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14th August, 2023

Corporate Relationship Department	Manager – Listing
M/s. BSE Ltd.	M/s. National Stock Exchange of India Ltd
Dalal Street, Fort	"Exchange Plaza", Bandra – Kurla Complex
Mumbai 400 001	Bandra (E) Mumbai 400 051
Scrip Code: **524816**	Scrip Code: **NATCOPHARM**

Dear Sir

Sub:- Transcript of earnings conference call held on 10th August, 2023
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 Q1 FY24 held on 10th August, 2023. The transcript is also available in the website of the company i.e., www.natcopharma.co.in.

Thanking you

Yours faithfully

For NATCO Pharma Limited

CHEKURI VENKAT RAMESH

Ch. Venkat Ramesh
Company Secretary &
Compliance Officer

"Natco Pharma Limited
Q1 FY '24 Earnings Conference Call"
August 10, 2023

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. KUNAL RANDERIA – NUVAMA WEALTH**

Moderator: Ladies and gentlemen, good day, and welcome to the NATCO Pharma Limited Q1 FY '24 Earnings Conference Call hosted by Nuvama Wealth Management. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kunal Randeria from Nuvama Wealth Management. Thank you, and over to you, sir.

Kunal Randeria: Thank you, Karen, and good morning, everyone. On behalf of Nuvama Group, I welcome all for NATCO Pharma's Q1 FY '24 earnings Call. With us, we have NATCO Pharma's senior management team, represented by Mr. Rajeev Nannapaneni, Director and Chief Executive Officer; and Mr. Rajesh Chebiyam, Executive Vice President, Crop Health Sciences. Over to you, Rajesh for open remarks.

Rajesh Chebiyam: Yeah. Thank you, Kunal. Good morning, and welcome, everyone, to NATCO's conference call discussing our earnings results for the first quarter of FY '24, which ended June 30, 2023. During the call, we may be making certain forward-looking statements or statements about future events. And anything said on this call, which reflects our outlook for the future, must be viewed in conjunction with the risks that the company faces. I'd like to state that the material of the call, except for the participant questions, is the property of NATCO and cannot be recorded or rebroadcast without NATCO's expressed written permission. We'll begin with the results highlights and followed by an interactive Q&A session.

So we hope you received our financials and press release, which was sent yesterday. These are also available on our website. So for the quarter, NATCO had recorded consolidated total revenue of INR1,160 crores for the first quarter, which ended June 30, 2023, as against INR918.9 crores for the same period last year, reflecting a growth of roughly 26%. Net profit for the period on a consolidated basis was INR420.3 crores as against INR320.4 crores same period last year, showing a growth of 31.2%.

The company had made a provision of INR51 crores during the quarter towards pending patent infringement litigation cases for its products in India. And as a disclaimer, this is without admission of either the liability for infringement or validity of such patents. The company also incurred a one-time special incentive to employees of INR17 crores. So -- but for these one-time expenses, the profits would have been higher for the quarter. Major drivers for the business during the quarter were from formulation exports. We had a strong growth in domestic business of both pharma and agro, and we continue to see very steady sales from the subsidiaries.

We'll pause here. We'll take your questions. Thank you all.

Moderator: Thank you very much. The first question is from the line of Kaushik Mohan from Ashika Stock Broking.

Kaushik Mohan: Sir, my question is basically on the margin front. Are we able to sustain these margins or -- is this a cyclical in nature because of the Revlimid product that we have it currently?

Rajeev Nannapaneni: I think we'll have a good quarter, I think coming Q2 as well. I think we should probably have a similar quarter. I think by Q3, I think it will slow down a bit. Again, things will pick up in Q4.

Kaushik Mohan: Sir, how about the margin -- will it be in the same control, like our operating margins are currently around 45.6 percentage plus. So how about these margins?

Rajeev Nannapaneni: I think so, as I have said the Q1 and Q2 will -- I think Q2 also were excellent -- I mean, I can't exactly estimate exact numbers until the quarter ends. But I think our sense is that we'll have a similar quarter like Q1 and Q3 it will -- I think will be -- will taper off. And I think Q4 things will pick up.

Moderator: The next question is from the line of Yash Tanna from ithought PMS.

Yash Tanna: And congratulations on a good set of numbers team. So my first question is what contributed to the good recovery in the domestic business for the quarter? And is this a new base for us?

Rajeev Nannapaneni: I think we are -- oncology is doing very well, and I think that's the good news. And we had one one-time order. So that also bought about a good jump on the sales. But it's partially driven by growth and partially driven by a one-time order.

Yash Tanna: How big was this one-time order, sir?

Rajeev Nannapaneni: Top of my head, I can't recollect. I think there's a split between the both, I can't recollect the number.

Yash Tanna: On agro side, it seems a little bit tepid. So what is the reason for that? And what do we expect for the full year going forward?

