



“NATCO Pharma Limited
Q4 FY '25 Earnings Conference Call”
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B&K



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

Ladies and gentlemen, good day, and welcome to NATCO Pharma Limited Q4 FY '25 Earnings Conference Call hosted by B&K Securities. 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 now hand the conference over to Mr. Hrishikesh Patole from B&K Securities. Thank you, and over to you, Mr. Patole.

Hrishikesh Patole:

Good morning, everyone. On behalf of B&K Securities, I welcome you all to the Q4 and Full Year FY '25 Earnings Conference Call of NATCO Pharma. Hope everyone is in good health and doing well.

On behalf of NATCO today, we have with us Mr. Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer; Mr. Rajesh Chebiyam, Executive Vice President, Crop Health Sciences.

I now hand over the call to Rajesh for the management's opening remarks, post which we'll open the session for Q&A. Over to you, sir.

Rajesh Chebiyam:

Thank you, Hrishikesh. Good morning, and welcome, everyone, to NATCO's conference call discussing our earnings results for the fourth quarter and full year of FY '25, which ended March 31, 2025. During this 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 reviewed in conjunction with the risks that the company faces.

I'd like to state that the material of the call, except for 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 then follow with an interactive Q&A session. So, I hope all of you have received the financials and the press statements that was sent out yesterday. These are also available on our website.

So NATCO recorded a consolidated total revenue of INR4,784 crores for the year ended on 31st March 2025 as against INR4,126.9 crores for the last year, reflecting a growth of roughly 16%. Net profit for the period on a consolidated basis was INR1,883.4 crores as against INR1,388.3 crores last year, showing a growth of 36% in its profit.

Company has recorded its highest ever consolidated revenue and profits during this financial year. This is the result of decades of our diligence and focused strategy. For the fourth quarter ended on March 31, 2025, the company recorded a net revenue of INR1,287.3 crores on a consolidated basis as against INR1,110.3 crores during Q4 of FY '24.



Profit for the fourth quarter on a consolidated basis was INR406 crores as against INR386.3 crores same period last year. During the quarter, the company took an impairment charge of INR50 crores in the Crop Health Science business related to property, plant and machinery and a chargeback adjustment of roughly INR25 crores in its U.S. subsidiary, apart from incurring higher R&D expenses.

As of today, the company has a strong cash position of over INR3,500 crore as it prepares for headwinds coming from its U.S. business during the financial year FY '26. The company estimates a possible dip in revenue by 20% and profits by 30% due to geopolitical uncertainties and pricing pressure in its core product portfolio in the U.S. and increased R&D expenses. Thank you all. Now we'll take questions.

Moderator: First question comes from the line of Nirali Shah with Ashika Institutional Equities.

Nirali Shah: Congratulations on great set of numbers. I have 3 questions. I'll begin with the first one. Could you update us on the status of the Risdiplam litigation? And are there any upcoming milestones or any legal proceedings that we should be aware of in the near term?

Rajeev Nannapaneni: On Risdiplam, I think we believe, if all goes well, - it will be reserved for order by end of this month. There's only like one last hearing left. I think it will get done today or maximum, hopefully, we'll be able to close everything by end of this month. So, we expect an order in maybe post holidays in June, as Delhi high court is closed.

July, August, we should expect some order on that. Right now, we have not launched the product. We're waiting for the clarity from the 2 Judge bench and then based on that, we'll strategize what to do.

Nirali Shah: So, if the order comes in our favor, within how many months do we look at the launch?

Rajeev Nannapaneni: I think if the order is in our favor and everything is good, I would believe we can launch immediately.

Nirali Shah: Okay. My second one is on the clarity on the progress of NRC-2694. Any timelines or catalysts that we should be tracking?

Rajeev Nannapaneni: At this time, I don't have any timelines, Nirali. So, I think we just kind of updated our NCE and cell and gene therapy ideas. It's there in the public domain in the presentation. At this time, I think what we have done is we have taken a very late-stage cancer subset of head and neck cancer and who have failed the conventional therapy, which is KEYTRUDA. So right now, the trial is ongoing. We're doing it both U.S. and India. I don't want to give any timelines at this time. I think maybe in about a year, 1.5 years, we'll have more clarity on this.

Nirali Shah: We are still on the patient recruitment front or is it done?

Rajeev Nannapaneni: I think we need to get to a number where it is substantial. I think so far, I don't recollect the numbers, Nirali, so I don't want to say anything. But we have done, I think, about between 10 to 20 patients. I don't remember the number on top of my head. I don't remember the protocol also

how many patients we have to do. But once we get to about, 60 to 70, we'll have an idea of where we are. So, we hope that we'll be able to recruit these patients in the next 1, 1.5 years, and we'll have clarity on how it works.

Nirali Shah: Okay. And my last one is on the Trump tariff and the Trump campaign. So, regarding the aggressive drug price cuts and the potential import tariffs, how do we see this evolving in terms of the impact that could be on our business?

Rajeev Nannapaneni: I mean, obviously, a lot of our business is in the U.S. So obviously, there will be some impact. I mean, so far, I think we are okay. So, let's wait. It's a very dynamic situation. So, let's see how things go, and then we can make an assessment of what will happen. It's too early to say anything.

