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21st November, 2024

Corporate Relationship Department
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Dalal Street, Fort
Mumbai 400001

The Manager - Listing
M/s. National Stock Exchange of India Ltd
“Exchange Plaza”, Bandra – Kurla Complex
Bandra (E), Mumbai 400051

Scrip Code: 524816

Scrip Code: NATCOPHARM

Dear Sir/Madam,

Sub:- Transcript of earnings conference call held on 13th November, 2024

Ref:- Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We are herewith enclosing copy of the transcript of the Company's earnings conference call for Q2 FY25 held on 13th November, 2024.

The transcript is also available in the website of the company i.e., www.natcopharma.co.in.

This is for your information and records.

Thanking you,

Yours faithfully,
For NATCO Pharma Limited

Chekuri
Venkat
Ramesh

Digital signature of Chekuri Venkat Ramesh
Date: 2024.11.21
17:07:53 +05'30'

Ch. Venkat Ramesh
Company Secretary &
Compliance Officer



“Natco Pharma Limited
Q2 FY'25 Earnings Conference Call”
November 13, 2024



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

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



Moderator:

Good morning, ladies and gentlemen. Welcome to the NATCO Pharma Q2 FY '25 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be no opportunity for you to ask questions until the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Hrishikesh Patole:

Good morning. Good morning, everyone. On behalf of B&K Securities, I welcome you all to the Q2 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;, Director and CEO; 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 second quarter of FY '25, which ended September 30, 2024.

The disclaimer. 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 say that the material of the call except for the participant questions is the property of NATCO and cannot be recorded or rebroadcast without NATCO's expressed written permission.

I will begin with the results highlights and then followed by an interactive Q&A session. So I hope all of you have received our financials and the press release that was sent earlier out. It's also available on our website.

NATCO recorded consolidated total revenue of INR1,434.9 crores for the second quarter of FY '25 that ended on September 30, 2024, as against INR1,060.8 crores for the same period last year, reflecting a growth of 35.3%. The net profit for the period on a consolidated basis was INR676.5 million as against INR369 crores same period last year, showing a robust growth of about 82%.

The company has shown continued strong growth during the second quarter, primarily driven by export formulation business and its stable domestic pharma business. The Board of Directors has declared a second interim dividend of INR1.5 per equity share for FY '24, '25. The revenue split and details have also been communicated earlier.

So we'll pause here and take your questions. Thank you all.



Moderator: Thank you. The first question is from the line of Ankit Minocha from Adezi Ventures Family Office. Please go ahead.

Ankit Minocha: Congratulations on a fantastic set of numbers. Just looking at Q3 for last year. I think Q3 for last year was sequentially a lot weaker versus Q2 of last year, but then much stronger Y-o-Y with over 50% top line growth. So from what you're saying on the ground currently, should we expect a similar trend for Q3 this year in terms of strong Y-o-Y growth?

Rajeev Nannapaneni: I mean, the quarter is still running. So it's very tough to judge. But most of our revenue in this quarter is a little bit less. So, I think we'll have some tail that's left for the December ending quarter. Again, I can't give you guidance on a number. But overall, we have said that will grow reasonably well and would grow by 20% compared to last year. We will stick to the same guidance. That's about it.

Moderator: The next question is from the line of Nirali Shah from Ashika Stock Broking.

Nirali Shah: Congratulation on great numbers. My first question is on Revlimid. So how is the market share for Revlimid evolved in the second quarter compared to first quarter. And as we had mentioned that we are expecting a ramp-up of almost capturing 1/3 of the market share by January. So are there any challenges that you are observing here or everything is going on smoothly?

Rajeev Nannapaneni: So far so good. I mean, things are reasonably well. I think we've done all right. at least for this financial year, we don't expect any challenges. Next year, we'll see. I think once we'll have more clarity maybe around March or April of next year, we'll speak to our partner and try to get more guidance on how things are going to be, and so far, so good.