Rajeev Nannapaneni: Well, I think the season just started. I would say we have gone from INR1 crores to INR45 crores. I don't think that tepid, it's a fairly good run. We had -- we exactly had no sale in that division. So I think it's the first time we actually -- the first June quarter, we had that type of sale. So I would characterize it as a good start. And even Q2, my expectation is that we should do better than what we did in Q1. And I think we're on target to do that INR150 crores to INR200 crores revenue in the Agro division.

Yash Tanna: INR150 crores to INR200 crores?

Rajeev Nannapaneni: For the annual year, yeah. I think both the CTPR and CTPR combinations are doing extremely well, and we're very happy with the feedback that we're getting. And so we're running ads in larger position Telangana as of now. And also, we intend to run Marathi ads for the State of Maharashtra in the next one month for our agro products. So I think we're doing well and we're very excited how things are going.

Yash Tanna: Right. And sir, just one more question, if I may. This is a little bit broad question. So what do we think is our next big bet post Revlimid in the pipeline by -- so do you see Revlimid playing out for us? And currently, we are doing about INR300 crores of base profit, plus Revlimid profit. So post 2026, how do we sort of compensate for Revlimid profit?

Rajeev Nannapaneni: I mean, we are obviously thinking beyond Revlimid. I think we have quite a few products. I think it's there in the investor presentation. Now that you brought this up, and I'll lay out the big ones. Number one, I think semaglutide we have a good filing on one particular strength. We are -- we believe we are sole FTF. We have a partnership with Mylan on that. Then we have a filing called olaparib, which we have a joint venture with Alembic where we are sole FTF. It's an oncology breast cancer products and other indications as well. So that's a very good product. Then we have the new one that we filed recently called [F-Diacritinib].

It's not so big right now. It's about 40 million, 38 million to 40 million if I recall properly. And but if the product goes into, let's say, 100 million, 150 million or 200 million over the next few years, there's a huge opportunity there. There we are sole FTF, hopefully we are sole FTF and what we call. And 100% of the profit is with us because this is done through our own sub and where we are fronting the litigation. And then we have -- these are the really big ones. And then we have Imbruvica, but of course, we have lost the appeal, so we need to see where we can go from there.

And then we have mid-level smaller ones, we have Kyprolis and Tracleer, where we have one strength Kyprolis and Tracleer, it's a smaller product, but they're like 30 million, 40 million, 100 million type of products. So there we have first to five. So we have enough in our pipeline, my friend. I think I named quite a few ideas. But I think if you pull up another five, six ideas, I think you'll see some consistency going into the next decade. I think that's why we are spending our money on, and I think that's what we're focusing on.

Moderator: The next question is from the line of N.K. Arora, an Individual Investor.

N.K. Arora: Sir, first thing I want to now till June 30, what percentage of Revlimid has been sold?

Rajeev Nannapaneni: I think for competitive reasons, I'm not answering that question, but I think we'll have one more good quarter like similar to this quarter. And I think that will taper off. I think that's the best way I can answer that question.

N.K. Arora: And secondly, sir, now that we are already 4.5 months into the year, can we have a ballpark figure or range of the annual profit this year we'll have?

Rajeev Nannapaneni: Good question. It all depends on multiple factors. I think I'll go past INR1,000 crores comfortable. I think that's just a feeling I get. How much more will go to INR1,100 crores or INR1,200 crores it all depends on how the year ends. But I think conservatively, I want to say we'll go past INR1,000 crores. But how much more than INR1,000 crores, I think it all depends on how the market plays out. So that's a little difficult to guess. But I think in that range, I think is what I feel. I think INR1,000 crores to INR1,200 crores range is what my expectation is, depending on how things go, I'm talking about profit after tax.

Moderator: Next question is from the line of use Hussain Bharuchwala from Carnelian Asset Management.

Hussain Bharuchwala: Sir, I just wanted to understand on the agrochemical front, how do you think that the agrochemical will shape up. So CTPR is one of the products, which we have been able to capitalize on. But how are you planning to grow this field, because you said you have identified five, six products in the field so how big growth can be and how big the agrochemical piece can be in the overall scheme of things can be in the times to come?

Rajeev Nannapaneni: Yes, let me answer that question. So I think we have started as well. I'm very happy how we started off. I think we're expecting about INR50 crores, INR200 crores this year. And I think we have a pipeline for next year as well. And we also see organic growth in CTPR in India. And also, we are doing registration outside India as well. So we have filed this in Brazil.

We are filing it in U.S. So we're doing other markets as well. So we are filing our agro portfolio outside India. So the export business might take two to three years from now. But overall, I think my expectation is business should grow to around INR400 crores to INR500 crores in the next three to four years. And that's our expectation. And it will be a good solid business and contributing solidly for our both bottom line and top line.

Hussain Bharuchwala: Just to add a follow-up question. So what will be the EBITDA margin that you would expect from this size of the pie, this side of the pie to be -- will be EBITDA accretive and how -- what would be the range EBITDA range from the agrochemical space?

Rajeev Nannapaneni: I think it will be close to our base business. I think it should do well, and I think it will sort of similar to our pharma business as well because we're doing branded. We're going directly to the customer. We do third party, but most of us -- 90% of our sales comes from direct customer interaction. And I think we are focusing on niches and the high-value products.

