev Nannapaneni:

Depends on the patent litigation. So, it's very hard to judge, it'd be tough. I think what we are trying to tell our investors in a lot of our interactions is that we continue to pursue the complex pipeline. And our idea is that you need to focus on these complex products. And you got to do peptide products, oligopeptides, difficult delivery systems, harder to do generics, and that's where the real value is.

I think we have a stated goal, internally in the R&D that we have to deliver. We start seeing, about 3 or 4, and if we succeed even at 1 or 2, then it adds a really disruptive launch in the next few years. So, I think the idea is that we have, let's say, 3 or 4 good complex generics coming up in the next 5, 6 years and then maybe we make it like 6 or 7, then there will be more consistency in our delivery rather than the lumpiness that you're seeing in our earnings.

So, I think we should be able to generate and we don't need many of these very good products. I mean, if we deliver 6, you're set for the whole decade. that's the idea. I think we're trying to bring more pipeline with the R&D spend that we have so that we can bring more consistency in our complex pipeline.

Nitin Agarwal:

Okay. And secondly, on the RoW subsidiaries, which are there. What kind of outlook do you have on this sort of piece over the next couple of years?

Rajeev Nannapaneni:

I think Brazil and Canada are our best subs in the RoW. I think both are doing extremely well. So, we're very happy how things are progressing. And each of the subs are filing 7 to 8 products, I think it's a stated goal that we have. So, they continue to be strong. And we are looking at more markets. We're starting a subsidiary in Colombia and Indonesia. We're looking for a good acquisition in the RoW business. So, our sense is that we have to grow this business.

And whatever pipeline that we're building for, Canada and Brazil, extend it to as many countries as possible. And I think that's where the value of the business is. and that's how it's going to be. I think you've got to have a reasonable pipeline. The only thing going to make money in this business, one, you have complex generics, difficult-to-do products. Two, we have global reach. And you have a steady, branded generic business. I think these are the 3 ways you can make money. And I think out of these 3, you need to get at least 1 -- at least 2 things right and I think that's what will get you home. Okay.

Moderator:

And the next question is from the line of Viraj from MoneyGrow India.

Viraj:

It seems like we've had a great quarter, and the worst is behind for NATCO. I've been tracking this business for a long time. Just a question on Imbruvica and Pomalyst. Can you speak a little



bit about those 2 please? Because I think those are some of the bigger market opportunities out there for you?

Rajeev Nannapaneni: Certainly. I mean, Pomalyst, we have launched in a couple of markets. I think we launched it so far among some geographies obviously, we have a reasonably nice generic in India. I think we're the #1 generic of Pomalidomide in India. We have launched it in Canada and Australia so far. So those are 2 markets that have opened up. So that is doing well. Now U.S., we already have a launch date. But it's a shared FTF. So. I don't know how big this product is going to be in the U.S. for Pomalidomide.

Viraj: When you say shared, is it on one power player or multiple players?

Rajeev Nannapaneni: I think there are multiple players. I don't remember the exact number, but I think it's a shared FTF. It feels like 4 or 5, but I don't want to say something -- where I'm not certain-- just get the feeling it's many. But how many, I don't recollect exactly. Other than Pomalyst, Imbruvica We have lost the appeal. So, we're just looking at what we can do and we're just making our evaluations on how we can deal with the legal situation. So, at this time I can't comment, but we'll come back with what we probably need to do, yes.

Moderator: And the next question is from the line of Bharat from Equirus.

Bharat: So sir, are we quantifying the onetime tender opportunity which we have got for this quarter?

Rajeev Nannapaneni: No, I generally don't do a split for competitive reasons. But we just give a general view but we don't discuss the quantification or speak EBITDA wise split.

Bharat: Sure. And sir, any outlook on the U.S. market, how it is happening. Because from the prior commentary, we were understanding that there has been volume growth, pricing has started getting better. So how are you looking at this market at this moment?