Nirali Shah: Contribution from Revlimid in second quarter, is it higher than the first quarter or it's in the same line?

Rajeev Nannapaneni: We don't give guidance, it's likely in the same range.

Nirali Shah: Okay. And as you mentioned to the earlier participant about the volume that we have adjusted. If you could give any percentage on how much of the volume has already been adjusted in the first half and how much is remaining?

Rajeev Nannapaneni: Generally, we don't do that. We don't give that much detail. I think most of it is done. Some tail is left. I think that's the position I am taking.

Nirali Shah: Okay. Okay. And my second question is, what's the progress on high-value product filings that will essentially be bridging the gap post-Revlimid? And also the IP, you can see that Tabrecta has come in as its sole FTF alongside Kyprolis and Jevtana in the shared FTF pipeline. So any color on the all of these 3?

Rajeev Nannapaneni: So I didn't understand the question, so I'll just paraphrase so that I got you correctly. So you're asking me what is the pipeline post-Revlimid? And the second question is you asked, you said something about another company, which product I couldn't catch, could you say that again, please?



Nirali Shah: Yes. I'm saying post-Revlimid pipeline. So any update on the litigation portion or the filing portion? So we do the huge pipeline post-Revlimid. Any update on that? And if I can ask the second question post this one?

Rajeev Nannapaneni: I mean post-Revlimid, I think, obviously, the biggest one is Semaglutide. So, there are two formulations of Semaglutide, of which one formulation we have is already there in the public domain, and the second one is not settled yet. And the one that is settled, I think two strengths we have sole FTF and other strengths we have shared FTF.

The one that is not settled, we are sole FTF, so that's still under litigation. That's a big one and then in addition to that, another big one is Olaparib. So, this one, again, we're awaiting approval. And the trial is set, I think the trial date is set up in a year after from now or 1.5 years from now. I don't recollect the date, but that's about that.

Then we have some smaller filings like Carfilzomib 10-milligram, Bosentan 32 milligram. So, these are also expected in the next few years. So then maybe another large one where we have 100% of economics is Erdafitinib and Capmatinib. So those are at a very early stage right now.

I think these are the major ones. Hopefully, in the next 1.5, 2 years, we expect to file 2, 3 very interesting products. So then, we have a good visibility for the next 8 to 10 years, at least we have 6 or 7 very interesting filings.

Nirali Shah: Understood. And the third that I wanted to ask was that in the IP, we are seeing there's 1 addition to the sole FTF and there's 2 additions to the shared FTF pipeline. I guess Tabrecta is the 1 for sole FTF and Kyprolis and Jevtana in the shared FTF pipeline. So any color on this based on the time lines or general litigation, anything meaningful?

Rajeev Nannapaneni: No, I can't comment.

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

Saumil Shah: Congrats on a very good set of numbers. Sir, last month, we had given a notification that Mylan and Novo have reached on a settlement for the Ozempic drug. So could you throw some light by when we can expect this product in India market and by when in U.S. market? When do we expect to get FDA approval? Any time lines or your views on the development?

Rajeev Nannapaneni: The launch date is confidential, so we can't answer that question. The review is ongoing with the U.S. FDA. So, at this time, I can't share any timelines. The last question, India launch, I think the compound expiry is in '26. So, if all goes well, we will get the regulatory approval. And I think, if we don't have any other challenges, I think we should be able to launch post '26.

Saumil Shah: Okay. So if no challenges, then by FY '27, we can expect?

Rajeev Nannapaneni: I think so. I think '26 earlier, is the patent expiry. I don't recollect so much but something like that. Assuming we get the regulatory and there are no other challenges, yes.

Saumil Shah: And sir, what is the market size currently for India market?



Rajeev Nannapaneni:

Obviously, right now, the supply from the innovator has been limited. So, we don't really know the true size of the market. Second, once the India generics come, the pricing also will be competitive. So, we're actually creating a new market.