Nirali Shah: In the opening commentary, you mentioned about FY '26. So do we look at it as a softer year for us because of the evolving scenario I'm saying in the opening commentary, you mentioned about.

Rajeev Nannapaneni: Yes. Headwinds, What about it?

Nirali Shah: Yes. So, I'm saying that because of the Trump issues and whatever is going on in the U.S. because of the policies, we do see that our portfolio will be hampered because of this. We do face the headwinds.

Rajeev Nannapaneni: We don't really know what's in store in the future. I think that's what I'm trying to tell you. I don't know what's going to happen, right, in the next few months. once we have clarity on what's going to happen and what their policies are going to be, I think then we can make an assessment of what the impact is going to be.

As of now, we're just waiting for clarity on what's actually going to happen. It will be premature to say anything at this time. So, I would just reserve saying anything. But I would just say that once we get clarity and then I think we can make an assessment of what's actually going to happen, what the impact is going to have.

Moderator: Next question comes from the line of Rashmi Shetty with Dolat Capital.

Rashmi Shetty: Sir, in the opening remarks, if I'm clear, you mentioned 20% dip in the sales and 30% dip in the profit for FY '26, right?

Rajeev Nannapaneni: That's correct, yes.

Rashmi Shetty: Yes. Sir, is this also because you're going to see any sort of erosion in your Revlimid product despite we will be taking the maximum market share, right, this year?

Rajeev Nannapaneni: I think it factors everything in. We should do well in the next couple of quarters. I feel June quarter and September quarter, we should do well. But I think after that, it's very difficult to judge what's going to happen.



We are being cautious, so we gave the guidance upfront so that the investors are aware of how we see the business and I think that's our assessment. Because as I said, there are multiple things happening, this developing pricing scenario is very tough to judge.

I mean political scenario is very difficult to judge and also, we have decided to spend a good amount of money on R&D as we have very good surplus. So, we're using the surplus to sort of spend on our R&D budget. So, I think because of these 3 factors, we have made our best guess estimate of what we think the year is going to be.

Rashmi Shetty: And it is also supported by the fact that Revlimid might see higher price erosion compared to this year?

Rajeev Nannapaneni: I think so, At the end of the day, I'm making a guess. I mean based on what's going to happen. But yes, I think we factored best of my knowledge. I think we made an estimate of what we believe will happen, yes.

Rashmi Shetty: Okay. And sir, related to R&D, you said how much of the R&D in this year you have spent for the entire year? And how much are you expecting in FY '26?

Rajeev Nannapaneni: We spent INR373 crores, which is 8.5% of our stand-alone revenue in R&D for the financial year ending March 2025. I would want to spend, I think, a similar amount of money this year as well. We have some very nice projects that we have lined up and I think the really good ones are always very expensive. So, I think that's what we are trying to do. But I think we want to spend about in that range up to INR400 crores is what we're targeting.

Rashmi Shetty: Okay. And one last question on the India business. This year, every quarter, we had done in the range of INR95 crores to INR100 crores. And we are also planning to see some acquisitions with the cash flow. But till the time the acquisition doesn't happen, what kind of growth we can expect in FY '26? Will it be in the similar range of that 2%, 3% growth? Or we should expect a higher growth this year?

Rajeev Nannapaneni: I think of the publicly announced pipeline, I think the base business should grow around 7% to 10%. But I think the 2 major launches that will drive the growth. I think one is Risdiplam, subject to the court decision and of course, Semaglutide, which we're expecting maybe end of the financial year.

So, these 2 are going to be very critical to the growth. If these 2 come through, I think you'll see much more than 8%, 10% type of growth. But I think getting these 2 right, would probably be very important for us to see very good growth. But I'm optimistic that both will work, subject to, obviously, in Risdiplam, the court decision and Semaglutide once we have the market formation and get the approval, when we have clarity, I think both these products should be very interesting. I believe that our domestic should do well. You'll see much better growth than what you're seeing now for these 2 coming soon.

Moderator: Next question comes from the line of Kunal Randeria with Axis Capital.



Kunal Randeria:

Rajeev, on Revlimid, I thought you would be booking some profit in FY '26 also for the sales that Teva would have made last year. And since Teva's quota has gone up this year, I thought some of it would also be booked in FY '27. So, does that still hold or has the accounting changed?

Rajeev Nannapaneni:

I didn't understand your question, Kunal. I'll tell you what I understand from it. I think for the new quota that we got, we booked some amount in the March quarter, which is the January to March quarter in 2025. And this quota, we will start selling, we're selling now, and we'll sell in the June quarter and the September quarter and then I think December, I'm not able to predict what's going to happen. So that's why we're being cautious. In the March for the '26 year, like it will be a lot of competition and there won't be any quantity restrictions.

Kunal Randeria:

I got that. Sorry, what I was asking is, see, typically, you manufacture and sell it to Teva and Teva then sells it to the distributor. And once Teva gives you the profit, typically, there's a lag or you recognize it maybe a couple of quarters late. So whatever Teva, let's say, sells in September, I think you book it in December or March. So that was my question.