Rajeev Nannapaneni: I mean business has been stable, I'll be honest. I think business has been fairly stable. all the products that we have had, stable revenue and stable pricing. There's no doubt in that. But having said that, again, I'll reiterate what I've said a few minutes ago, is that the real money in the U.S. is not coming from selling large volume or vast volume. I think you get real value when you do complex generics. And that's where the real money in the business is. And I think that's my sense, yes.

Moderator: And the next question is from the line of Rohit from iThought PMS.

Rohit: Yes. Congrats on good numbers. My question was on the NCE that we were -- that we had NRC-2694. If you could just talk a bit about that, I think we were under Phase II trials. So, if you can share anything and also overall -- the overall strategy around NCE for us as a company, if you can share over the next 4, 5 years if there is anything that can happen there?

Rajeev Nannapaneni: I think NRC-2694, we got permission to do Phase II in the U.S. So, we have a couple of sites in the U.S., and then we're doing some work. In India also we got DCGI clearance to do a Phase II, and it is for a niche indication. I think it's premature at this time to talk about it. But I think



once it's made good progress then we can speak about it. But at this time, I would like to say that it's in an early stage. - But we're doing Phase II. And in addition to this, I think we have another 2 products that we are looking to do Investigational New Drug (IND). But at this time, it's premature. I think maybe in the next quarter, I'll give you more updates, yes.

Moderator: The next question is from Hussain from Ambit Asset Management.

Hussain: So I had 2 questions. The first one was with regards to our \$2 million investment in Cellogen around CAR-T therapy program. And if I recall in the last con-call also, you alluded to some investments in this area, which would make sense for NATCO. So, would it be fair to say that these types of investments would be the way ahead for us in Indian market compared to, say, typical outright brand purchase? And could you talk more about this?

Rajeev Nannapaneni: Sure. Okay, fine. Outright brand purchase which is another big, and I mean, I know I'm contrary to everyone what state believes and our guys love. But I think the return on capital is very low. And I think the growth of these brands are not so large that justify the valuations. But having said that, what we're doing with Cellogen is essentially, they have a very promising molecule in CAR T-cell therapy.

And you probably know, I mean, this is the new technology that has come in treatment of cancer, and it's a very exciting technology. And I think we realized that we don't have the know-how in our system to do these projects, but I also believe that this is going to revolutionize cancer therapy.

So, we felt that it's good to be at least part of a startup, which is working on this. And we have started with a \$2 million commitment, but I know, if things go well, I think we can always bump up our investment in these sort of assets. And certainly, I think gene therapy and CAR T-cell are going to be big things in pharma. And a lot of the innovation is happening in this space.

And I think you need to be in this space clearly. And if we don't have the know-how internally, then you probably need to capture it through an investment and then maybe you get a feel of how things are going and then maybe if you're comfortable with how things are, then maybe you can do a larger investment and take it forward, yes. Okay.

Hussain: Understood. And sir, my last question is with regards to Semaglutide, and pardon my lack of understanding here. But just wanted to get a sense of like what could be the timeline with regards to the development and then the filing? And then will it be like -- like just an assumption, if you could just help us understand it. Is it a 3-year or a 5-year timeframe that we are looking at?

Rajeev Nannapaneni: The litigation is ongoing. I mean, I think the compound patent is in like early or after 2030, I think, I don't remember exactly again. I don't want to say something that I'm just working with top of my head, I don't have any actual patent expiry numbers with me. But I think Mylan is handling the litigation, they have challenged different patents. It depends on the outcome of the patent litigation and also, it's a complex generic.



So, I think the review time will be longer than your normal product. They're answering all the queries. So-- at this time, I can't answer any timelines and any guidance on launch date or on the litigation. But we're just sharing what's in our pipeline, and we have an exciting product. And in some strengths, we have FTF. So, I think it's a good opportunity if we're able to put it off as and when it happens.

Moderator: And the next question is from the line of Omkar Kamatekar from Bonanza Portfolio. Please go ahead.

Omkar Kamatekar: Yes, so my first question is with respect to capex. Approximately, what is the amount of capex that we have incurred in the current year? And what will be the steady-state capex which we are going to incur in the next couple of years? Because you've added approximately 50% capex in the last 4 years, from INR2,100 crores in FY '19 to now, as of FY '23, 57% capex has been -- of gross block has increased. Is most of the capex done? Or we still -- there will be another round of capex?

