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18th November, 2016

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Scrip Code: 524816

Scrip Code: NATCOPHARM

Dear Sir

Sub:- Transcript of Conference Call

Please find enclosed the transcript of the Conference Call held on November 15, 2016

Kindly take the same on record

Thanking you

Yours faithfully,
For NATCO Pharma Limited

M. Adinarayana
Company Secretary &
Vice President (Legal & Corp. Affairs)

“Natco Pharma Limited Earnings Conference Call”

November 15, 2016

MANAGEMENT: **MR. RAJEEV NANNAPANENI – VICE CHAIRMAN & CEO, NATCO PHARMA LIMITED**
MR. RAJESH CHEBIYAM – VICE PRESIDENT (BUSINESS DEVELOPMENT & CORPORATE SUPPORT), NATCO PHARMA LIMITED

MODERATOR: **MR. NITIN AGARWAL – IDFC SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Natco Q2 FY17 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you sir.

Nitin Agarwal: Thanks, Aman. Good morning everyone and a very warm welcome to Natco Pharma's Q2 FY17 post results analyst call hosted by IDFC Securities. On the call today, we have representing Natco Pharma Mr. Rajeev Nannapaneni – Vice Chairman and CEO and Mr. Rajesh Chebiyam – VP (Business Development & Corporate Support). We will have some initial comments from the Natco team and then open the floor for questions. I hand over the call to Rajesh to take it forward from here on.

Rajesh Chebiyam: Thank you, Nitin. Good morning everyone. Welcome to Natco's conference call discussing our earnings results for the second quarter FY17 which ended September 30th, 2016. So before we start discussing results, we would like to state that we may be making certain forward looking statements during the call because forward-looking statements inherently involve risks and uncertainties. Actual future results may differ materially from those expressed or implied by such forward-looking statements. Let me also state that the material in the call with the exception of the participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco's expressed written permission.

Now getting down to the details on the earnings, company is pleased with its results for the quarter and is in line with our forecast. For the second quarter which ended September 30th for FY17, Natco recorded a consolidated total income from operations of 467 crores as against 243 crores during the same quarter last year reflecting an increase of about 92%. The net profit for the period on a consolidated basis was around 66 crores as against 30 crores same quarter last year showing a growth of 118%. The growth for the company during the quarter was driven primarily by increased sales of its export formulation business. Also during the quarter, the company has received an EIR from USFDA for its key formulation facility at Kothur and also for its chemical division in Chennai.

Breaking down further segmentally for the Q2 FY17; for the API business, domestic we did 14.6 crores, export API we did 33 crores. Under formulations, domestic, the oncology we did 77 crores, pharma brand we did 112 crores, third party formulations we did 27 crores. Exports for the quarter were 139 crores which also includes the profit sharing. Specifically on the Hepatitis C franchise, on the domestic branded we did 109 crores, third party 18 crores.

Exports Hepatitis C franchise, we did about 10 crores for the quarter. That is broadly on our results.

One of the things that we had recorded also in the other income, the other income I would like to pass it on to Mr. Rajeev to make certain comments on the jump on other income.

Rajeev Nannapaneni: So the other income, I think we have about 42 crores trading income and rest of it is other profit share and so on and so forth. So I think I am ready for questions. I think you may start.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: Just to understand from you Rajeev, how do you see the demonetization change in India affecting the pharma sales predominantly in the next 1 or 2 quarters?

Rajeev Nannapaneni: Very good question, Kartik. I do not really have an answer for that, but I can just tell you what is going on in the ground right now. As of now, last few days I think our sense is that the sale has dropped dramatically in the retail market. I mean, informally I have spoken to different hospitals and some people from the industry. I think the overall billing in the trade has dropped dramatically. I think expectation is anyway lot of the billing is done in the later part of the month. I think as the cash availability in the market increases, I think then the sales should come back to normal. But as of now, I think last few days, it has been a lot of confusion ongoing at this time.

Kartik Mehta: So just to understand on relative basis, would it be fair to assume that we have higher institutional sales mainly to hospitals etc. so you will be lesser impacted maybe the value of the item also?

Rajeev Nannapaneni: I will not say that. I think overall there has been a drop in sales in the retail market. It is not specific to one particular segment and nonspecific. I think overall any domestic consumption has been impacted severally, adequately, that is my opinion. It is still early days, I think if the demonetization in terms of availability of currency is not freely available, then you will probably have a problem. I think everybody can take it for few days, 10-15 days for sure, but if it continues into December, then I think you will probably have slightly lower sales than anticipated in the domestic market.

Kartik Mehta: Which was what was the initial?

Rajeev Nannpaneni: There will be an impact. If the question is will there be an impact if the demonetization chaos is not sorted out in the next few days, yes, absolutely yes, there will be an impact. I think the

anticipation is that it will get sorted out. I think we are all being optimistic, but obviously we have to watch this as it plays out.