So again, see what margin you will have in the future only time will time. I mean I can't really answer the question like that. But I think our expectation is that it should be a good margin, similar to our pharma business. I mean that's our expectation based on certain assumptions we have made on our pipeline and our price evolution.

Hussain Bharuchwala: Got it. One question. On your Cardio and Gastro, so you plan to expand on the Cardio and Gastro front, so how is that space -- that piece shaking up? And you had also planned an acquisition which around INR1,000 crores. So how is the acquisition, how is the acquisition -- how is that shaping up? Are you in talks with someone? Can give some light on that, sir?

Rajeev Nannapaneni: We're looking at acquisitions both in India and outside India to expand our business. I think we have recently announced in UK, we're buying a company. So we are doing an asset purchase of this company, so that it can trend in UK.

We're always looking at transactions. We have a good amount of cash in our balance sheet. We don't have much debt. So I think I think we'll do it when the time is right. I mean to say, we look at opportunities all the time. We're looking at different things. Hopefully, we'll succeed at something.

Hussain Bharuchwala: And sir, on cardio and gastro front, if you can give some color as to what type of products and how are you scaling it up or can give some?

Rajeev Nannapaneni: The business is doing well. They're all going around 10% to 15%. And I think both the divisions are doing well. We have a good pipeline. I think we're going at the market price.

Moderator: The next question is from the line of Sapna Jhawar from Kotak Life Insurance.

Sapna Jhawar: Yes. Sure. So Rajeev just wanted to understand more on the capital allocation perspective. You did mention about some acquisitions in India as well as UK. So intending UK, we also acquired Dash sometime back front-ending, front to front-end U.S. I presume. So I mean is this model changing where we now would want to go front-ending in every market versus the partnership that you're following earlier? If you could just share some details on that?

Rajeev Nannapaneni: Absolutely correct. Absolutely. I think we spoke about this in the past call, so I'll just repeat that again. I think the business is getting more competitive. And I think in a lot of markets we want -- actually the big markets we want to go front-end directly ourselves. I think that's what we're evolving. But however, for complex generics, which require a substantial amount of R&D, we're still doing alliances.

But for some products which are not that complicated or which are -- where we feel we can spend the money, we are also going directly. Like a few minutes ago, I spoke about [inaudible] that we filed. There we don't have a partner, and we have kept -- we're keeping 100% of the economics. So I think it's a case-to-case basis, but broadly, yes, I think we're going direct. Yes. That's correct. You're absolutely right.

Sapna Jhawar: But if I were to understand a couple of years back or you were of the view that you were probably on even a deterioration phase, specifically for generics and going front-end in that market would actually not be really beneficial. So is there a change in your view or is the market changing structurally there?

Rajeev Nannapaneni: It's not that. I think see, the business is always difficult. I never thought you just had to find the sweet spot and the right product to do. I never said I think we'll not do it. I think it's a question of your -- the problem is when you do front-end is you need to burn money, right? I mean, so what happens when you do front-end?

You got to burn money before the subsidiaries is stabilized to earlier people would fund you for your legal and your partnership that you had to spend. So there's more expense on your balance sheet. So that's sort of stuff. But obviously, we'll make more money when the launch happens.

And I think we have the comfort now to do these things because I'm willing to let lose that money to build that business. So I think that's -- I mean, it just gives me more comfort because we're more comfortable compared to, let's say, a few years ago. We evolve your situation, right, so I think?

Sapna Jhawar: Sure. So just one last bit of the same question. Now I'm just trying to understand with the substantial amount of cash that we have, a certain portion would go into acquisitions, building the front-end. But would we also be extending our domestic franchise apart, I mean, the one where we diversified from Onco to Cardio diabetes, do we intend to acquire anything here and expand this franchise? Will it completely go into agro or will it be an export-oriented focus in terms of capital allocation?

Rajeev Nannapaneni: Good question. I think what we have done is we did a buyback. So we spent, I think, INR210 crores plus the tax. I think it's about INR250 crores on buyback. We are giving now INR125 crores dividend. So I think this is what we have done in the near term. In spite of the buyback and the dividend that we gave, we're still sitting on about little less than INR1,400 crores of cash and cash equivalent shares. So I think this cash -- this is as of July 31 is the cutoff if you take that as a -- as of July 31. So we'll see. I mean we always look at all opportunities.

I mean, we have been giving money back at the same time, trying to prudently spend money on acquisitions where we have gaps and spending money on R&D, just expensive money on R&D so using that the cash flow to spend on more complex generics and more products. So I think that's what we're doing. To your question, will we do a big acquisition? We're looking honestly, I'm looking.