So, I think it will be interesting. But there'll also be enough competition as well. So, I would like to be guarded in saying anything. But it will be a good product. We hope to be in the first phase. And as you know, we have filed it with the DCGI, so the review is ongoing. So, I think I'm positive. Let's see how things go.

Saumil Shah:

So as of now, we are the only ones who've got the approval for India market?

Rajeev Nannapaneni:

Nobody got approval, my friend. Everybody has filed it in India. I mean, Reddy's has filed, I know Sun has filed, we have filed. These are some companies I named. I'm not naming everyone. So, we should assume that most these guys will turn up on the first phase. but as I said, the market is interesting enough, so we'll have to see how things go.

Saumil Shah:

Okay. Okay. And sir, how do you see our December quarter?

Moderator:

Sorry to interrupt, Mr. Saumil Shah, may we request that you return to the question queue.

Rajeev Nannapaneni:

Yes. I got the question. I'll answer it. yes, December quarter.

Saumil Shah:

No, but last December, there were some tenders. Let me complete. So last December, we had 1 of revenue due to some tender in last quarter of -- I mean, December quarter. So can we expect any sort of tenders in this quarter?

Rajeev Nannapaneni:

I can't answer that question directly. I think December quarter will be weaker than Q2, that much I can tell you and we have some tail that is left. That's the best I can answer. And I think the new guidance we have given that we'll do 20% better than last year.

Saumil Shah:

20% revenue growth, right?

Rajeev Nannapaneni:

Profitability growth, PAT growth at the beginning of the year.

Moderator:

The next question is from the line of Jash from Dalal & Broacha Stock Broking.

Jash:

Sir, congratulations on the great set of numbers. Sir, the first question is the semaglutide for the partnered FTF. Now that we had settled with the innovator, what should be the rough time line for the launch? I'm not pinning you on any numbers. So -- I mean, is it in the next 1 to 3 years, 3 to 5 years or next beyond 5 years? Broader time line. I am not pinning you on any numbers.

Rajeev Nannapaneni:

No, my friend, I can't answer that question. It's bound by confidentiality. Sorry.

Jash:

Okay. Okay. No issue, sir. And sir, the second question on the sizable launches that we highlighted in the last quarter. I'm talking about Olaparib. So if I heard it correctly, we have already filed and we are waiting for the approval?



Rajeev Nannapaneni:

We have filed the product. Yes, that's correct. And just waiting for review. And then in the last call, we also said that it was filed from our Kothur site, and we moved the site. We moved it to partner site, we moved it to Alembic site now because of the warning letter we have had. So that amendment also has been filed with the FDA. So hopefully if all goes well, I think, hopefully we will get approval sometime. And then the outcome of the litigation, I think these are two driving factors.

Jash:

Okay. And sir, so on the -- so because this is the partner product, what should be the economics for the same?

Rajeev Nannapaneni:

For Olaparib, you're saying?

Jash:

Yes.

Rajeev Nannapaneni:

Olaparib is 50-50 with Alembic.

Moderator:

The next question is from the line of Kunal Randeria from Axis Capital.

Kunal Randeria:

Rajeev, first 1 on semaglutide. So if you can share how many markets you would be targeting in 2026. Would it just be India? Would it also be Canada and some of the emerging markets? And then secondly, how do you intend to distribute this product because you do not have a sales force strength in a lot of these markets?

Rajeev Nannapaneni:

I think the biggest opportunity we see for this product right now is in India and U.S. and Mylan has the rights for the regulated market. So, they'll open up and they actually opened up, I'm seeing some RoW opportunity, but not as much as like what other people are projecting.

I think for our business model that we have had, I think, U.S. is probably the biggest one. And I think second will be India and then maybe regulated market. I think this is the strategy that we have.

Kunal Randeria:

But India, you may need to add field force for this? Or you want to partner with someone here?