Rajeev Nannapaneni:

I think what we gave to Teva, we already gave. I think the quantity that we were supposed to give, we already shipped to Teva. I think what we are booking now is only the profit share. So, we booked some amount last quarter, and we continue to book in the coming quarters as we go along.

Kunal Randeria:

Right. Okay. So, if my understanding is correct, you have already supplied to them. Yes. Just a couple of more questions. Semaglutide, yes.

Rajeev Nannapaneni:

Yes. So Semaglutide, yes, go ahead.

Kunal Randeria:

Semaglutide, would you be needing some investments to promote it in India and sales force? Or will you be partnering with the larger players?

Rajeev Nannapaneni:

We are thinking of both the models, Kunal. I think we are looking at both B2B model and also our own sales force. We have built the sales force to cover this segment. Over the last 3, 4 years, we are actually able to build the sales force to cover the doctors that are required for this product. We have the setup, but obviously, we're looking at both dual revenues. We look at both B2B and our own brand as well.

Kunal Randeria:

Sure, and just one more. I was a bit surprised with the impairment in this property plant equipment of the Agrochem business. So, are you kind of scaling back your plans for this business?

Rajeev Nannapaneni:

No, Kunal. It's just an accounting entry. It's a noncash entry. Essentially, what it is, is the business has not done well in the last 2, 3 years. We've not made money. So, I think consulting with our auditing firm, I think they assess that we need to take an impairment of this. This can be reversed. Let's say, for example, in '26, the business starts making money, which we hope to, then some of the impairment can be reversed, but this has taken a conservative position and we've been -- I think it's judicious to prudent to do it. That's why we've done it.



Moderator: Next question comes from the line of Nitin Agarwal with DAM Capital.

Nitin Agarwal: Rajeev, on R&D, how many products have we filed this year? And how many were meaningful in your assessment in F '25? And how are you looking at '26, '27, if you can?

Rajeev Nannapaneni: Total filings, in the U.S., we had about 5 filings. and meaningful ones means a lot of them are shared exclusively. I think there's nothing special that comes to my mind other than the ones that we've already announced. But that was the question, right? how many we intend to file? 7 to 8 is what we're targeting to file

Nitin Agarwal: It was exactly the same point. Interesting on that you've got this year and how many do you probably see coming through over the next couple of years from a filing perspective?

Rajeev Nannapaneni: I think the interesting one that we got this year was probably, was one of the strengths of Semaglutide, where we are sole FTF. We filed something in April 2024. So that was probably the most exciting one that we filed. We filed Risdiplam. That's also shared FTF. We are 1 of the 2 filers. So, these are 2 big ones that we filed in the last financial year.

The interesting one, Nitin, we spoke about these many times. I mean, Semaglutide probably is probably the biggest one that we have, where we have some strengths, we have sole FTF. Then we have, I think, subject to the legal clarity and approval, Olaparib could be very interesting.

Then we have medium size, we have Erdafitinib, Capmatinib. That's also an interesting one that we filed. Then we have shared FTF on Yondelis and then Carfilzomib and then we have Ibrutinib subject to the legal outcomes. So, we have like 7 or 8 things. I think it plays out over the next 10 years. So maybe we don't have anything in the next 1 or 2 in the near term. But I think if you take an 8- to 10-year view, we have these.

We updated our investors on some of our NCE and cell and gene therapy investments. I think the most excited one, I mean, some of them are smaller ones and some are bigger ones. The big ones that I look at is probably the NRC-2694, which is a late-stage head and neck cancer, where we are doing a Phase II. So, we have very interesting Phase II data, we can probably even get it approved with limited number of patients.

So that is one possible excitement. Another one is one of our Cell and Gene investment. We made an investment of \$8 million in eGenesis. They were the first one in the world to do a xenotransplant where they transplanted a genetically modified pig kidney into a human and there's one particular patient who is actively on that kidney. I think it's been about 4 months, and it's still doing well.

So those are probably the most exciting ones in NCE, cell & gene and Para IV pipeline So the idea here is that you build a pipeline of about 15 of them. I think even if we get like 6 or 7 of them right, I think you are home, that's the idea.



Nitin Agarwal:

Right. And just last one on Revlimid. Have you been surprised from some of your earlier expectations versus the way the market is expected to play out in '26? Are you seeing it play out in '26?

Rajeev Nannapaneni:

I'm not, honestly, I am not surprised. I've always been very conservative. I always believe that you'll see erosion as time goes by. I'm not actually surprised. It is fitting in pretty much what our expectation was.

Moderator:

Next question comes from the line of Rohit with ithought PMS.

Rohit:

Congratulations on all the hard work that the team has done. Rajeev, most of the questions have been answered. Just 2 or 3 of them as a follow-up. I mean, so one is on this Agro business. So, this was a foray that you had started 3 years back. And I think it's below expectation. So, what is the thought process now? How do you see it over the next 2, 3 years? If you can maybe share your strategy and thought process, there? That was one.