I mean, I don't want to do anything in a hurry. I think we do the right one. I think I'm being conservative, yeah, I might be conservative, but what's the idea, right? I mean, you do it when you think the valuation is right. And I think what we're doing now in terms of building value, I think is good enough. And I think acquisition also is important, but we'll do it well and at a larger capital allocation. So I think I want to do it, but I'm comfortable.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

Cyndrella Carvalho: Sir, thanks for the opportunity Rajeev how are we looking at the US market, do you see any benefit coming to us from these [inaudible]

Rajeev Nannapaneni: Cyndrella I must apologize. I didn't understand anything, a lot of static. Can you repeat that question one more time, please.

Moderator: Sir, this is the Chorus Call operator. I'm so sorry to interrupt. Ma'am, I would request you to please use the handset mode while speaking.

Cyndrella Carvalho: Yeah I'm sorry, is this audible now?

Moderator: Yes ma'am. Thank you. Please go ahead.

Cyndrella Carvalho: So, sorry. I'm repeating my question. I'm asking Rajeev, is there any shortages, opportunity in the U.S. markets coming to our basket, do you see many companies have moved out of the market, any scenario emerging for us from a U.S. perspective right now, do you envisage or overcoming two quarters, three quarters, do you see anything coming our way from these kind of shortages scenario?

Rajeev Nannapaneni: I think your question is whether do we see any opportunities in the shortages in the U.S. at this time. Honestly, Cyndrella, I mean, we see sometimes for like a short period of time and it goes away very quickly. So, you can't build a business model on shortages. I don't think -- again, I'm telling you we have a slightly contrary view than what people would normally say. You will get some opportunities here and there. We've got not many. Honestly, we don't have too many of those opportunities. Sometimes we get, but not really.

But the pricing is competitive in a multisource environment and the real value, again, I'll repeat it that again, I've said this many times over many years. The real value is always doing the niches and the hard to do generics where they're limited amount of competition. That's where the real money is. Everything else is -- it will be -- is not as sustainable as what a niche and a complex [inaudible] between the two.

Cyndrella Carvalho: And on the domestic base organically, are you seeing planning any products or are there some products which will come over the years that you see in terms of filing organically not from an inorganic opportunity?

Rajeev Nannapaneni: Cyndrella I didn't understand what you said. I'm so sorry. If I paraphrase what you said, you're saying -- I didn't understand you honestly, I don't want to paraphrase you. Could you say that again? I'm sorry, I apologize.

Cyndrella Carvalho: I'm saying from an organic perspective are we looking for some products from an organic basket in domestic market?

Rajeev Nannapaneni: I think we have a good -- if I understand you correctly, I think we have a good pipeline in our organic growth, and I think we're launching about 15 brands, 20 brands. So, I think we're doing well. We have a couple of very first time generics in India especially oncology pipeline has done very well. So, I think we're bullish, and I think we'll grow at the industry rate, yeah. Next caller, please.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Yeah, hi. Thank you for the opportunity. Sir, first on India front. So on India, I mean, what's the outlook there? I mean, how much of this run rate what we have seen in this quarter is sustainable and what are the kind of launches you have planned for the remainder of FY '24?

Rajeev Nannapaneni: I think I said -- I think that some of the growth is captured by a one-time and there's a general growth. I think I always said that the growth is around 10% to 15%. I think that's the guidance I would like to give over the base of business last year. In terms of pipeline, I think oncology is doing very well for us.

I think that's a segment that we've always done well and we're doing well. We continue to do well. And the other segments also are improving. And we have a good pipeline of products, about 10 products to 15 products that we have planned. And I think that business should do well.

Abdulkader Puranwala: Sure, sir. And sir, secondly, on your profit guidance, what you gave almost INR1,000 crores to INR1,200 crores for this fiscal. And if I try to sync this with your earlier commentary, with said that Revlimid for Q2 would be a little better and then you expect a pickup in Q4. So, ideally with the kind of run rate you have already achieved and there were certain one-offs in this quarter as well. So I mean, there seems to be a bit of a conservatism in your numbers. So, am I missing something over here or the guidance is a bit of a conservative year?

Rajeev Nannapaneni: There's probably uncertainties in life, right? He's asking me to predict something that will happen 6 months from today, so which is very difficult to do. So, what I can -- I'm also human, right, so I can tell you, there are a lot of multiple factors that play. So, I stand by what I said. So, I mean there are a lot of things that could happen.

So you can't -- you can only make a guesstimate of what it is. I'm only trying to make an estimate based on what I know, right? But again, there is still in this financial year, there's still another 8 months left, right? So it's tough to judge. But I pretty much stand by what I said. You can't really predict the future literally.

Abdulkader Puranwala: All right, sir. Wish you all the best. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Jain from Galaxy International.

Nikhil Jain: Thank you for the opportunity. I have a couple of questions. So first, I just wanted to understand, if you can give a little bit of perspective on the Revlimid pricing scenario in the market and competitive intensity is the same? Has it changed? Anything changed in the market or is it like going the way it was going last quarter and earlier?

Rajeev Nannapaneni: I think we're doing well, my friend. I mean, generally, I don't speak so much detail because of competitive reasons. But I think the product is doing well. I think -- and overall, our business is doing well. We're happy where we are and I think all our -- domestic has done well. Our -- first time our agro has been profitable. So, I think we were losing money earlier. So I think now we're making money.