Kartik Mehta: So if I may ask, my next one was that on the raw material side, on intermediates etc., would you see any delays there because again it would be through a chain and if there is any cash flow…

Rajeev Nannapaneni: No. As of now, we are not seeing any problems in the supply chain, Kartik. What we are seeing right now is the problem at the consumer level, at the retail level. We are not seeing any problem in the supply chain. The problem in retail which is different from the supply chain is, all retail is cash. Most retail is cash, isn't it? But fortunately the supply chain is all done through the banking segment. That is where the adjustment process has to be done. Right now, I think it is chaotic. It will be premature to say anything, but if it gets sorted out in the next few days, then obviously the problem is solved. I think one good thing that has happened is, yesterday there was an announcement that any pharmacy sales, hospital sales, cash of 500 and 1000s be accepted till November 24th.

Kartik Mehta: Yes, which is what was here, okay.

Rajeev Nannapaneni: To say that there is no impact will be a little unfair, but the impact be slightly minimized by this particular measures. But as I said if this chaos gets resolved in next few days, it is fine, but if it prolongs into December, then I think we may have to relook at numbers I think possibly, but say again all pharma companies have businesses in multiple markets. For example your export business does not get affected by this, right? I think if you have a huge retail presence, yes I think there could be an impact, but I am optimistic that it will get resolved as of now.

Moderator: Thank you. We have the next question from the line of Afzall Mahmood from Karvy Stock. Please go ahead.

Afzall Mahmood: Do the second quarter sales include Tamiflu sales to **Alvogen 9.48?**

Rajeev Nannapaneni: Yes my friend, it does, but again let me start off by saying that the actual launch date was bound by confidentiality. But as we were aware, we are preparing for the launch. So as far as the preparation, the income has two parts to it. One, of the formulation sales, export that Rajesh has spelt out 99.9 crores of it is the formulation exports and of the trading income as you have seen other income I said is about 52 crores last quarter, about 42 crores is the trading income related with the API of the product. See, what we are trying to do with the product is we have a manufacturing site in Hyderabad as you are all aware and we are also preparing for a launch from our other site as the confidential launch date which was bound by confidentiality at the US site also. We are keeping two sites for this product. So we are in the process of doing

a CB30 for that. So for us to stop that site also, we have send API from here which is not manufactured by Natco. It is made by third party. That is why it is reflected in other income.

Afzall Mahmood: How much was the Tamiflu sales sir?

Rajeev Nannapaneni: I told you, 99.9 crores is the formulation sale and 42.6 crores is the API sale which si reflected in the other income. The trading income is reflected in the other income. The formulation sale is reflected in the export income. The formulation I think we have said, I think total formulation we have sold about 139 crores, out of 139 nearly 100 crores….. Is that makes sense?

Afzall Mahmood: Yes. So my second question is, in your opinion how do you feel Ocrelizumab by Genentech is a threat to Copaxone because Roche is seeking approval for both primary and relapsing forms and they have a breakthrough therapy designation and the dosage frequency is like 176 months. So in about 2 years' time, they might get approval in about say by the end of the year. So do you believe that in 2 years' time will this become a first line of treatment for MS?

Rajeev Nannapaneni: I have no idea sir. I have not looked at this product in detail, so I would not know what to answer. But I think, coming back to 20 and 40, this is I think Copaxone 20/40 will be the first generic version of MS. So that has its own value, but the impact of that product, it will be unfair of me to comment because I do not know enough about it.

Afzall Mahmood: Okay and where do we stand on the Budesonide approval sir?

Rajeev Nannapaneni: I think we got a TAT of in November. We had a query and I think we have answered it. I think we have got another TAT for November. So I think we should get the approval. The approval is imminent. We got a player recently. As you are aware, you get a player when you are very close to approval. So we got a player which is good indication that we are very close to an approval, but again, right now we feel it is November, but again depends on if there are any further questions, we will see.

Afzall Mahmood: The formulation sales are rising, but the EBITDA margin shrinking. Is that because of lower Hep C business?

Rajeev Nannapaneni: No, I think what happened is the Tamiflu stock, if you see, the way we have done the deal with Alvogen is that we will build the product at conversion plus some basic industrial margin of 10%-15%. So all the formulation sale was booked on that and other one is just trading income, that also has basic industrial margin. There are no extra margins that we have started in it. So what actually happens is when they actually start selling in the product on the day at the confidential launch date, once the product is liquidated the income is booked as profit share.

Afzall Mahmood: That will be pure profit, right?

Rajeev Nannapaneni: Yes. So basically let us say on the launch date, on this particular date in the future, in that particular date let us say we have booked 10 crores of profit share that will be all income minus income tax, just the way you are doing accounting. We did cost plus now and revenue will be accrued as other income in a future date.

Afzall Mahmood: So next quarter is likely depending on the launch date…

Rajeev Nannapaneni: You know the agreement, so I cannot say what date it is, but you will know it soonest.

Afzall Mahmood: Alright. How about the uptake in the API sales sir? Are those Brazilian sales or..?

Rajeev Nannapaneni: Which one, the API sales? The API sales is about 50 crores. Let me just look at my papers. 33 crores we got in export and 14 crores in…, it is primarily driven by, I think we have some API sales that we got from couple of US launches. One of our partners have launched generic version of Gleevec. So I think that we got some API sales and then some general API, not much in Brazil. Brazil mostly it is mattered for both Europe and US, I think that is where we got sales from.