Rajeev Nannapaneni:

Sorry, could you say that question again, please?

Kunal Randeria:

In India, do you have the field force to market this? Or do you have to partner with someone?

Rajeev Nannapaneni:

I mean we have set it up and we have the setup, we have been covering cardio and endocrinologist for the last few years. The advantage is our own products. So, we're making it ourselves. So, we control a lot of the manufacturing aspect of it. How well we'll do and all, I mean, the market is going to be large enough. So, I think we should do well. I think there is a reasonable opportunity in the front end and the reasonable opportunity in third party as well. So hopefully, I think as long as we're in first wave and if we get it right, I think we should be good.

Kunal Randeria:

Got it. Now my second question is on financial. Now so Rajeev, just on your financials. Now if I were to look at some of your international formulation revenue like India or API. So before we launch Revlimid till date, they have not really grown. While a lot of expenses, like staff cost,



SG&A has gone up like before. So I do understand that you have been investing for future growth.

But if I were to, for a moment, exclude Revlimid profits from your numbers, would it be fair to assume that the ex Revlimid business will not be making a lot of money for you on the bottom line?

Rajeev Nannapaneni: As you rightly said, the expenses are overstated because we're spending lot more on R&D. For example, this quarter, we spent just on R&D, bio-studies and exhibit batches, we spent almost INR100 crores, INR125 crores.

If Revlimid wasn't there, then I don't think we could have spent so much money on R&D, okay? So if you say we'll be able to do the same amount of R&D if Revlimid was not there? Probably not. So I think you need to sort of balance the, what it's called, the expenses with respect to the income that we are generating. See, I think in terms of our future, we have a good pipeline. We're going to have years of volatility. I'm not going to come and tell you if a particular product falls off, then obviously, there will be an impact on the earnings.

But we always look for the long-term portfolio and we look at R&D ideas which we'll be rewarding. But in the near term, they don't reward. So, you're going to see volatility. I mean there's no way I can't avoid that situation. But you got to take a long-term view in our business. You will see ups and downs; I think that's how you're looking at it.

Kunal Randeria: No, fair comment. I mean my only point was, since you have the Revlimid cushion, you are spending a lot more. So -- but if I were to just for mathematical sake, exclude Revlimid profits, you would not be making too much money. That was my question, actually.

Rajeev Nannapaneni: I'll have a caveat to that. if you don't have a big product, then you can't spend on R&D also, so then the expenses also get reduced by that much. I mean you can't say that I'll spend like a lot of money, but I don't have a profit. You only spend if you make the money. Both are interlinked, right? So how does that work. That's how it is.

Moderator: The next question is from the line of Bino P from Elara Capital.

Bino P.: Rajeev, I have been just thinking ahead on generic revenue mix. Our revenues are mostly coming in 1Q and 4Q. So when I look forward to FY '26, next financial year, by 4Q the exclusivity will be gone. So practically, we will be -- our Revlimid revenues would be only in the first half or 1Q. So does that mean that FY '26 over FY '25, Revlimid would be slightly lower?

Rajeev Nannapaneni: I don't know, my friend. I have no idea because you also know that our market share will go to 1/3 of the whole market. So, I think that is one factor. What the price erosion next year is going to be is something that I can't judge. I don't have an answer to your question. I can only say, I think this year, we should do well, next year also we should do well. How well we'll do is I don't know. But overall, I would say that we will do well. '27, '28 is going to be a challenge because let us assume that the price erosion is more, again, we don't know how the future holds.

But obviously, we have to build other pipeline. Hopefully, the other products will start coming in and other markets that we have invested in should open up and we will have the cash on books. So hopefully we will be able to do an acquisition, we can bring some accretive earnings. So, I think that's how we have to look at it.

Bino P.:

Understood. So suppose we assume that there is no significant change in price erosion. Of course, you get some volume share increase that you get. Would that first half be big enough to compensate for the 2 legs of Revlimid assuming everything is still the same?