So that's been a reasonably good swing. And our subs -- I think we're investing in our subs and the subs have also been stable earnings this year -- this quarter. So I think overall, I think the sector is doing well, and I think all our businesses are doing well. I think our U.S. front-end is the only business have been losing money at this time. So I think, hopefully, we'll able to fix that in the next few quarters.

Nikhil Jain: Okay. Second one was on Lonsurf. So have you already launched the product and how do you see that distributing?

Rajeev Nannapaneni: It's an FTF, but it's a shared FTF. So it's there in our investor presentation. I think litigation is still ongoing. Top of my head, I don't know where we stand on the litigation. I think there's two separate litigation. One litigation got done. There's another litigation for which trial date has not been set. No, there is no clarity on the launch at this time. It's too premature.

Nikhil Jain: So the approval that we received, so that is irrespective, right? So the litigation is what will drive the amount?

Rajeev Nannapaneni: It's a different approval is different. What we did is we got the approval. The litigation is still not resolved.

Nikhil Jain: Right. Okay. Fair enough. And third question was just a last one. On the domestic side, so let's say, two years down the line, three years down the line, do we let's say kind of give guesstimate of where we would be in terms of the top line on that particular business?

Rajeev Nannapaneni: You mean, domestic?

Nikhil Jain: Yeah.

Rajeev Nannapaneni: I think, again, stated goal is about to grow around that industry rate about 10% to 15%. So I think we believe, I think we can achieve that. We get an acquisition obviously, we'll get a little more bump. But yeah, I think that's the expectation. Thank you.

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

Tarang Agrawal: Hi, Rajeev and team. Good morning and thank you for your time. Three questions from me. On crop production, right, is your current strategy revolving around CTPR and combinations only or are there something on top of that? And how much of that business do you anticipate to sell through your own channel and I mean, a percentage would help?

The second what's the cash on books on 30th June and purely from a capital allocation standpoint, would you be willing to lever your balance sheet to drive inorganic growth and the third?

Rajeev Nannapaneni: Tarang, don't ask so many questions. Let me answer the first two, then we'll come to that. Okay. So let's start with the agro. Rajesh, do you want to answer the agro question?

Rajesh Chebiyam: Yeah, Tarang, as of now, our business is predominantly built on CPPR and all the combination products. So, we have 10 products in pipeline actually on commercial mode right now and half of them are CPPR related. So -- and majority of the business is through our own branding and channels. Roughly around 10% we are going through P2P, okay? We have interesting things in the pipeline. Next financial year, we expect at least somewhere between 5 to 10 launches, which we have -- these are unique differential products.

Rajeev Nannapaneni: And to answer your question on cash, I don't have the number for June 30. I think we have a number for July 31st. So, we have about INR1,386 crores in cash, including cash and shares and we have a debt of about INR104 crores mostly for bill discounting. That's it. I think I've answered all your questions.

Tarang Agrawal: Will you be willing to lever your balance sheet, Rajeev, to drive inorganic growth?

Rajeev Nannapaneni: Inorganic effect?

Tarang Agrawal: Yes.

Rajeev Nannapaneni: Will I lever borrow these things.

Tarang Agrawal: Yes.

Rajeev Nannapaneni: No, I won't lever to answer your question. The reason is I'm conservative. I think we take a lot of long-term debts. I never -- a big fan of borrowing a large amount of money to do an acquisition. I think we'll do it with the cash flow we have and I think we have a strong enough balance sheet and if the right opportunity comes, I'll never say never. But I think if you put me on the spot and ask me this question, I'll say no.

Tarang Agrawal: Okay. Just a last question. How is the base business for exports done ex-Revlimid, I mean, if we were to strip out Revlimid from now and the base, how has that business done?

Rajeev Nannapaneni: I think we're doing well. I think the agro, for example, as earlier was losing about INR10 crores, INR12 crores a quarter. I think this quarter has turned profitable. So, that's good. The subs are doing about INR130 crores of sales, INR129 point something. So that has done well, primarily driven by Canada and Brazil. So, I think those have been the star performers among the subs. And I think the domestic has been stable. The API has been stable. So, I think overall, I think we are happy where we are.

But I think we are trying to build a pipeline, which will -- the money we have using the cash that we have strengthening our filings in all these markets and expanding our geographical spread. We are thinking about 8 markets, 10 markets we have to be in front-end. I think right now, we are front-end in India, U.S., Canada and Brazil.

I want to add another 4 countries to 5 countries. So I think Colombia setting it up, UK, we're setting it up now Indonesia, we've already spoken and maybe another one or two countries, we will probably do. So, that will cover the 10 major countries in the world. If you are present, I think you'll cover most of your [inaudible] I think that’s the strategy.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Yeah, hi. Thanks for the opportunity. Rajeev, last quarter, you were mentioning that we have done almost like 25% of the volumes, which were re-assigned for the Revlimid. So, how it has been for this quarter, have we done almost like 50%, 60% overall?