Moderator: Thank you. We have the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: A lot of them have been answered. Just one more clarification on this trading sales of API 42 crores. What is this product that we are looking at? I missed that if you had mentioned.

Rajeev Nannapaneni: Oseltamivir, let me explain it Nimish again. I will do it again just to get more clarity. We are intending to have two manufacturing sites for Oseltamivir. I said two things in the call. I said we have booked 100 crores of income on the stocking quantities of Oseltamivir for the future launch date and I have also said that we have booked 42 crores of API sales which was manufactured by a third party which was exported by Natco and this again is Oseltamivir API.

Nimish Mehta: Okay and that is supplied to Alvogen, the API?

Rajeev Nannapaneni: We supplied to Alvogen because we are going to have 2 manufacturing sites in addition to Natco's Hyderabad site. As you are aware, we got full approval in August of this year, right? So once we have a full approval, you can do something called a CB30 which allows you to change the site of the product and completing the stability data at the other site.

Nimish Mehta: So you mean that going forward this API sales also will get converted into sales from Natco's own site?

Rajeev Nannapaneni: No, Nimish. What I am saying is, I will explain that again. We are having two formulation sites in addition to Hyderabad. Hyderabad is one site, Alvogen's finished dosage site also we are using for Oseltamivir formulation supply. See, what happens is there are some government tenders and all and tenders in the US which require local manufacturing. They give preference to local manufacturing and because it is such a large launch, we are keeping two sites. It makes sense, right? So I have two formulation sites for the same product.

Nimish Mehta: So that other formulation site is belonging to which company?

Rajeev Nannapaneni: Alvogen.

Nimish Mehta: So going forward, will we have a split up, basically Natco share will be limited to their formulation site and that is how it will happen, I mean you will get your share or…?

Rajeev Nannapaneni: What will happen is, the understanding that we have is that either we make it here or we make it there depending on what the market requirement is. We will get the same profit share regardless of whether we make it here in Hyderabad or in the US. So let us say for argument sake, we make one million capsules in the US factory. Let us say argument sake, we make $1 million for mathematical simplicity and we make a profit of about let us say 500,000. Let us assume that 500,000 will be split 60:40. Even though we are not manufacturing the formulation in Hyderabad, even though it is manufactured there, we have the same profit share as same as Hyderabad. We are just doing it for the flexibility. We are doing two things. We did risk mitigation because we want to have two sites and two what we are doing is for some of the preferential treatment that you get, I mean any business in the future, you need to have two sites, right? So I think as part of different catchment area.

Nimish Mehta: And this API is being routed through Natco just to ensure that this accountability of profit share is…?

Rajeev Nannapaneni: Not like that. I think this transaction they wanted us to route it through us, so we route it through us.

Nimish Mehta: Last thing on Tamiflu, I mean the launch date I understand is confidential but we are confident of covering the entire winter season, right?

Rajeev Nannapaneni: I think we are covering the entire winter season. As I said, we are keeping both the sites as the backup and as I said by manufacturing in the US, we have come to a certain preference, but as I said we cannot solicit sales until the launch date. So I want to reaffirm it that we are not soliciting sale right now. The solicitation of the sale will only happen at the time when the confidential launch date is revealed in the future.

Nimish Mehta: And post Feb 2017 which I guessed is the last penal expiry, you may correct me if I am wrong, but what is the kind of competition you are looking at if you just can remind me of that?

Rajeev Nannapaneni: I do not know Nimish, but we should assume that there will be enough people, I think that is all I can say. In a model you should assume that it will be more.

Moderator: Thank you. We have the next question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Rajeev, while in the conference call of Mylan, they again mentioned that there have been little queries regarding Copaxone, so time and again these queries are coming. So what is the status on those queries and what is the nature of these queries if you can help us to understand?

Rajeev Nannapaneni: We got few queries. Obviously I think Mylan disclosed that. In our opinion, we will be able to answer them very shortly. I think in the next few days we will be able to answer them. I think the queries are, there are some questions, but we have all the data and I think we are compiling it and we believe that we will be able to answer in the next few days.

Mitul Mehta: So once you answer them, then how long typically it takes for them to again get back to you?

Rajeev Nannapaneni: I have no idea. I think you give the answer and again I will review it and I will come back to you soon.

Mitul Mehta: Now, sir between quarter one and quarter two, what has been the growth in the Hep C sale, overall?

Rajeev Nannapaneni: The Hep C specifically from Q1 to Q2, the branded in Q1 was about 131, Mitul and Q2 we had 109. The third party increased a bit from about 13 crores to about 18 crores. So I would say it has been more, slight dip in the branded from Q1 to Q2, but we still believe in our ways, our guidance number, we should still meet. So between the brand and the third party, we said we are hoping to do about 125 per quarter. So we are still on target for that.

Mitul Mehta: And in terms of the CAPEX for the current year and next year, what sort of plans you have on the annual?

Rajeev Nannapaneni: I think for the first half, Mitul, we spent about 111 crores. We have budgeted for about 260 for the year.