Rajeev Nannapaneni:

As I said, I don't have an answer to that question. So, it's very tough to predict what the price erosion will be in the future, right? So, see, you're asking me questions, which are very hypothetical, which only time will tell. I think we'll see how things go.

Moderator:

The next question is from the line of Hrishit Jhaveri from Pi Square Investments.

Hrishit Jhaveri:

Congratulations for the good set of numbers. I had 2 questions. First, can you give a highlight of the new investment into the eGenesis, the biotech company? What's your plan here?

Rajeev Nannapaneni:

I think you know, I think as our investors know, we do a lot of disruptive ideas which can reward very large if the ideas work I think that's always been a focus of the company.

We never think in terms of near term. we always think about long term. And I think all our ideas are 5 years, 7 years, 8 years away. But I think when they come big. I think among those ideas, this is one of the very interesting ideas that I saw. as you see this there, they have genetically modified a pig and looking at doing organ transplant primarily for kidney and liver. And so, they see a huge upside if this technology works.

As you know, there's a lot of shortage of organs for kidney and liver, and they're able to demonstrate that it can be safely done, I think the upside is tremendous. So, I think we like investing in disruptive ideas and interesting ideas. And the investment is part of that philosophy.

So if it works, the investment is worth multi-fold of what we invested. If it doesn't work, it is what it is. So, I think the idea is always good for those large payoffs. And the idea in the balance sheet is that I have 10 ideas like this that work for the next 10 years. I think your next 10 years are sorted. I think the other person has asked me, what are your next big ideas? Plug in. Right now, we have Revlimid. In between we'll have Olaparib, then we have Semaglutide.

Maybe in the next few years, we might have Ibrutinib, then we have Capmatinib and Erdafitinib, which are large ideas. And then we throw in a couple of new R&D areas like. eGenesis investment and so then you have a box of 10, 15 ideas. So even if you're able to pull off 6 or 7 ideas in the next 8 to 10 years, I think you have done a great job.

But again, what I say has a high amount of risk. At the same time, the payoffs are very large. Two, there's a lot of volatility because you're going to have a year, then none of these ideas are coming through, then you're going to have some different earnings. But you got to live with it. But if we take a long-term view on these ideas, if they work, we have consistently delivered over



the last few years. And as you are aware, we delivered, for example, Copaxone or Tamiflu in the past, which have added very trusting sort of earnings. So, I think we can only discuss what we are doing. And as I said there's always an element of volatility.

Hrishit Jhaveri: Understood, sir. And the second question, do we plan any major M&A coming here in the next year. We have a lot of cash on our books.

Rajeev Nannapaneni: Absolutely, we can. I'm just looking for the right idea. I think we are very comfortable right now just spending money on R&D and these sort of start-up ideas., in addition to that, we also invested in a CAR-T company in based out of Delhi as well.

So I mean, these are the flavors of things that we're doing, yes. Coming back to what you said, we're always looking. I mean we have enough cash on books, and so I think we are accruing more cash. So as of end of September, I think we have about INR2,600 crores of cash. And let's see how things go, yes. So I think it will only increase as the year-end.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities.

Abdulkader Puranwala: I just wanted to understand the performance of your subsidiaries for this particular quarter. I'm referring to your Brazil and Canadian facilities.

Rajeev Nannapaneni: All the subs together have done INR120 crores of our top line.

Abdulkader Puranwala: Okay. And how would be this against last year same quarter?

Rajeev Nannapaneni: Let me just check. I don't have that number, my friend. Things will be stable, that's all I can say.

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

Saumil Shah: Sir, would you not like to revise our guidance? We are guiding for 20% PAT growth. And on TTM basis, we are already at 40% PAT growth. So does this mean that kind of this is going to be a degrowth compared to the second half of previous year?