Second was, I mean, given the cash that we have, and you've talked about acquisitions. So, anything updates or anything that you'd like to share on that in terms of any thoughts that have evolved over time?

Rajeev Nannapaneni:

So let me just answer these 2 questions first. So, the first question that you had was on the Agro business, obviously, it's not done well. It has not met our expectation, but it is what it is. So, I think this year, we feel we are going to hit that critical mass where we'll start breaking even. We are doing about INR60 crores net revenue last year. So, I think we need to hit about INR160 crores to INR170 crores at least to have that EBITDA positive. That's the idea. So, I think hopefully, we'll hit that number this year and hopefully, if we go beyond that, then we'll actually be profitable. I think '26 is a year where it's going to turn around. The other question was on the cash, right?

I mean, as we announced, we had about INR3,000 crores of cash. Now I think we received further receivables. So, we are probably sitting now at INR3,500 crore. It's a good place to be, honestly. I wouldn't complain. How do we use the cash? We are looking at acquisitions. We are looking at a lot of active acquisitions. I think I'm positive that we'll be able to close something in this financial year, that's the idea. That's all I can say at this time.

Rohit:

So, one follow-up again on Agro. So, while you shared that this may be the year where we'll turn around. But slightly longer term in terms of the strategy here, I remember you wanted this business to get to about INR300 crores, INR400 crores or around that number in your -- like scaling this business up.

So just I mean, from here on, of course, it did not pan out, and that's fine. But from here on, are you sort of still like positive on this overall opportunity, anything on that? And then one more question on -- I think you've given out this NCE and your sort of the NCE and all the other moonshots that you have, investments that you've done. Should we look at it as like your conviction in them has become better and you're closer to some kind of an outcome, and that's why you're sharing now?



Because in the past, I mean, people have asked me you've sort of really not talked a lot on them, and I'm sort of hearing you for the first time speaking a bit more. So, is it sort of -- should we take it as like your conviction in them has improved as you get more information or as you get more closer to sort of outcome there? So, these are some of the questions I have.

Rajeev Nannapaneni: So, one question is on the NCE and the other question was on what you call the Agro success. See, let me tell you, I mean, see what we make certain judgments as a business and some businesses turn around in 2 years, some business takes 5 years, some business takes 8 years. So, it's a cycle that you just must live with based on how you sort of execute.

And sometimes you get them right, sometimes you don't get them right. So, I think Agro is something that is probably taking longer, but it is what it is. I mean, as I said, we just have to deal with it. But my personal sense is that it will get better. First point I always look for in a business is that it has to start breaking even.

So, once it starts breaking even, it doesn't cause a strain on the balance sheet and then just you need that one idea, which can always suddenly start turning profit, right? Because to build a successful business, you need to have the core portfolio, which kind of capable and then you'll have what you call one idea that will just take that business to the next level. So, we are hopeful we reach that stage in Agro shortly by hitting that number.

But 150, 160 what we probably need to hit. So, I'm starting small. Let's hit that number. I think then we're not losing money and then we can target the next number. But it's a 2- to 3-year journey, I suspect, to get to that level.

Regarding my NCE and the cell and gene therapy, yes, I think so. I generally don't like to talk about when they're early stage. I think in the past, a lot of people have asked me, and I said, no, it's too early stage. We'll talk about it later. I think now I think I feel more confident that these things are coming to a stage where we can probably hit something. So that's why I'm talking about it. So, I think, yes, those 2 assets that I mentioned a few minutes ago, I'm very excited about both these assets right now.

So again, as I said, there's no guarantee that everything will work out. But as I said, the idea in this business is that you build like about 10 to 15 ideas and then even if you get half of them through, then you're home. I think you have to reimagine your business every few years, right? So, I mean, a pure generics play is going to be very competitive and your moonshot ideas cannot stick only to generics, right? You need to also look at NCE. So, I think doing an NCE program in our balance sheet also becomes very stressful as well.

So, what we have done is we have adopted a strategy doing some smaller investments and also larger ones. But obviously, 2694 and the xenotransplant one is probably the bigger ones. So, if something good happens there, then obviously, we all will have a good upside. That's the expectation.

Moderator: Next question comes from the line of Bino Pathiparampil with Elara Capital.



Bino Pathiparampil: Rajeev, first of all, when you say profit decline of 30%, are you talking about EBITDA decline of 30% or at PAT level?

Rajeev Nannapaneni: PAT.

Bino Pathiparampil: PAT level, okay. Second, you have scaled up your R&D investments because we had a lot of money coming from Revlimid, et cetera. So, going into FY '27, although it is a bit early, is there any kind of an indicative margin range that you can give at the EBITDA level?

Rajeev Nannapaneni: At this time, no, Bino. It's hard to predict anything right now because there's so many moving parts. The moving parts would be that some of our Para IV's, if some of them come through, there could be some upside there and then obviously, the Semaglutide upside is probably not factored in the '27 numbers.

So, I think it's very dynamic. So, as the year progresses, then I think we'll have more clarity of how '27 is going to look, then we can give some guidance. At this time, I would dissuade from doing that. I think it's too early.