Mitul Mehta: And in terms of number of filings, have we opt the..

Rajeev Nannapaneni: We are on track. We are not disclosing the number exactly, but our target for the year is about 6-7 for the financial year. So we are on track.

Rajesh Chebiyam: I think Vizag facility will help us after filing. So Vizag facility should be ready by March of 2017 and that is our target.

Mitul Mehta: So post that, we should be able to do 9-10 every year?

Rajeev Nannapaneni: I think we should try to take it over 10. So I think the target is we want, once the facility is ready in Vizag that gives us double the capacity to make these filings. So I think we only have one primary site, so it is putting a lot of load on one site. So in addition to production issues, we need to handle new filings. So we felt that we are ready to have a new Greenfield site. So once the new site comes in, I think we should be able to do more than 10 filings, I think that is the target for the next financial year.

Mitul Mehta: And out of 6 in the current year, how much we have already filed?

Rajeev Nannapaneni: I think about 3 or 4 we have filed as of now. I do not remember, 4 I think so far we have filed.

Moderator: Thank you. We have the next question from the line of Srihari C from P.C.S Securities. Please go ahead.

Srihari C: Firstly I wanted the breakup of the other operating income of around 53 crores and secondly the Tamiflu sales that we have booked, would that be for 6 months?

Rajeev Nannapaneni: The breakup I think we had given, I will repeat it one more time. So the other income has split between trading income of 42 crores and the estimate is profit share and export benefits and Tamiflu stocking quantity, I just said we booked 100 crores this quarter and what was the question, will we book again is that what you have said?

Srihari C: This would be for tentatively 3 months, 6 months sales?

Rajeev Nannapaneni: We will have some sales. I mean, we cannot answer that question. It will be violating the confidentiality. All the sales of this product will happen, most of it will happen in this financial year.

Moderator: Thank you. We have the next question from the line of Anuj Khandelwal from Creador. Please go ahead.

Anuj Khandelwal: My question is on the Hep C business. So what kind of growth do we see from the export business Hep C in the next 2 years?

Rajeev Nannapaneni: I think it should move up. Now with this quarter, we did about 10 crores in exports, so I think we are expecting more registrations in the next few quarters. It should ramp up. I think annually we are doing about 30-40 crores. So I think it should go up to 100, that is my

expectation in the next financial year. We are waiting for the registrations in the bigger market. I think Vietnam and Indonesia being one of the bigger markets.

Moderator: Thank you. There is a follow up question from the line of Afzall Mahmood from Karvy Stock. Please go ahead.

Afzall Mahmood: How much was the volume growth in the Hep C business sir?

Rajeev Nannapaneni: I think it is doing well. I think volume is probably growing around 25%-30%.

Afzall Mahmood: Are you facing any pricing pressure because…?

Rajeev Nannapaneni: There is always pricing pressure. This is all about pricing pressure, but I think even raw material prices have also dropped dramatically. So per margin wise, I think we are still holding up.

Afzall Mahmood: And in exports, have you received the approval from Indonesia and Philippines?

Rajeev Nannapaneni: No, we have not received. We are anticipating it. I said for Vietnam and Indonesia, we are anticipating an approval in the next calendar year.

Afzall Mahmood: How about Philippines?

Rajeev Nannapaneni: Philippines also we have filed. It is still ongoing, it is too early right now.

Moderator: Thank you. We have the next question from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.

Ashish Thakkar: Sir any update on Fosrenol? When would we be getting into the market?

Rajeev Nannapaneni: We got a CRL, we have answered it. So I think once we get the approval we can launch it. So may be, I am not able to filter it, but maybe early next year we can probably launch it. I think that is our expectation.

Ashish Thakkar: Early next year, calendar year you are saying?

Rajeev Nannapaneni: Calendar year, yes.

Ashish Thakkar: Sir next question would be on the frontends in US, Europe, so as a part of the business strategy we would still be pursuing opportunities in going ahead with the launches with the partners or you feel that 2-3 years down the line you will be head on and you would be happy to put up your own frontends?

Rajeev Nannapaneni: We have thought about it. I think like the markets like Canada and Brazil, we have our own frontend, US is something where we are doing alliance right now. We have not decided to go frontend yet, but that is a call that we probably have to make so.

Ashish Thakkar: But currently from a 2 years' perspective, you feel this is good enough I think for us to…?

Rajeev Nannapaneni: I know I can make that call. I have not made that call yet. But definitely I think we will communicate when we make that call. As of now, we have not made that call.

Ashish Thakkar: Sir last question would be on Copaxone, we have been hearing lot of litigations now and then, so what is your view for the 20 mg, 40mg. There have been few companies who are saying that they are also in race to get the approval for 20 mg. So would like to hear from you what are your views on the Copaxone litigation?

Rajeev Nannapaneni: 20 has no litigation Ashish. Only 40 has litigation. 20 has no litigation, some clarity and other people filings, I cannot speak about other people's filing. I can only speak about my filing. I think we are very close to in approval. I think that is our feeling and hopefully we will get an approval soon and about 40, as you know we had couple of favorable orders in the IPR proceeding and the trial of the 40 mg has ended. So we should probably hear from the court. So once we hear from the court, then we will be probably able to speak about where we are on that as well. As of now, it is early days**.**

Ashish Thakkar: But on 20 mg you are not sharing anything. You believe along with you, there could be few other companies as well. So that seems to be a possibility?