Rajeev Nannapaneni: It is always maintenance capex, just you have to replace things and you're always buying some new instruments and upgrading your plants. So far this year, we've spent for 9 months INR282 crores in capex. So, I think that's fair. It's not been large like in the earlier years because earlier years, we did a lot of capex. We built a lot of new facilities. We built a fresh facility in Vizag. We built the agrochemical facility, and we did significant expansion in our existing facilities. Right now, I think we're okay. I think we are comfortable. I don't see any large capex, that's why you see the cash is increasing in the books because we're not spending so much in capex here.

Omkar Kamatekar: Got it.. So, my question was with respect to so the point was because of this increased capex our fixed asset turnover, gross block to turnover had gone down and we'll be close to 1 by the end of this year, FY '24, close to INR4,000 crores of turnover. So we'll be slightly above 1. Historically, before the round of capex, we were above 1.3, 1.4. So would those be the levels that we'll be reaching? So, what will be the maturity time for these capacities to reach optimal level, so we might see 1.4, 1.5x the gross block turnovers?

Rajeev Nannapaneni: I think we are running optimally, because a lot of our investments to do with products that we're trying to launch 7, 8 years ahead of time. I mean if we look at our business, we're working on stuff, which is like going to happen in the next 7, 8 years. I mean, for example, we're working on Oligopeptides. I'll give you an example. We did a significant capex for the Oligopeptide block.

And hopefully, we'll get a filing through in the next 12 months. So, what will be a pay off on an Oligopeptide, maybe 5 to 8 years away. So, it's a treadmill, I mean you can't think of it like that I've done something, and I quickly return tomorrow. Pharmaceuticals is like everything that you do, you got to wait 7, 8, 9 years for things to happen. So, it's a cycle.

What you make, you make today and then you invest and then you go for the next cycle. So, I think that's how it is, I don't know if I've answered to your satisfaction, but I think that's how you want to think about it, yes.



- Omkar Kamatekar:** Yes, yes understood. No, I got the gist of it. And finally, with respect to the free cash flow, what was the free cash flow generation for the period -- for the 9 months or 6 months or whatever, if you could share, free cash flow?
- Rajeev Nannapaneni:** Free cash flow, I think we already said no? Our PAT is about INR1,000. So, you want an EBITDA or how do you want the number if I can ask?
- Omkar Kamatekar:** Free cash flow. So that would be operating cash flows minus the CapEx for the year, so if it is available or...
- Rajeev Nannapaneni:** Yes, I don't have everything on hand, what I have I'll tell you; I mean 200 I already told you about the capex first.
- Rajesh Chebiam:** So, we're about from an EBITDA perspective, YTD is about INR1,340 crores and capex is INR282 crores.
- Omkar Kamatekar:** So maybe I'll back calculate, or I could take it off-line...
- Rajeev Nannapaneni:** Yes, yes, I mean the numbers are broadly, I mean you can work it out. INR282 crores is the capex. And then what was the EBITDA, Rajesh?
- Rajesh Chebiam:** INR1,340 crores.
- Rajeev Nannapaneni:** INR1,340 crores, then you do the calculation. And then dividend, I think we paid this year, I think, almost INR9.5. I don't recollect. Yes, around there. So broadly those are the numbers about 15% dividend we have paid, yes. Okay.
- Moderator:** The next question is from the line of Shyam from Ladderup Finance Limited.
- Shyam:** My first question is with respect to the revenue from the U.S. So, the revenue is in line with what we are doing in previous quarters and year-on-year or it has grown or declined? And the revenue from Revlimid, the tailwind that we have received from it?
- Rajeev Nannapaneni:** Could you rephrase that question? I didn't understand what your question is. Can you rephrase that and say it again, please. I didn't understand what you're saying.
- Shyam:** Sure, sir. Sir, I just wanted to know that how was our revenue in terms of U.S. -- in terms of the U.S. So it was in line with previous quarters and -- or it has declined or grown?
- Rajeev Nannapaneni:** I think if your question is on a year-on-year basis, we have done better than what we did last year in the U.S. And it is driven by, obviously, Revlimid and other products that we have. If the question is are we better than last year. Yes, absolutely. If you compare our 9 months for last year and 9 months this year, I think we've definitely done much better than what we did. I think our last year profitability for the whole year was INR715 crores. This year, we have done INR1,000 crores profit for 9 months. So, we're definitely doing much better. Does that answer your question?