Rajeev Nannapaneni: I didn't want to answer that question, but it's for competitive reasons. I think I've answered that question indirectly. I think we are expecting a good -- we had a good quarter, and I think we'd expect to have an equally good quarter in Q2 and then we'll taper off in Q3. I think that's a reasonable answer at this time.

Bharat Celly: Sure, sure, sure. And just wanted to get some sense on how do you see the pricing environment? Let's say, probably next year could also be good, but entering the third year FY '25, do you see the price erosions to be material in this product, considering that the competition landscape will be going up?

Rajeev Nannapaneni: I don't know, Bharat, honestly, I have no idea. I think it's the same question, I think indirectly the other person asked me, what are your earnings going to be? It's tough to judge. I think you take it by the quarter and see how things go. I think I mean generics is the way it is. I mean, it's a very competitive business. There's always pricing pressure. I don't think I can answer that question.

Bharat Celly: Yeah. Right. And the last one from my end. So actually, you have even mentioned right now. So, what we have been hearing.

Rajeev Nannapaneni: Sorry. Say that again, Bharat.

Moderator: Mr. Bharat Celly, we are unable to hear you?

Bharat Celly: So actually, we have been hearing from some of the peers as well that the overall pricing environment in the U.S. is actually changing, and we are seeing some of the price cooling off. So how do you see the overall U.S. market behaving like have you seen any green shoots there and are you seeing some structural changes right there?

Rajeev Nannapaneni: I have a different view. I think it's a very competitive business. I think structurally, what has happened is the distributors have a lot of hold on the companies. And in a multisource environment, even if there are shortages once in a while, you won't get that sort of advantage. You might get business, but you don't get great pricing, honestly. And you can't build a business model in a multisource generic, you can't.

I think you need to have a mix of doing complex generic, admixture and para force and mix it up with a multi-source.You need to have both, of course, because you need a basic basket. But end of the day, basket also doesn't matter after a point because end of the day they only care about the price.

So I think that's how Western markets are. I think -- again, I said this at the beginning of the call. I think if you believe USD100 is the amount of profit pool that's there in the next 10 years, I think USD60, USD70 will come from the admixtures and the complex centers. And 30% to 35% will come from the more multi-source generic. And you need to be present in both. And at the same time, you need to know where you put your money.

Bharat Celly: But have you seen any of the distributors getting a bit on the back foot to give better pricing considering they are trying to ensure on the supply side?

Rajeev Nannapaneni: Personally, I'm not that -- it is not -- I will not characterize that there's a dramatic change in the behavior. Maybe sometimes you'll see in one product here and there, but that's not enough to say that there's a change, not enough to say a change. No, I will not say that. I don't believe that because it's structurally difficult.

See, understand the business, my friend, I think you will see who are we competing with, we are competing with fellow Indian companies, right? And you look at the balance sheets of other Indian companies. All of them have healthy balance sheets. We're not like the Western generic companies who leave out with the exception of Sando.

All of them are heavily leveraged and either not interested in generics or are doing well to do work in generics just because they have a legacy business, they have this basket and they sell. And you're competing with that type of competitors who don't mind selling things at low margin just because they make money in other businesses that we do. So -- and all family-owned businesses.

So everybody looks at long term. So it's very difficult to compete. Honestly, I think it's a very competitive business and I think you need to have -- you cannot just do a basket and make money. I think you can't look at the world like that.

Bharat Celly: That's helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: So a couple of questions. Firstly, on semaglutide, could you give a sense of what the market size is for the 8-milligram version?

Rajeev Nannapaneni: I think its strength is doing well. I don't have the number, my friend, honestly top of my head I don't have the number. I'll come better prepared next time. I don't have the number. I have to look up the IMS and come back here. This time, I don't have.

Prashant Nair: Sir, no problem. And second, I missed your reply earlier on the M&A question. So, if you could just give a sense of what are your key priority areas to plug from an M&A perspective, if you have to rank them, say the top three areas, which you would like to plug?

Rajeev Nannapaneni: I mean there are -- what are the gaps in our business, right? I mean, let's answer that question. So the gaps are probably -- I mean we're not present in the RoW markets, the key RoW markets. So, I think we have a front-end not a large front end in any other key RoW markets that we have won. Domestic market, obviously, is a big gap that we have, because we're not present in all the territories. So -- and operating in multiple countries, I said, about 8 to 10 countries we need to operate so that we get scale in this business. And whatever you spend on R&D, you get a better bank per buck.

I think these are probably the three areas that you want to focus on, setting up more subs in key markets, filling a gap in a market where you're not present at an international level and three, where we have a gap in the domestic. I think these are three areas we want to focus on.

Prashant Nair: And just one follow-up question on the India part. So when you're looking at assets in India, are you primarily looking at brands or are you looking at, say, brands along with manufacturing and sales force. So how do you think about that?