Rajeev Nannapaneni: I would not know. You should speak to the other company, don't ask me.

Moderator: Thank you. We have the next question from the line of Aditya Khemka from DSP Blackrock. Please go ahead.

Aditya Khemka: Firstly on the Copaxone 40 mg, as you said, there is litigation on the product and if I am not mistaken in the European Union, we have won the litigation against the generics and the generics so far in Europe have been stalled till the patent expiry given the lower court decision. Obviously it is an appeal, but at least the primary decision seems to be against the generics. Would you care to comment on that and what is your confidence about this litigation in the US turning out in generics favor?

Rajeev Nannapaneni: See, our deal with Mylan is only primarily for the US. So it is not covered in Europe. See, again let me reiterate. Again, I do not have a crystal ball to say that particular event will happen. From what I understand, I think we had a favorable IPR proceeding for the 40 mg litigation and I think the trial went well. I think that is our understanding from what I was told,

but again as I said it is too early to judge anything. Let us wait for the court order and see how it goes, but I think our guys are confident. I think that is what I understand.

Aditya Khemka: But just to sort of pick your brains on that Rajeev, so generally, very generally and historically speaking, Europe has been more generic friendly in terms of litigation as compared to the United States. So what worries me little is that if Europe generally is more favorable in evaluating patents versus United States and still if in Europe, the generics could not win the case.

Rajeev Nannapaneni: That is a very sweeping statement. You cannot make such sweeping statements about because it all depends on the law and how you argued. There are 100 variables had played out. It is little unfair to compare product to product, but having said that we had a favorable order in the IPR proceeding. You are familiar with the IPR proceeding, correct?

Aditya Khemka: Yes.

Rajeev Nannapaneni: So we had a favorable order there. So what does that mean, right? I think let us wait and watch. That is all I can say. I think all I can say is that the IPR proceeding went well and I think we feel confident about trial, but again as I said let us wait for the court to give a verdict and then we can evaluate and see what we can do.

Aditya Khemka: Right and that is just for my benefit, Mylan has filed for Copaxone 40 mg in Europe, right?

Rajeev Nannapaneni: I am not aware about what they have done in Europe primarily.

Aditya Khemka: That is right. So my next question Rajeev is on, generally US as a market and specifically on your strategy on approaching the market, alliance based strategy, niche products, more focus on FTFs and Para IVs. As the branded space sort of contracts, more and more products go generic. Over the next 5 year horizon, do you see enough opportunities for you to make filings like Copaxone, like Tamiflu going ahead, I mean are you feeling a crunch in terms of the competition that you are facing in each of these filings or are there enough opportunities out there for you to develop a pipeline for the next 5 years?

Rajeev Nannapaneni: It is yes and no. I mean, on certain products we filed, we are finding on this about 8 or 9 guys on one particular product that we filed recently. But there are still opportunities, some niche opportunities still available. So you will have to, it is comparative. It is more comparative than what it was earlier, yes, of course it is more comparative. So are they still opportunistic, of course they are opportunistic. So you just have to, slowly what we have found is we have to file multiple products and hope that we get a jackpot. So the trick to get around this is just we file lot of products and then hope that we get something in it.

Aditya Khemka: So in that front Rajeev, then given that we file only 6-7 ANDAs this year, maybe only 10-12 ANDAs next year and some of your competitors are filing in the 20s or in the 40s or in the 50s, do you feel the scale is being a disadvantage here?

Rajeev Nannapaneni: I think we try. Even though we file about 8-10, we have been very judicious in our product picks. I think I like to think that we are very judicious. I am not right all the time, but we try to be very judicious. We try to put the harder ones which we think are difficult to do, but you cannot be right all the time either Aditya, it is a tough business. It is not going to be easy, but I think the way I look at it is you have to do those 8-10 filings a year, that is the basic and you try to do things which you think are hard and out of the 8 or 10, you will probably get 70% of them wrong. I think somewhere you will get those 2-3 right. I think we have been consistently able to deliver those 2-3 special ones every year, fortunately so far. So that is how we do it. I cannot say that there is a better way of doing this. Unless you file you will not know, right? That is how it works, but I think if you do 8 or 10, you cannot be wrong all the time, right? So I think that is how it works, but to your question is you can file 20-30 also, right? But we do not have resources to file 20-30, that is out, isn't it? I cannot ape what other people are doing because our setup is different. I think we are trying to some risk mitigation, I mean what we are trying to do is instead of focusing on US, we are also focusing on India also, right? And there is some sweet spots in India also I think which lot of people are not noticing because everybody is so upset with this. It is true, it is honestly true. Our growth in domestic is a testimonial to that. Sometimes you get so fascinated with the US that sometimes you miss the most low hanging opportunities right here. You mix it up a little bit, try to do multiple markets and then I think you will probably get out of it. I think the solution to this is you still file 8-10, try your best, you will get 1 or 2 right and then you start to do another market where you try to similar sort of strategy and then between all of them you get something right.