Rajeev Nannapaneni: Some things happen because of how the sale is done for different products. So, it's very difficult to if you say compare it with last quarter, this quarter, then it becomes very difficult to compare. I guess you got to take a more multiple quarter view on a year-on-year basis, then you can see a better trend. I think the trend on a Q-on-Q basis is difficult for our type of company.

Shyam: Okay. Okay, sir. And sir, any development in our FTFs coming forward? Any specific molecule?

Rajeev Nannapaneni: Our stated goal is we want to have about 3 or 4 smart FTFs. We want to take it to 6 or 7 in the next 2 years. I'm hoping again it's all subject to how our execution and how everything works that we're able to pull off another 3 or 4 very smart FTFs, which can give you more consistency in our earnings, yes.

Moderator: And the next question is from the line of Sayan Mukherjee from Nomura.

Sayan Mukherjee: Just a small clarification here. I mean, for Semaglutide, is it a partnered product or you have your own filing and you will sort of have the 100% of the economics here?

Rajeev Nannapaneni: No, we won't have the 100% economics. It is partnered and it is with Mylan.

Moderator: And the next question is from the line of Purvi from Kotak Securities.

Purvi: Sir, question is in regards to the Red Sea crisis. Sir, we've been hearing that the freight costs have escalated a lot. So are we experiencing any issues? Or can this be a worry over the next 1 or 2 quarters? That's one. And the other one was on the raw material front that if you could just give us a number as to how much is our dependence on China for the raw material? And as we know that there's a depletion situation that's going on there, so how do we see this also having an impact on the raw material prices over the next 2 or 3 quarters?

Rajeev Nannapaneni: I think, overall, the freight rates have gone up, Purvi. I think from what I understood in our conversation with my supply chain head, there's been 50% to 60% increase in the freight rates and even the airline freights have also gone up dramatically. So, there's a lot of disruption that's happening in the supply chain. Having said that, I think we don't see any supply challenges. Things have been fairly stable. I think -- at least our key products, I think we're able to manage reasonably well.

But to answer your question, yes, there has been a significant disruption in the supply chain because of the Red Sea issue. And regarding China and all, we see a lot of stability in the raw material pricing as of now from China. I think from what I understand, I think things have been fairly stable. Now we have to see what will happen because of what's happening. But as of now, I think things have been fairly stable, yes.

Purvi: Sir, just an ancillary to this as to how much is the inventory for the raw material that we usually carry?

Rajeev Nannapaneni: Right now, my closing inventory for consol is INR675 crores is the total inventory of the company as of today, as of March 31, 2023.



Purvi: Sir, just wanted to allude to Red Sea crisis situation. Have -- what is the kind of impact that you can see on the margins that can come in?

Rajeev Nannapaneni: What do you see in the margins? There is some increase in raw material prices, and there's some delays in delivery and there is overall general freight cost increase. So, your logistics cost, other expenses have gone up dramatically. But our portfolio relatively is less affected because our portfolio is a very high-value portfolio. And lot of the stuff we send by air and it's all small volumes.

So, the impact it will probably see on balance sheet will be not as significant maybe compared to a company whose portfolio is more high volume and low value. I think the impact will be much more. But having said that, I mean, in fact there is impact, of course, we can't run away from it. But relatively, the impact is less on a firm like ours, yes. Okay.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Rajeev, on Agrochem now, how are you thinking about contribution of this piece over the next 2, 3 years to the overall business?