Rajeev Nannapaneni: Brands is what we're looking for, I think in segments that we are not present, at except manufacturing because we have a reasonable amount of manufacturing in our set up. I'm not saying we have a very possible therapeutic area, but I think we have reasonable amount of footprint in manufacturing. I mean obviously, there are gaps in our manufacturing tool in terms of -- like, for example, we're not there in antibiotics. I'm just giving you an example or we are not there in PNL space. But having said that, I think domestic itself is not a manufacturing play, more of a brand play. The manufacturing, even if you don't have you can always get a CMO to do it for you because the ecosystem for the domestic manufacturing is quite good. So that's not the challenge. I think the bigger challenge is possibly with the branding business is where the real value is.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan AMC. Please go ahead.

Harsh Bhatia: Just two questions from my side, purely on the domestic side. One, at the macro level, if you're talking about 10% to 15% organic growth, how should we look at the split between price, volume and new launches? So that's the simple first question.

On the second aspect, purely from the domestic oncology business, if you could give us some incremental flavor for the last five, six quarters because there is a certain aspect of the market itself shrinking where a certain aspect of us losing out on some market share in certain products. So how are you thinking about these two things, right? Because going forward, again, the growth element has to be driven by the market is also growing. And we also taking back incremental market share. So maybe little bit your thoughts on this?

Rajeev Nannapaneni: I don't know if we can answer your question at the level of detail you're asking, but I think I'll tell you what I'm thinking about at a high level. I mean, if you want to get growth, I mean you need to have good launches. So launches will obviously contribute to 50% of your growth. So you need to have good launches. That's probably 50% of us.

Two, gaining share on molecules. Sometimes you do, sometimes you don't. It depends on the molecule and the intensity of the competition. But overall, if you see, I mean, our portfolio is not the type that you could take price increases on. I mean it's not like a steady-state diabetes, cardio-type of portfolio, like we don't raise MRPs so much.

Most of our portfolio, we never raise MRPs because it's very price-sensitive for our portfolio. So I think that's how we're looking at it. But I think what really matters is another challenge, and you see this in the data that you have, is that the volume increase is low in the market, a lot of the older product. A lot of it is coming from price increases. So if you want growth, I think a formula of that is you need to have very good new launches and your core business has to be growing. And some businesses will not grow. But overall, I think mixing up with some core business like you have cardio, diabeto where there's a better uptake because you'll now start and then maybe some new launches, which will drive growth. I think -- and that's how we look at it.

Harsh Bhatia: Given that the price increases are not there in this area of the business, the oncology part of it, it would be fair to say that the prices are not revised downwards as well, like in a general scenario excluding the COVID period.

Rajeev Nannapaneni: Could you rephrase that question? I didn't understand what you said. Could you say that one more time, please, don't mind?

Harsh Bhatia: Yeah. Sure. To clarify what you were saying is that we don't take any price increase on the portfolio. Would it be fair to also say that the price revision -- downward price revision would also be completely absent? Like there is no price reduction that usually takes place in the oncology domestic portfolio.

Rajeev Nannapaneni: Price erosion means what happens there tend to be very high discounts so there's always pricing pressure. It depends on the product. So to answer your question, yes, there's always pricing pressure. The price increase portfolio that happens generally happens in the more retail-driven products, which are sold at your neighborhood pharmacy. It doesn't happen with the hospital type of products because you're competing with other companies, which are also bidding in tenders. So it's not a strict comparison. You can't compare. It's apples and oranges. It's not a literal comparison. It's a completely different business. Does that make sense? Does that answer your question?

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

Keshav Mishra: My question is just on the NRC-2694 trial, which is due February '24. Just wanted to understand what that drug is? And if everything goes well, are we looking for partnerships, some kind of partnership for Phase 3 trials. And going forward, I mean, is NATCO looking to allocate some capital on building NCE pipeline as well? Thank you.

Rajeev Nannapaneni: I think we have a reasonable set of NCE pipeline. I think this particular one we got US FDA clearance to do a trial there. So we're doing it on patients in the US as we speak. At this time, it's premature, my friend. I don't want to say anything at this time. I think once we get some data, I think we'll talk about it. Yes, I think we are doing it in our core strength, which is oncology. So at this time improvement are, my friend, I don't understand want to say anything.

Keshav Mishra: Yeah, agree, sir. Sir, on the longer-term strategy, right, I mean, would there be -- do you have some plans of capital allocation on NCE side as well?

Rajeev Nannapaneni: We're doing a little bit of capital allocation. That's correct. It's already done. I think 2694 is funded by the balance sheet. Generally, we don't talk about things where we don't reach a certain stage of progression. I mean, that's where we -- then we can give a -- some sort of perspective on where it's going. I think once we make some progress, I think we'll come back to you. I think where we make significant progress we'll come back to you. I think it's too early to comment at this time.

Moderator: Thank you. The next question is from the line of Karan Mehta from Nirzar Securities. Please go ahead.

Karan Mehta: I just have one question. So can you provide the breakup of market share for CTPR between us, FMC and Best Agro?

Rajeev Nannapaneni: The market is still evolving Karan, at this time. I don't have the answer to that question. I -- maybe after the season ends I'll tell you because the first true season we have launched. So at this time, it's premature. I don't have an answer to that question.