Aditya Khemka: Sir just a followup on this US bit, so given that we sort of commit so much of capital behind this market, we have a new Vizag facility. Kothur is obviously already there and then the working capital pressure that the market puts on your balance sheet, would you feel that the ROCEs or the return on invested capital from the US market is still competitive compared to let us say an Indian market or any other export market like Mexico or Brazil?

Rajeev Nannapaneni: If you ask me unambiguously, return on capital in India is much better, any day much better than US. You just take the return ratios. From my experience in the last few years, I mean in this business of 15-16 years, India has delivered far better than US any day. The only thing is you have to do, you just do not do one market. You started to do multiple markets, so that you can spread your risk and try to get enough. I mean you want to increase your revenue, you have to do US, isn't it? And the scale you get in the US is extraordinary. You could get a $200 million launch in the US if you get lucky with the product, isn't it? But we never did $200 million launch in India ever, right? If you are doing 200 million in India, you are like top 25 companies in India already. It is not strictly comparable. There are different things in different

markets, but I think as a judicious company you have to play the game in every market, isn't it?

Aditya Khemka: Right and lastly you just mentioned India and I am assuming your India comments still stand validated despite the pricing pressure or the pricing regime that we have seen in India, the DPCO, and NLEM that will still hold?

Rajeev Nannapaneni: I would believe so, for me at least. I cannot speak for everyone else, but I still think, qualitatively India business is inherently better than the US because if you have a steady state sale in India and steady state sale in the US, India is any day better and the compliances is also much lower in India because plants are different and regulatory risk in US is much higher. So any day, but I still feel India is much better. But you would not get the same scale of revenue like the way you get in the US. That is the biggest difference, isn't it?

Aditya Khemka: Yes and my last question is on the Hep C franchise. So obviously in the call we have said that we are looking to do 125 Cr, that is your branded. So I am assuming all the branded is in India. There is no branded outside India?

Rajeev Nannapaneni: When I say branded, generally we say we are talking about India and the total is that India domestic branded, I will tell you the split actually, not 125.

Rajesh Chebiyam: 125 is total Aditya, 125 is between branded and…

Rajeev Nannapaneni: The total branded in India is 77 crores in Onco and 112 in the Hep C franchise. So 112 plus 77, about 190 is the domestic sale.

Aditya Khemka: Right, so I was talking about the Hep C franchise?

Rajeev Nannapaneni: Hep C franchise is 109.

Aditya Khemka: Yes, exactly.

Rajeev Nannapaneni: And 27 crores is third party in India.

Aditya Khemka: So the second quarter third party you are saying is 18 Cr. Is it 18?

Rajeev Nannapaneni: No, 18 for Hep C. I will do that one more time, okay?

Aditya Khemka: Yes. Rajeev, I am focused on the Hep C franchise.

Rajeev Nannapaneni: 27 is the total third party, of which 18 is Hep C.

Aditya Khemka: 18 is Hep C third party and both these sales are done in India, right? And then your export is 10 Cr for Q2 Hep C. So my question to you is obviously it seems that we will hit a 500 Cr guidance on the Hep C branded plus third party and I see your guidance of export ramping up. What is the sustainability of this 500 Cr put together branded and third party Hep C sales in India? So if I were to look at the next 5 years and Hep C would include the future formulations of Hep C that you would introduce, right? So there are further combinations that are coming in novel.

Rajeev Nannapaneni: There are actual 2-3 combinations coming.

Aditya Khemka: So I am assuming that you would also be a player in all those products. So if I put all of them together with the product that you are currently selling, where do you see your Hep C franchise 5 years from today, would you see it stagnant? Would you see a 10%-15% CAGR? Would it be double? Where do you see it?

Rajeev Nannapaneni: I have been asked this question many times. I tried to answer it differently every time, but I think what we have seen is, when I started off with a franchise when we did the deal with Norris who is our API supply, I thought 100 is much and then I was pleasantly surprised by the numbers. I think what we are seeing is two things. One is our sale on this product has been totally unexpected, I could never predict how it came, that is one. So second thing is there are diagnoses of Hep C happening all the time. So what we saw like we launched this product nearly about 20 months ago if I get months right. We have seen constant consistent demand so far in terms of volume and diagnosis of Hep C will go on for the next few years. Lot of the times what happens with Hep C is that the disease is dormant for many years before it is actually diagnosed and to your question do we see stagnation, any mathematical model will tell you that it will increase before it starts dropping slowly because there is only a finite number of people who have this disease and you are getting cured and it will. So my view is that there is probably increase in the next 3-4 years in volume. I cannot talk with the price because the prices are different dynamic and volume is a different dynamic. I do not want to judge the price because I do not know where the market is going to go, but my view is that the diagnosis will increase and it will probably peak in the next 4-5 years then it will start dropping slowly. I think that is hard, that is my personal view.