Rajeev Nannapaneni: No, I think I've been conservative. I think we should do better as the guidance I gave early part of the year, we have done much better than we thought. I'll have more clarity on how the earnings are going to be maybe when our December numbers are there.

So, I don't want to comment right now. I think once we have more clarity on this, sure we will comment. Give me some time on that. But you're right, I think we are going to probably do better than what we have guided.

Saumil Shah: Okay. And sir, we have no filing...

Rajeev Nannapaneni: how much better I'll tell you in the next quarter.

Saumil Shah: Next quarter? Okay. Okay. You are doing a good job. Sir, we have a new filing in this quarter. Sir, the Tabrecta. So, can you please throw some light? You have indicated in your filing that



we are eligible for 180 days of sole marketing at the time of launch. So, what do you mean by that? And by when we can expect this launch? Any approximate guesswork?

Rajeev Nannapaneni:

Again, the litigation outcome is going to drive it. I think product is about INR110 million, INR120 million. I don't collect the exact sale. And it is sole FTF, and this is going to be marketed by our entity in the U.S. So we get to keep 100% economics. So that's what makes it very interesting. And when the market open up and all, it all depends on the litigation clarity. I think it's too early stage at this point. I'll come back on that.

Moderator:

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

Nitin Agarwal:

Rajeev, in the past, you talked about looking to scale up your emerging market business. So 2 things, I mean, what are your thoughts on maybe some of the portfolio products that you have for the U.S. right now filings. I mean, which of these -- do you see an opportunity for some of these and all of these products in these other non-U.S. markets? And what other strategies do you have in mind for growing this part of the business?

Rajeev Nannapaneni:

Actually, that's the idea in whatever you do and develop in the U.S. market, we're extending to other markets. So for example, we did Olaparib and then we are extending that to Brazil and Canada, for example and other ROW markets. So I think that's how the strategy works because whatever R&D money you spend, you extend it to as many countries as possible.

So I think we're doing filings of these very good products that we have in multiple markets. The strategy is that you should file in at least 7 to 8 good countries and then somewhere -- we'll hit a jackpot somewhere.

Our core areas that we're focusing on in addition to India, U.S., Canada and Brazil, I think we're doing a lot of work in Middle East now, especially Saudi, we have a partner in Boston Oncology and we have our own subs now in Philippines and in Indonesia. So we are looking to extend it there as well. So I think this is where we see a lot of potential. And we've also done some filings in China as well. So these are other markets that we are focusing on. But again, these are all partnered out. So I think there is a lot of potential, absolutely.

Nitin Agarwal:

And do you have any numbers in mind for how large you see this business probably becoming this non-U.S. business over a period of time, maybe 3 to 5 years?

Rajeev Nannapaneni:

I don't have a number in mind at this time. But I think we are organically trying to build these businesses. But I think we're looking at an acquisition in these markets. At this time, we are looking at a couple of acquisitions in the RoW business. So, it will be in combination with filing and an acquisition, we believe that these businesses should grow.

Nitin Agarwal:

Okay. And lastly, on the crop protection. Any color you throw on that?

Rajeev Nannapaneni:

It's been a little disappointing. I think the sales -- we have done well overall, because last year was the first full year of operations with our core portfolio, we saw a little bit of returns around. We had to adjust for the returns. That's the reason why the sale was on the lower side. But I think



we have launched 2, 3 new products which are unique. So, I think we expect that the business should do well. We're hoping that this business will break even starting from '26 March, and '27 March is our target of profitability.

See, a lot of these businesses that we're building, you will have cash flow in the near term. But I think eventually, with time, as we were just speaking about a few minutes ago, I think once these businesses start to make money as the base business becomes stronger. So, I think what we're doing is using this opportunity that we have to build these businesses from scratch and secular and then also spend money on R&D so that we can improve our pipeline for the future.

Moderator: The next question is from the line of Abhishek from Oaklane Capital.