Karan Mehta: Okay. Can we comment on our share for CTPR?

Rajeev Nannapaneni: I mean, good question. We are expecting about 10% to 15% market share. I think that's our internal target internally. But I think, again, you don't want to throw a number that you can't hold up. So let me see how the season is, and I think we probably need to see some market data, and I'll come back to you. But I think that's the targeted market share.

Rajesh Chebiyam: I just want to add one more thing, Karan, so yes, absolutely what Rajeev just mentioned. We have to go through the season before we realize where we end up. But overall, our brand and product reception has been very good. In fact, after FMC, the big name which hovers around is NATCO's brand. So let's see. All our CTPR products are doing fairly well. We have the individual as well as the combination products. So in a way, the combination products, we have less competition as well. So those are doing quite well.

Moderator: Thank you. The next question is from the line of Vishal an Individual Investor. Please go ahead.

Vishal: Hello, Rajesh. Do we have any impact of the ongoing over-pricing policy of the Indian government on the domestic front?

Rajeev Nannapaneni: Could you clarify your question, Vishal, like our DPCO case against us, is that what you're trying to say?

Vishal: On the domestic front, there is some over-pricing policy of the Indian government for which there are a lot of litigation pending, do we have any such effects on our balance sheet?

Rajeev Nannapaneni: No my friend. We don't have any claims from DPCO in our balance sheet at this time. We don't have any claims.

Moderator: Thank you. The next question is from the line of Yash Tanna from I Thought PMS. Please go ahead.

Yash Tanna: My question is related to our press release on 26, July, we filed an ANDA for the brand, Balversa. And this product, I believe, J&J in their recent conference call, they mentioned that this product could be more than a $1 billion opportunity for them based on some new indication that they have received. So how are we thinking about this product? And where are we in terms of approval or launch timelines or something like that?

Rajeev Nannapaneni: It's very early stage. I think I will not put any numbers to it because I don't have the answer to that. The last number I've seen was about $40 million, but I think it's a good product. And as I was saying, I think a few minutes ago, when somebody asked me, I don't recollect the name who asked me. But if the product grows well, we have the sole FTF on this. So I think that's a good position to be. And at this stage, we just filed the product, so the review is ongoing and the litigation is also at very early stage so very early to comment.

Moderator: Thank you. The next question is from the line of Devang Shah from iWealth Management. Please go ahead.

Devang Shah: Sir, just one clarification. When you say that quarter 2 and quarter 1 would be two similar quarters do you mean that they go the same EBITDA margins and sales as well?

Rajeev Nannapaneni: I think that's our expectation. Let me see how the quarter ends. But I think our expectation is that we should have a good Q2 as well.

Devang Shah: Okay. And sir just wanted to know regarding the capacity utilization.

Rajeev Nannapaneni: Say that one more time, my friend, repeat, please.

Devang Shah: Sir just wanted to know regarding your capacity utilization.

Rajeev Nannapaneni: Capacity utilization in the company you're saying as in all? Typically, we run around like 60% typically 60%, 65% because our portfolio is very niche. So I think I don't do too many commodity products so on that reason.

Moderator: Thank you. The next question is from the line of Rusmik Oza from 9 Rays Equiresearch. Please go ahead.

Rusmik Oza: I just wanted to know if you provided INR51 crores for any potential litigation -- so does it meet any of your required amount or will there be any further provisions made on -- similar to this in the next few quarters? One.

And two is, in the last two quarters, we had a little one-offs this quarter also we had some INR17 crores incentive. Is there any one-offs likely to come in the next one or two quarters?

Rajeev Nannapaneni: INR17 crores incentive is obviously linked with the success of the company. So I mean, obviously, you get to reward your employees. So we just stated what we have done. Regarding the patent litigation, I think this is something that's been there for a long time. I think that we launch at risk and we're very aggressive litigator.

And I think a lot of times, we have won our cases, some cases are still unresolved. And I think what we did is we looked at the whole portfolio that we launched at risk and we made an assessment that if you were to settle, we were to lose a case or something were to happen, what would be the financial risk. And all these issues are very difficult to judge because each case has its own merits and it's over multiple products.

So I think after much analysis, I think we start with that auditor, and I think we came up with a number that INR51 crores should cover, I think, most of the liability. I mean will it cover or are we exceeding the liability? Will we exceed that number? Probably not. I think it probably addresses most of the liability. I think that's our sense.

Again, we're making an estimation about something that we don't know anything about, right? You're asking me to make an estimation about 8 or 10 lawsuits that we have where we are running at risk. So it's very difficult to judge. So I think these are fair. We use a fairly reasonable mathematic model. So I think, to answer your question, I think it covers most of the risk, I think, if that's our concern.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you, and over to you all.

Rajeev Nannapaneni: All right. Thank you all. Again, a very good set of questions. We will have all of these also uploaded in the website once we have the transcript. Thank you all, and have a great day.

Moderator: Thank you. On behalf of NATCO Pharma Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.