Rajeev Nannapaneni: I have some very exciting launches, a lot of first-time generics lined up in the next 12 months, subject to how litigation is going to be. I think it's a very good business. I believe that it's right now this year, we may end around INR150 crores to INR160 crores, depending on how things go. A little lower than we thought, but I think we still did very well for someone who is completely new in that business. This business has a potential to go to INR300 crores to INR400 crores brand, and a lot of the brand loyalty is from farmers once you deliver a very high-quality product. We're doing a lot of ad campaigns and I don't know if we've seen some of our regional channels. I mean we run ads regularly, especially in Telugu and Marathi, I think, which are big Agrarian states, Maharashtra and the Telugu state of Andhra Pradesh and Telangana we have done strong agrarian campaigns in the regional channels. So, to bring consumer to buy our products. So, I think we're doing well. I think it's a very exciting business.

And I think right now, we are not making so much money in that business. I think once we have a lot of high-cost inventory that we are just selling off. Once the raw material prices stabilize and we're able to establish our brand, I think it's going to be as interesting as like a branded generic piece in India. that's my vision and my view of the business, yes.

Nitin Agarwal: And how important a role you think exports will start playing in this business as you go forward?

Rajeev Nannapaneni: Exports also would be exciting. But exports won't kick in for the next 2, 3 years. And I think some markets are opening up in the next 12 months, but I think the major markets will open in the next 2, 3 years. Overall, it will be a counter bet. our expectation is that. But our core strategy will be driven by the India branded business.

Exports may contribute about 30%, but the India brand business is where I think we see a value. We see this business can scale up to INR400 crores to INR500 crores if we include export, too. But it will probably play out in the next 3 to 4 years subject to launch, our ability to launch these



products and able to be there in the first phase of market formation. I mean these are the 2 most important things in this business, or any business for that matter, right? Just like generics and pharma, you need to be the first wave, otherwise, you don't make money.

Nitin Agarwal:

Right. And secondly, on your -- you made up -- taken a partial stake in the Singapore-based entity. So when you are doing these partial stake sort of buyouts in some of these companies, what are your thought process behind these?

Rajeev Nannapaneni:

I mean it's like a strategic investment. I think one of the gentlemen asked me about the CAR T-cell therapy. CAR T-cell is something that it's as a skill set, I don't have internally, so there we invest so that we can get a see through on how that business goes and then invest with the promoter and see to hopefully bring a successful product in the market.

So generally, these are all strategic so that we learn more about that business where we are not present. That one, we invested a little while ago. It's actually a very small investment because we had a clause which protected the dilution, antidilution clause on the valuation. That's the reason why the stake has gone up. But otherwise, it's actually a 2%, 3% investment but actually went up to 7% because of the dilution protection.

But usually, the value that comes from these assets are typically, if they give you a manufacturing advantage or if they give you a technology platform that you're not present in, so I think that gives you a portfolio that you don't have internally. That's how you want to think about these assets.

Nitin Agarwal:

And last one, what's been your overall assessment, if you can, on how the competitive dynamics or the pricing dynamics or in general, the market dynamics in Lenalidomide has really played out over the last 2 years since it's been around?

Rajeev Nannapaneni:

I think we've done well, and there's been significant erosion. But also, we have done well. we're happy where we are. We have to see how the future holds. I think that's how I want to look at it.

Nitin Agarwal:

And if you can please squeeze in that. Is there any other geography where this could be an opportunity, lenalidomide is an opportunity for us, barring U.S., where we are doing right now?

Rajeev Nannapaneni:

I mean we do well in Canada. We launched this in Australia, too. And I think we are looking at 1 or 2 other RoW markets. But these are the key markets that we are present at this time.

Moderator:

And the next question is from the line of Saumil Shah from Paras Investments.

Saumil Shah:

Sir, even after giving such a good performance for last 2 years, but still, street is not giving us the desired valuation to our company. So, it seems it's mainly because of dependency on 1 particular product, Revlimid. So, I mean, can you please give your thoughts that post then '26, once this product is open for all, how shall we look at Revlimid numbers?

Sir any -- I mean just your thoughts since you are in the business since long.