Bino Pathiparampil: Okay. And with Risdiplam, if you get a favourable judgment, would you expect other Indian players to come into the market as well immediately?

Rajeev Nannapaneni: We'll see some competition, but if everything goes well and we launch, then we'll have first-mover advantage. So that is always good. In this business being first mover is everything. So theoretically, yes, if we get a favourable order, other companies can also come theoretically, yes, that is possible. But we have the first mover advantage.

Bino Pathiparampil: Right, right. One last question on Semaglutide. So, have you sorted out all your device, et cetera? And would your fill and finish be internal? Have you figured all those things out?

Rajeev Nannapaneni: I think we're getting there. Our clinical trial has already started in India. So, we are hoping that we'll be able to complete everything on time, and we'll be able to be on there when the market formation happens early next year. So, that's our expectation, I think we're in good shape. As of now, everything looks good.

Bino Pathiparampil: And you are planning your own capacity?

Rajeev Nannapaneni: No. We are using a CMO for the cartridge. We're using One Source on this.

Moderator: Next question comes from the line of with Pi Square Investments.

Hrishit Jhaveri: First question on the capex plan. Do we have any significant capex plan for next year, '26?

Rajeev Nannapaneni: We have general capex. I mean, there's always something going on. Every year, we spend about INR300 crores to INR350 crores. So, we have a capex plan of about INR500 crores, INR600 crores, but per year, looks like we're going to spend about INR300 crores. I think we can take about 1.5, 2 years to build these projects. INR300 crores, INR350 crores seems, I think, a reasonable amount of capex that we'll do per year.



Hrishit Jhaveri:

Okay. Understood. And sir, on the guidance which you gave, I think that first half of FY '26 will still have some good growth in terms of June and September. So are you seeing the H2 to be bad. That's why the entire year will take a hit or the H1 and H2 both will take a significant hit as compared to the FY '25?

Rajeev Nannapaneni:

I mean, I will not use the language that you would use, but I would say that the first half will be good, but second half will not be as strong as the second half. The second half will be weaker than the first half.

You will definitely see a difference, yes, because there's so many moving factors. So that's why I think we've been conservative in our guidance, yes. But, principally, you're right. I think the first half should look good and the second half is, as you would say, I would say not as strong. Yes, that's correct.

Hrishit Jhaveri:

Okay. Understood. Sir, just the last question. Given the guidance, you have already discounted the higher tariffs from the U.S. government, or we have not discounted it. And if we have already discounted it, any relief there would drive up the guidance significantly?

Rajeev Nannapaneni:

As I said, see when we make an estimation, we consider multiple factors and multiple assumptions. If I could change my assumptions, I'll come and tell you based on how the policies change. But we have assumed the political risk and the change in the portfolio and the R&D expenditure. So, we have factored certain things in. But again -- and there's too many moving parts, my friend. So, you can't say this event happened.

That's the reason why did this go up or come down. I don't want to get into it because what we can do as a company is only make an estimate. So, I think that's what we are trying to do based on the success. This sounds reasonable. I think generally, we've been very reasonable in our estimates.

I think 1 or 2 times, we are also surprised. But for the most part, I think we get -- most of the times we get our estimates right. So, I think, again, there are always some things that I can't control, which could change things. But as of today, yes, that's what it feels like.

Hrishit Jhaveri:

Correct. And any inorganic deal on the table right now or no?

Rajeev Nannapaneni:

Yes, we are pursuing a couple of deals. But again, we've been saying that. So hopefully, we'll be able to close something this financial year.

Moderator:

Next question comes from the line of Abdulkader Puranwala with ICICI Securities.

Abdulkader Puranwala:

Sir, firstly, on the R&D budget of INR400 crores what we have earmarked for this year. Sir, what percentage of this would be spent on the NCE projects and in Agrochem, if you could help us with this.

Rajeev Nannapaneni:

Of the INR400 crores, how much are we going to spend in NCE and how much goes to Agro, the NCE will probably see about, INR25 crores to INR30 crores, I would estimate in that amount



roughly. I'm making an estimate don't hold me to it. But yes, if I were to make like an educated guess sitting here, yes, I think about that and rest of it will be on generics

Abdulkader Puranwala: Sure. Understood.

Rajeev Nannapaneni: I think we deliberately didn't want to do too many NCE programs, because it becomes too much strain on the balance sheet. So, a lot of the other programs, we have done only equity investments because we wanted to balance trying to get the right amount of R&D, at the same time, don't want to tie up too much of the surplus and expensing too much R&D. So again, that's the balance we are trying to share.

Abdulkader Puranwala: Sure, sir. Understood. And sir, next on your capital allocation from here on. So, R&D, you have guided capex, you said another INR300 crores, INR350 crores. So, with, say, INR700 crores, INR750 crores spending every year for any inorganic to pursue ahead, would you even want to raise your balance sheet, some debt on the balance sheet if the need may be?

Rajeev Nannapaneni: Right now, we don't need that. I think right now, we're very comfortable. I think when it comes to closing, we'll see. I think as of now, I don't want to comment. As of now, we are comfortable, yes.