Aditya Khemka: And in terms of pricing, it has been a 20 months journey thus far in India on Hep C, so what have you seen so far? I am sure your introductory price would have been the highest and today historically we would have been sitting at the lowest price point because competition has entered in a staggered manner through the 20 months. So today's price what percentage is that of the first price? Is it 60-50-80-90, what percentage it is?

Rajeev Nannapaneni: In my view, it is dropped, it is 50%-60%.

Aditya Khemka: It has already dropped 50%-60%?

Rajeev Nannapaneni: Yes, absolutely. The net pricing has dropped 50%-60%. So let us say we were selling at X about 18 months ago, we are selling at half of that X today. Again take it with a pinch of salt because the raw material price at that time also is very high. Proportionally, the raw material price also has dropped even much more than half of that X.

Moderator: Thank you. We have the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just carrying actually the previous thought on Hep C. So when you say pricing has come down and volume is still growing at 25-30, I know you said that there is still lot of demand consistency is there and are you seeing threat from these new treatments which are coming in the Hep C in the market like **(Inaudible)**?

Rajeev Nannapaneni: I think what **(Inaudible)** clues or something like that.

Girish Bakhru: **45:13(Inaudible)**.

Rajeev Nannapaneni: See, thing with **(Inaudible)** the license covers all the new combinations.

Girish Bakhru: Sorry, your license what?

Rajeev Nannapaneni: Covers all the new combinations also. So as I said in the earlier gentleman's question, we are working on all the future treatments also.

Girish Bakhru: So in terms of comparison with Sovaldi and Harvoni, do they stand a chance in turn taking a lot of market away or how is this going to get it to you?

Rajeev Nannapaneni: My view is that it will be split between in all combinations. No one combination will have dominance.

Girish Bakhru: And how quickly can other peers also do tie-ups on similar products in Indian market?

Rajeev Nannapaneni: I think we should assume that all of them will be ready at the same time as you are.

Girish Bakhru: So that particular new product market can be evenly distributed?

Rajeev Nannapaneni: I think the first whoever makes a difference, I think as long as you have the portfolio with you, you have an advantage. See, any new additions will probably take away 15%-20% of the business.

Girish Bakhru: And is there any percentage out there, how many patients are actually right now diagnosed and treated in Hep C?

Rajeev Nannapaneni: There is no percentage as such. People say that 2% of all India has Hep C. That is what people say.

Girish Bakhru: But there is no percentage on treatment, how many are getting treatment at this point in time?

Rajeev Nannapaneni: Again, the only estimate is based on the volumes that we have and we can just do a ballpark estimation.

Girish Bakhru: That is what I am trying to ask. Have you done any estimation in figures?

Rajeev Nannapaneni: We have done it, but it is like let us say we are selling 100s of bottles a month, so then you are talking about treating about 300,000-400,000 people in a year, right? And then the whole market is probably treating about a million. So let us assume 2% of India has Hep C, that is about 25 million people. So then we are treating only 2% of the total market. I am just going by the numbers which are available in the public domain.

Girish Bakhru: Just lastly on Vidaza and Doxil. Any update on the ANDAs?

Rajeev Nannapaneni: As of now, no, nothing like that.

Moderator: Thank you. We have the next question from the line of Ravi Dharamshi from ValueQuest Research. Please go ahead.

Ravi Dharamshi: My question is related to Copaxone and Revlimid. One, on Copaxone you sound very confident that you will get the 20 mg approval. So I just want to ask would you still say there is a high probability that you will be in the first wave of 40 mg launches?

Rajeev Nannapaneni: Let us get the 20, then I will speak about 40. If I get the 20, then I can tell you. Let us get the 20 first, then I will answer the 40 later.

Ravi Dharamshi: Larger opportunity is 40 now, 20 is almost gone.

Rajeev Nannapaneni: Let me get that 20 first, so I will answer that 40 later. See, I believe that on the 20 and 40, we are pursuing the ANDAs vigorously with the FDA. We are confident that we get an approval on the 20 soon and I think that is our position and what was the question on Revlimid you said, you had a question on Revlimid?

Ravi Dharamshi: Yes, there have been new filings in Revlimid, how does that change the competitive dynamics in our launch scenario?

Rajeev Nannapaneni: It does not, Ravi. I think I have articulated that earlier as well. I think in my belief there will be many filers coming up in the next few months. It looks like Reddy's have cracked the R&D**.** I think it looks like there could be more filers. I mean, it will be presumptuous to say by the time the patent expires, there will be enough filers on the product. As I said in our settlement agreement about a year ago that if any event happens on the patent under certain circumstances, our launches also get accelerated. So hopefully that answers your question. So theoretically if Reddy's were to win the case and get everything in their favor, under certain circumstances agreement even our launch will also get accelerated.

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

Brijesh Kasera: Just following up on Revlimid, end of last year we were expecting a tentative approval on Revlimid. What is the status here?

Rajeev Nannapaneni: We will get it soon, I think there was a query and I think we are answering the query now. I think once that is done, I think our anticipation is that we should get the approval by early next year. I think that is our anticipation.

Brijesh Kasera: And sir on the domestic market you were to launch another therapeutic area, what is the status out there?