Rajeev Nannapaneni: Okay. I mean you asked me a very difficult question, so I'm trying to be as diplomatic as I can, see my sense of the business, I can answer like this, every company goes through a cycle where you make money on one product, and it falls away. And I think the way you need to judge a company is what pipeline do you have and what's going to be the next big product. See for example, if you look at our history, right? I mean, we made money on Tamiflu. It held up earnings for many years, almost 3, 4 years.

Now it's fallen away. The way this generic business works is there's always that 1 or 2 products, which always will contribute a good amount of profit, and it will fall away. And because you're in the first wave, you'll make money and then falls away, then you have to keep replacing it with a newer product, which gives you the same amount of margin.

And I will challenge you that if you look at any of the leading pharma companies today, there will always be that 1 or 2 products which will always give you that extra earnings compared to the core portfolio. It's true for us. It's true for everyone, and that's how we want to look at it. And to answer your question directly, I mean, you just have to judge it on the pipeline.

I mean honestly, that's all., All I can do is tell you like this is what we are filing, and we believe that these will come. And whenever they come, there will be a reasonable upside, I think that's how we must look at it. And just have to judge the company by saying, what else are you probably going to file, in this year, will you deliver another 1 or 2 interesting filings so that you bring about more consistency.

But that's the nature of the generic business. You have to assume that when you enter something where you're the only generic, you will make slightly higher profit. But eventually, it all falls away. So, I think that's true of every molecule.

Saumil Shah: Got it. And any big launch, I mean, similar to this particular product? I mean are you expecting in 1 or 2 years similar to Revlimid?

Rajeev Nannapaneni: 1 or 2 will be difficult to judge. But I think our investment position is very clear. I think we have a interesting pipeline. I mean we have Semaglutide. We have Olaparib.

Rajesh Chebiyam: Yes. Just want to add on that, Saumil, it is very important to look at the investor presentation where we highlight the sole first to file, these are the list where the value that can come back to us, would be much significant

Rajeev Nannapaneni: I think we have spoken about mid-sized opportunities like Kyprolis, and then Tracleer. So, I think you just have to build this pipeline and then you have to do a geographical spread so that you bring in more extension to your product portfolio in multiple markets. And that's how you make money in this business. And hopefully, you're there in the first wave so that you make more money. That's how I'd look at it.

Moderator: And the next question is from the line of Viraj from MoneyGrow India.



- Viraj:** Rajeev, given the cash flows on your books and the high cash flow generation in your business, despite the targeted acquisition, do you think you could see some corporate actions such as a buyback down the line? Because I think The Street, having followed your company and business model for a long time, I think The Street is massively undervaluing you probably as the cheapest mid-cap stock for the metrics that you deliver on your business model.
- Rajeev Nannapaneni:** As of now, we're looking at it., I have not made up my mind. I think I'm preserving all the money, and hopefully, we're able to deploy it for an acquisition. I think we're giving a reasonable amount of dividend. We've done a buyback in the past. and I think recently only we had done a buyback.
- Rajesh Chebiyam:** Yes.
- Rajeev Nannapaneni:** So as of now we're looking at all options. I think we have to see how things go. We'll see how the year goes, and we have more cash, and we don't have any smart ideas on how to deploy it, then certainly, I think we can consider. I think all options are open. We are considering every option at this time.
- Viraj:** Fantastic. The second question is, there was a spike in earnings in the September quarter. Was there an anomaly then? Sorry, I'm just catching up.
- Rajeev Nannapaneni:** No. I think the earlier quarters were led by Revlimid, I think we had a reasonable contribution from the Revlimid, yes, I think that's the reason why.
- Viraj:** Okay. And that Revlimid has seen pricing pressure since then Q2 versus Q3?
- Rajeev Nannapaneni:** I think we have seen lesser contribution from this quarter. And I think we're hoping that it will be higher contribution in the coming quarters.
- Moderator:** And the next question is from the line of Omkar Kamatekar from Bonanza Portfolio.
- Omkar Kamatekar:** Two clarifications. What is the percentage of R&D, the R&D spends that we tend to do on an average basis, what is for this current year? And what are we plotting it for the -- for years ahead?
- Rajeev Nannapaneni:** I mean it depends on the portfolio. And I think we strive to spend about, minimum about 6% to 8%. But sometimes, some years, it goes to 8% to 10%, depends on the year. But exact number for this year, I don't have it on hand. So, I can't answer that question, but I'll give you clarity I think in the next quarter at this point.
- Omkar Kamatekar:** No issues. And with respect to what is -- the contribution of Revlimid in the total revenue, is that available? What was the percentage that can it go?
- Rajeev Nannapaneni:** We're not doing that measure. We're not answering that.
- Omkar Kamatekar:** Okay, no issues. And then I have 2 questions. Firstly, whenever you -- so whatever acquisition that you are targeting, what is the metric? And what is your thought process behind this acquisition? And what are the key points that you're looking at? And secondly, what are the major risks that you foresee with respect to any markets that -- be it domestic or international