Moderator: Next question comes from the line of Chetan Doshi with Tulsi Capital.

Chetan Doshi: See, what I have been observing is you are very conservative in giving the forecasting about the overall business and you always exceed, whatever you say so, you exceed in the end of the year. That is my observation. So anyway, congratulations. Even 30% drop on current profit, that is close to financial year '24, that much profit we do.

So, don't you think you need to be a little bit liberal on distribution of the profits to the shareholders? And second question is what is the size of acquisition you are looking forward to which we intend to close in this financial year?

Rajeev Nannapaneni: Size of the acquisitions, I don't want to comment. It's very premature. So, I don't want to answer that question. Regarding distribution of the money, as of now, I'm saving all the money for the acquisition. So, we believe that we'll be able to close something. That's the reason why we have not given an aggressive dividend.

So, I think you're right. Regarding the guidance, I think people are harsh when you say something higher and then we deliver, then market is harsh. So, it's better to say something less then deliver more. So, I think that's what I've learned.

Chetan Doshi: Sorry to interrupt. I think one of your ideas, you can surpass your current year profits also. One of the ideas it goes on floor, then it is a big boost to NATCO. That is for sure.

Moderator: Next question comes from the line of Srihari with PCS Securities.



Srihari: Two questions. Firstly, if you could please talk about the non-U.S. formulation exports market. And secondly, if I look at the cost base ex of R&D, you have spent close to INR1,200 crores in FY '25. So, what is the kind of scale down you have considering for FY '26?

Rajeev Nannapaneni: Scale down because of what?

Srihari: I mean you would obviously have some pressure at the EBITDA level. So, you might have planned some kind of cost reduction?

Rajeev Nannapaneni: I'll give you a general answer. I'm trying to understand what your question is. The R&D spend is driven by obviously the EBITDA that we have. So, I think we have a pretty good plan this year qnd last year, we spent a good amount of money, next year even '26 March also, we should be able to do well.

Regarding the R&D expenditure in '27, I think we'll make that assessment based on what surplus we see that year, and we'll make the judgment. Maybe we can give you some light on that end of the year. The R&D expenditure is obviously linked with the amount of EBITDA that you're making and based on how much money you believe you're going to make, then you have to make a plan.

Okay, fine, I'm not making so much surplus, and I have to scale it down. But I believe there's a reasonable amount of surplus, then I'll continue to spend this much. So, we'll make that judgment closer to the time. As of now, it's hard to comment.

Srihari: No, I was talking about expenditure ex of R&D. That was, I think, around close to INR1,200 crores for FY '26. So, are you looking at a reduction there?

Rajeev Nannapaneni: We always want to challenge ourselves on whether we can reduce our costs beyond that. I think we have done a lot of cost cutting. We have done a VRS program about 2 years ago. I think costs, we're looking at it all the time. Yes. it's an ongoing process all the time.

Srihari: Yes. And the first question was exports of formulations ex of U.S.

Rajeev Nannapaneni: Ex of U.S. So, I would say about INR800 crores to INR900 crores minus U.S.

Srihari: Is that the estimate for FY '26 or '25 number?

Rajeev Nannapaneni: Yes, I don't have the split, I'm making an estimate because I don't have the split literally the way you want it. I've not come prepared to answer that. I'll be better prepared next time. But yes, roughly about that is what I feel.

Moderator: Next question comes from the line of Gagan Thareja with ASK Investment Managers.

Gagan Thareja: Sir, does your guidance bake in the launch of Risdiplam in China next year?

Rajeev Nannapaneni: No.



Gagan Thareja: Okay. Fine, and India, you're pointing to a substantial improvement in sales next year. Can you elaborate? I mean, is it basis launches other than Semaglutide?

Rajeev Nannapaneni: These are the 2 big ideas. If they work, then that will drive the growth. Otherwise, see, you need to understand, I mean, I think generally, the business is very competitive. I mean you look at our peers, everybody is well, financially strong. So, the opportunity only happens when you do that special product.

To do something that everybody is doing, it's very difficult to get growth. You only get that anaemic, whatever, 7%, 8%, 10% growth. But you want something dramatic to happen, you need that special product, and I think that's why I keep talking about these special products because this is what drives the growth. So, I believe that if you want to get above market growth, you need to get these 2 right. I think in my view, at least top of my mind right now, these 2 are the big ones we have to get right.

Gagan Thareja: Right. And for the non-U.S. markets, Canada also, would you be there in the first wave for Semaglutide launch? And generally, I mean, on that base of INR800 crores, INR900 crores, how do you see growth happening next year?

Rajeev Nannapaneni: I think we are not going to be in the first wave. I think we are working on it, but we're not in the first wave in Canada. I think that's my understanding. We are tied up with Mylan (Viatris) on this product. We are not doing it directly.

Gagan Thareja: But otherwise, is the growth going to be healthy in the non-U.S. export markets for you on the current base?

Rajeev Nannapaneni: I would believe so. I think we're doing very well in the MENA region, and we're doing very well in Canada and Brazil. They have very good launches. So, yes, we should do well.