Abhishek: So first of all, congratulations on the great quarter. I just want to ask 1 question about the operating margins. So I am seeing that the operating margin has increased to 60% in the last 2 quarters. So do you think these margins are sustainable in the future?

Rajeev Nannapaneni: I answered that question a few minutes ago, but I'll just repeat the answer. I think it all depends on our portfolio and the pricing. If the pricing is good, and we have a good product, it will work. And I think we said that this year should be fine, '26 also should be fine. But what the future holds, we don't know. It all depends on how the market formation is and what the erosion is. So you could see a dip, but it's the nature of the beast.

Abhishek: Okay. Then what average margin we can expect in this year and the next year?

Rajeev Nannapaneni: No, it will maintain the same margin that we have, I think with this year and next year.

Abhishek: 60%, right?

Rajeev Nannapaneni: Yes. Whatever we have right now, we'll maintain. But I think what future holds again, it all depends on what products we have at that time, what is the nature of the portfolio, what's the nature of the price erosion and all that stuff. So, to answer your question, for now I say, yes, I think things will do well. But again, what the future holds is all contingent on the pipeline and on the price erosion.

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

Rohit: Sir, just you mentioned to a previous participant in terms of the way you think about the business taking sort of these sort of moonshots and some of them in place payout. So I'm just -- in that context, I wanted to get your sense on some of the NCEs that we have and anything -- any update on the 2694 NRC that we have? Also, if you can share, actually, it was in Phase II trial. So if you can answer these 2 questions.

I mean for the broader context, I mean, do you see your NCE portfolio as like a part of that overall like the moonshot that you're talking about? And do you consider that or it's just too early to say? And specifically on the MCL?



Rajeev Nannapaneni:

Yes, certainly. I mean, this is another moonshot. It's just like our eGenesis investment. I think NRC-2694, there's a clinical trial going on. We're doing the trial in the U.S. at this time. It is for a particular late-stage head and neck cancer indication. It's an early stage. That's why we're not talking much about it.

I think we'll give an update as things go along. It comes back to the same point that I made a few minutes ago. I think our generic filings are -- moonshot is a little harsh word, I would believe. I think there's some method to the madness. It is not moonshot.

But as I said, I mean you have 2, 3 ideas in drug discovery, and then you have 5, 6 ideas with your para IV's and then you have 2, 3 ideas in oligos. Between all these 10 ideas, you don't want be wrong about every product every time, right? You want to get something right.

And I think the idea here is that you build up all these 10 to 15 businesses -- sorry, 10 to 15 products and then even if you get 7 or 8 right over a period of decade, I think you've done a great job. If you look at our profitability, I mean, I can be a little modest in telling that our margins and our profitability is definitely the top 10 pharma companies in India. But again, what you need to live with as an investor is probably the volatility. I think the challenge that we face in our business is that we are not consistent.

I mean we'll have 3, 4 good years and we'll have 2 years of dip, and again then we'll have to 3 good years again but I think that's the nature of the risk that we take. I think hopefully, we build enough of the pipeline with the R&D that we have that we're able to deliver more consistently. I mean that's what we're trying to do. In my personal view, I guess, this is a very a minority view, but this is my personal view that me-to-commodity generic business, it's not going to make money. And the model that we are doing as Indian pharma, where you have everybody filing everything and covering every geography, to expect earnings growth on that portfolio is extremely difficult.

And I believe that unless you pursue what we are pursuing, and obviously, we can do it at different degrees of what we call depth on how you allocate your capital. I don't think we'll ever have earnings. I think if you look at most Indian pharma today, we remove the jackpots, those 2, 3 jackpots or whatever, the earnings growth is minimal.

There's no impact to earnings growth. In fact, it's degrowth. And that's the nature of the industry because the industry is very competitive to nobody has debt. So, everybody is very aggressive, and everybody makes cash flows. I mean, there's very little margin left. So, this is the structure of the business, and I believe that it's the only way the future grows. Did I answer your question exactly?