that could have a material impact on the operations or the outlook of the business? That's the 2 questions.

Rajeev Nannapaneni: I mean in terms of metric, in terms of return on capital, I have very high expectations. I think we usually look for higher teens or 20% is my expectation. I don't like doing 10%, 12% transactions. I'm not a big fan of those because my hurdle has been so high, it's been difficult to do transactions. But I think we are sharp and we're patient.

In risk and all, I mean, you can always have currency risk, obviously. And there's always in our business, inspection is a big risk. So, I think these are the major factors that play a role. And pricing risk is always there. I think it's something you want to look at it. I mean these are probably the 2, 3 factors that play a big role.

Omkar Kamatekar: Sure, understood, understood. With respect to the acquisition, what you said was with return on capital or the overall return on investment that you're speaking about?

Rajeev Nannapaneni: Return on Capital, I think that's what we target. But again, you can target a lot of things, but what we will end up is something else. But that's what we would want to target.

Omkar Kamatekar: So the targeted company should have at least 20% or more return on capital employed and that should translate into our business...

Rajeev Nannapaneni: Honestly, our investment should be such that will allow us to make that sort of return. I think that's how we like to think of products. I mean you have to weigh it based on the situation. My last question, so whoever the caller is, yes. Thank you.

Moderator: Yes. The next question is from the line of Shyam from Ladderup Finance Limited.

Shyam: Sir, just a couple of follow-up questions. In terms of agrochemical, what we are producing is similar to what PI Industries and Chambal Fertilisers are offering in the market? Or what we are doing is something different from the domestic prevalence?

Rajeev Nannapaneni: My model is not same like PI, I mean I can tell you that upfront. Our portfolio is generally a patent challenge portfolio, meaning we try to be the first generic of that particular molecule in India. So, a lot of the portfolio we have launched is, in fact, usually the first generic or the first wave of generic. And our model is not to work with innovators. We always challenge patents; we have very aggressive challenges patents. So, it's slightly a different model. So, it's not like theirs.

Shyam: Okay. Okay, sir. And sir, my second question with respect to Revlimid. Since we have increased quota in this year. So, is this spreading the quota over the quarters, or we will see the similar allocation of quota that we've seen last year, last calendar year?

Rajeev Nannapaneni: I think it will be spread out, and again I'll give you more color to it in May, –when the March numbers are there. So, we'll have more clarity on how they're thinking about it. Because we are not selling this product, Teva is selling our product. I think we'll have some conversations. And I think, hopefully, we'll get some guidance on where we're going with our product, okay.



Natco Pharma Limited
February 15, 2024

- Shyam:** Sir, how this quarter is going on for this product?
- Rajeev Nannapaneni:** I think March is, we're launching our quota. So, we are expecting that we should do well, yes. Yes, again, thank you so much, everyone. I appreciate the time that you spent in interacting with us. And I thank you, and good day, yes.
- Rajesh Chebiyam:** Thank you all.
- Rajeev Nannapaneni:** The questions and the details will be uploaded once they are available.
- Moderator:** Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Disclaimer: This transcript has been edited to remove any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.