Gagan Thareja: Right. The final one, sir, last quarter, you indicated it would make a lot of sense for you to get your manufacturing or a distribution base in U.S. given the current circumstances. Would the acquisition that you're considering be in that direction?

Rajeev Nannapaneni: Yes, that's one of the acquisitions we're looking at, yes.

Moderator: Next question comes from the line of Rahul, an individual investor.

Rahul: Sir, I just wanted to know a couple of questions. Have you informed the USFDA that Kothur plant is ready for reinspection, the warning letter? Or how does it happen? Have we sorted out?

Rajeev Nannapaneni: We're giving constant updates yes; I think we constantly give updates on the things that we're doing. So, our remedial action is going on and our updates are given. We hope to inform them, sometime this year. We have not informed them. The question is, did you inform FDA for a reinspection? No, not yet.

Rahul: I don't know whether it is over, the remedial measures are ongoing.



Rajeev Nannapaneni:

It's still ongoing. We continue to supply from the site. It's not that there's restriction on supply on the site. But we're not getting new approvals on the site. That's what is happening currently.

Rahul:

Sir, there was a 2009 article on your company. It said a lot of things about the history and all that. But it also said something that our company holds close to 400 acres of land. And I'm just saying because last year, we sold a little bit of it, including where your plants are there. So, sir, is this like an untapped gold mine still we have or we have sold most of it? Or what is the status there, sir?

Rajeev Nannapaneni:

It's still there. I think to monetize an asset like that, usually, what happens is it's something you can always monetize. I think when you get the right party like Microsoft in that particular example, we sold it to Microsoft for a data centre.

So, it was a good rate, and we got it. But you need to do some amount of work, and you need to do the basic infrastructure and usually, when you have a large parcel like that, you always have these wiggling litigations on some portion because you know in India, land, titles are always very tricky.

But if you're able to, I mean, I'm not saying that there's litigation for all the pieces, but there's always some pieces here and there, a few access here and there is always some litigation. So, it can be monetized over a period of, let's say, if you take a 4- to 5-year view, yes, we can definitely monetize. It's valuable property. It's 1 hour from the city of Hyderabad, so near a metro always it's valuable. But yes hopefully, we'll be able to bring some value there as well, yes.

Rahul:

I was just going through the segment reporting. Sir, in the Crop Health division year-on-year, our top line has reduced, sales have reduced and obviously, the losses have also increased. I think we have set a segment loss of around INR150 crores this year. Your optimism in the coming years is based on what, sir, because historically, we have reduced numbers. What is the...

Rajeev Nannapaneni:

The loss also represents the impairment that we have taken, okay? Let's start with that. And the second is, what has happened was when we stopped the product 2 years ago. Then basically, what happens is a lot of the stock came back as returns. So, the sale reduction is because of returns of the previous year.

It's a new business. I mean it's not a good place to be. But because it's a new business, it took us a while to sort of figure out how the distribution works, how do you manage the controls, how do you make sure that the stock is liquidated. So, I think it's getting better. I mean, as I said, because of the returns and all, we had to take a loss, and a reduction in sale.

So, when something comes back as returned, then you have to reduce the sales. But I think it's looking better. I think if you look at the cash flow, the sale was INR60 crores, we actually had a cash flow of almost INR85 crores to INR90 crores. So, cash flow in my world is a true indicator of whether you're selling the product.



So, I think we're getting there. So, 150 is a number that we need to be there. So, I believe that we'll be able to get there this year. But see, I tell you, my friend, generally, when you start a new business, it is not a fairytale, right? You come in and then you start making money on day 1.

And especially when you're doing a business that you're not having a setup, what I call before, a greenfield, it's always going to be a challenge. To build a business, in my experience has always been it takes about 4 to 5 years. And sometimes you get lucky and things turn around in a year or 2. So unfortunately, Agro is coming in that median where it is a 4 to 5 years' time line. But I think we're getting there. It's not as bad as it looks.

Rahul: We are not turning it quits out here. No, sir. I mean it is, we are going to become stronger because this is something we were all hoping would be.

Rajeev Nannapaneni: In a business, it's going to take some time, and this is one of those businesses that's taking time. But we believe that sometimes what happens is, obviously, nobody likes losing money. But what happens is sometimes businesses do take 4, 5 years to build, and it is one of those. But I believe that we are at the end of the tunnel, and I think it should be able to break even this year.

Rahul: One last question, sir. Sir, I have a question, please. I had the good fortune of hearing your 2020 MoneyLife interview, your comments and your outlook, and it's just to say all these 5 years. But sir, you have a disdain for mutual fund industry, sir, and ROE. We need more institutional investments. So do we have a corporate strategy have any like I mean, it's not working out. We just go up and down. It's too volatile, our market cap. I mean do you think because we have seen other companies...

Rajeev Nannapaneni: I have the same for everyone. For anyone, honestly. It was right, so see, I'll tell you something. See, what happens is our business has volatility, I think I'll be very honest with you. And what happens is, I mean, there are some mutual funds who are with us. And I think they understand our volatility and they're willing to be with us and willing to ride the volatility.