Rajeev Nannapaneni: We are launching that division. We are launching diabetes and cardiology. We are launching that division in December.

Brijesh Kasera: And sir finally on Copaxone 20 mg, are we expecting the USFDA to grand approvals along with Natco to say Syntheon and all, it is becoming a crowded market once we get into the market?

Rajeev Nannapaneni: I do not know about the other guys, but I can speak for ourselves. I think we are positive that we should get the approval. We are hopeful that we will get it shortly. I think that is our expectation.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: On Copaxone IPR, just want to get a better understanding. I think there were 5 patents for the 40 mg and 3 were part of the IPR and they were invalidated. So in the district court judgment which is awaited, they will still discuss those 3 which are invalidated or they will discuss the pending 2 which are not…

Rajeev Nannapaneni: They will discuss all 5 from what I was told.

Dheeresh Pathak: So the court can still hold the 3 patents which the IPR struck down?

Rajeev Nannapaneni: Yes, they will also discuss about those 3 patents. This is a different judicial point, that is a different judicial point.

Dheeresh Pathak: But theoretically if the court upheld the 3 patents which are invalidated whose decision holds, the court decision holds over the IPR decision?

Rajeev Nannapaneni: No, the IPR appeal will hold. I will tell you what is going on. There are two separate legal procedures. This is the Para IV litigation is ongoing and there is an appeal to that decision, correct? Similarly there is an IPR decision and there is an appeal on the IPR decision. Your question is if the Para IV litigation goes against us and the IPR decision appeal goes in our favor whose is superior, is that the question?

Dheeresh Pathak: Yes.

Rajeev Nannapaneni: From what I understand, if the IPR decision goes in our favor, I do not want to judge it, but I was told that if the IPR appeal goes in our favor, it is as though the patent did not exist. That is what I understand, but again unless you actually hear the details of the verdict, it will be hard to understand. Again I am not a lawyer. I do not want to say that I specialized in it. I need to get a legal counsel. But off the band if you ask a question that is what I think the answer is, but again until you get the final verdict and how they are written, it will be hard to judge. But my view is, I think I was told that is what it is, but again I need to double check again. I do not want to commit to it.

Dheeresh Pathak: Just to understand, the IPR process already under appeal because they would have appealed the 3 patents?

Rajeev Nannapaneni: Absolutely.

Dheeresh Pathak: The district court judgment is awaited. Now whoever loses will again appeal that in the appeals court, the IPR appeal decision, my sense is it will come before the appeals court decision comes. Once the district court decision out and the losing party appeals, the IPR appeal decision will happen before the appeals court decision, is it correct?

Rajeev Nannapaneni: Yes. I think my understanding is even if one of the court cases go in our favor, we are good.

Dheeresh Pathak: So if you win the district court, you would still wait for the appeals court decision or you will still at least for the IPR appeal decision?

Rajeev Nannapaneni: On the launch you are saying?

Dheeresh Pathak: The launch is something that Mylan has to decide. I cannot answer that question. It is based on the legal ramifications and weighing all legal situations, I think only Mylan will decide. I cannot answer that question.

Moderator: Thank you. We will take the last question that is from the line of Srihari C from P.C.S Securities. Please go ahead.

Srihari C: My question pertains to the gross margin. It has shrunk sizably by around 14%-15% if you compare to the previous two quarters, I can understand that Tamiflu would have accounted for a major chunk of it. How much of it is due to the base business?

Rajeev Nannapaneni: The split of the gross margin with Tamiflu and without Tamiflu, is that what you are saying?

Srihari C: That is right.

Rajeev Nannapaneni: Top of my head I do not have the number, but I will…

Rajesh Chebiyam: I think we do not have the specifics but broadly the gross margins have come down, driven primarily because of the Tamilflu sales, the Oseltamivir.

Rajeev Nannapaneni: See if you think of it, out of the 470 crores revenues, 467 plus 3 crores other income, 470, 140 is coming from Oseltamivir, correct?

Srihari C: That is right.

Rajeev Nannapaneni: Out of that 140, the margin on the 140 is not more than 15%-20%. I am just doing back of hand, you are asking so precisely I cannot tell you. You remove 140 from there and remove 15%-20% margin from there and rest of it is what the financial margin.

Srihari C: Yes, I can work it out, thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Nitin Agarwal for closing comments.

Nitin Agarwal: Rajesh, you want to make any last comments before we close?

Rajesh Chebiyam: I think we are all set. Thank you very much everyone. Again any specific questions on the numbers that we talked about during the call, please feel free to reach out.

Rajeev Nannapaneni: I just want to make one last comment Nitin, at the end of the call that at this time we cannot disclose the launch. Whatever discussion I had on Oseltamivir launch preparation does not mean that launch imminently. We are not disclosing the launch date. We are not soliciting any bids. So this is as part of our agreement. This is what I need to say and this is what we are actually doing and so please do not construe what I said that I am soliciting any bids or we are launching the products. The launch date is bound by confidentiality and it will be disclosed as and when it happens.

Nitin Agarwal: Thanks, Rajeev and Rajesh and thanks for everyone participating the call. Have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.