And if you look at our return on capital, the profits that we generate, they're as good as any of the top 10 Indian companies, right? But the issue is a lot of the times, again, it's not a criticism, but it is, I mean, we need to explain. People don't want volatility in their NAV. I think what they want is something that delivers 10%, 15% compounded growth consistently without too many volatile elements coming in. And those assets have higher value than assets like ours who deliver great profits but have a little element of volatility.

And I think people who understand are there with us as investors, people who don't understand that are not there. And they also have their own, what I call, limitations. See, you can't change what you're doing, right? I mean it is what it is, and you just have to communicate what you're doing, and people will come along. I think that's how you have to look.

Rahul: This new investment that we are looking for will be a straight cut investment, right? It won't be a moonshot and it will be like buying a business or something, which is existing business, like it's a brownfield investment you're looking for?

Rajeev Nannapaneni: No, when you do an acquisition, if you're buying a front end or you're trying to buy a new market, it will be a brownfield, yes. And Moonshots make money, don't discount moonshots. A lot of our moonshots have been successful.

Rahul: I have one last question, sir. How are we going to monetize Cellogen, sir, because that is not a company that we own. It is like when it gets listed, we'll get money, like what is in for us?

Rajeev Nannapaneni: Very early stage, It's a very early-stage company. It's too early to talk about it. They have a very interesting CAR-T pipeline and CAR-T is something that we don't have a skill set in NATCO. So that's why we invested in them. But they'll all come to fruition. We just have to be patient, and we'll get the opportunity if all well. So, any business idea will always take you 5 to 7 years. Otherwise, it doesn't happen. That's how it works.

Moderator: Next question comes from the line of Nitin Agarwal with DAM Capital.

Nitin Agarwal: Two things. One is on the NCE molecule. How should we think about the milestones and next steps on this product?

Rajeev Nannapaneni: So, I think the way we're looking at it is what we have done is we have taken a very end-stage disease where there's no therapy available. All the first line, second line is completed, and there's no other treatment options which are left and we're dosing that subset of patients.

So, advantage of doing a trial on something like this is you don't have to do like many patients. If you're able to demonstrate efficacy and we are doing a single-arm study. We are not doing a comparison study either because we're using a subset for which there are no therapies available.

So, we're able to show response, you will get an approval if you have very good Phase II data with a reasonable number, you can get an approval. And so, I think as long as we're able to recruit those patients and we're able to do it, I think we're home. So, we're targeting something niche. I mean, again, the disease is obviously a niche disease, and it's not going to cater to a very large number of patients, but it will be a very critical item that you need in the event that the first line, second line is not working, and I think this is a good one to do and relatively easier to do. And I think hopefully, it will work. So, I think that's where we are.

Nitin Agarwal: And how much time do you think you'll be required to complete your recruitment given the challenges which are there in such hirings in recruitment?

Rajeev Nannapaneni: I think the difficulty that we are facing on this trial is the fact that we are unable to get Keytruda failure patients. The reason is Keytruda failed. Nobody uses Keytruda in India. There are limited number of patients who use Keytruda, because Keytruda itself is so expensive, right?

So, I think that's a challenge that we're facing in recruiting patients and typically, generally, people who are already on KEYTRUDA failure are already very ill. So, it's very difficult to recruit patients. But see, I think we are taking up a challenge. Hopefully, I think we'll have some clarity in the next 1, 1.5 years where we are going. We've already done some patients.



So far, it looks good. So, as I said, it's a single-arm study. It's not a comparison study, so relatively easier to do. But the problem we are facing is the recruitment. I think if we're able to get around that, we have done some amendments to the protocol. So hopefully, we'll have some clarity and then we'll be able to recruit. So, if we are able to recruit, then yes, it could be interesting.

But give us a bit of time, though, I can't answer that whether we'll have some clarity maybe in the next 12 to 18 months and you can always ask me for updates every quarter. But as of now, I think let's give ourselves about 12, 18 months to get more clarity on.

Nitin Agarwal: Best of luck for that. And secondly, on the non-U.S. businesses, INR800 crores, INR900 crores is, I think, a meaningful step-up from the numbers we discussed last, if I remember. So, which are the major geographies that will be making up this business? And what would be the drivers for these businesses as we go forward, any specific products?

Rajeev Nannapaneni: I think it's an overall portfolio. I think Brazil and Canada are the biggest ones that we are driving this business. To an extent, now MENA is also driving this business. These are 3 geographies that we're doing very well. In terms of products, it's mostly our cancer portfolio. I think Brazil and MENA has done extremely well. It's mostly from our cancer portfolio, not product specific. It's like a basket of products that we have, which has made a difference.

Nitin Agarwal: Okay. And going forward, any specific launches that will drive this portfolio or this is going to be this year?

Rajeev Nannapaneni: I think at this time, we are just saying it's for cancer portfolio. We're not giving any guidance on specific product at this time. Thank you so much. Thank you, everyone. Thanks for the time that you guys have taken to interact with us. We appreciate the time that you have spent with us.

Rajesh Chebiyam: Thank you all.

Moderator: Thank you. On behalf of NATCO Pharma Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.