Rohit:

No, no, it does. I mean, I hear what you said. And I mean, of course, you would much better than any of us here. So, I respect your view. I think, sir, just a point on our volatility, I think, I mean, others also fall, but I think given their portfolio and given their breadth of the portfolio, I think the fall is still kind of arrested. And I think that's where we are sort of found wanting, at this stage of our evolution. So I mean that is probably what we all are sort of asking in different ways. So yes, I mean, that's it.



Rajeev Nannapaneni:

Again, you don't want to avoid the elephant in the room. I mean I can't come and say, I should have this much based business and all, you can't create a business that you don't have. You know what I mean, it takes time and it has its own journey.

From the size of the firm that we have grown, we have on the size that we have because of the disruptions that we've done. And so it is what it is. I mean, hopefully, I think over a period of time, with the cash that we have and with the R&D spend that we'll have, we'll be able to bring that a little more stability. But again, it comes back to the original point, we'll not have growth unless we do disruptive products. But again, I'll reemphasize again. If you remove the big products, the niche products, there's no growth in the business. I think that's the nature of the industry.

Rohit:

Sure. Maybe can I sneak in 1 more question. I don't know if you -- can I sneak in 1 more question?

Rajeev Nannapaneni:

Yes, please conclude.

Rohit:

I mean just on this point on your base profitability. I mean, would you want to sort of share what is that base profitability today? I know you mentioned that like we are investing a lot. But I'm sure you are also looking at like, I mean, instead of the investment that we are doing in R&D. If we are to look at ex Revlimid or however you want to put it, what's your base profitability today? I mean you would on sort of share anything on that? And how do you see this...

Rajeev Nannapaneni:

I can't answer that question because you're asking me what the earnings are going to be 2 years, 3 years down the line. I have no idea. I mean it all depends on what products you have.

I think the whole base profitability concept, you need to remove. I think that it's a wrong notion that people have. You are as good as what products you have. And what product you have that year is what sort of drive your earnings and every year, you need to come up with something new. There's nothing like it's not a cement or steel business that you'll have certain output that you'll get and this business is constant innovation. You need to have new products because whatever you have right now will just vanish.

If you just look at your own balance sheet, I mean, I can challenge you on any balance sheet. If you look at your own core portfolio, whatever you have on your base goes away 30%, 40% of it goes away in 5 years. So just if you ask me, I don't think it's the correct question. I think you need to judge a person on the pipeline, not on the base. Base means nothing. Base erode continuously, especially in the export business. It's brutal. It just erodes way. We just have to keep coming up with new ones.

Moderator:

The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta:

Congratulations for a good set of numbers. So my question was on the sema, Ozempic and Wegovy. So are we done with all the litigations on the Ozempic side for both -- in all device as well as API?



Rajeev Nannapaneni: I think 1 product we are done with all the litigations. Other products we're not. So one we have settled, one we have not.

Ankit Gupta: But Ozempic is all settled for both API as well as device?

Rajeev Nannapaneni: I think one product we are settled and one we are not settled.

Ankit Gupta: Okay. Okay. Okay. So I think most likely diabetes would be settled is what I can assume?

Rajeev Nannapaneni: I think diabetes is settled. I think the weight-loss is not settled, yes.

Ankit Gupta: Sure. And any time lines for that?

Rajeev Nannapaneni: No, my friend. We can't answer that question.

Moderator: The next question is from the line of Bhagwat from Prosperity Wealth Management Private Limited. Please go ahead.

Bhagwat: Congrats for the very good quarter results. Sir, you mentioned about the EBITDA margin to the previous participant. In fact, my question was on the revenue. So if possible, could you please guide us for revenue growth, say, for the midterm next 2 to 3 years?

Rajeev Nannapaneni: Next 2?

Bhagwat: 2 to 3 years in the midterm?

Rajeev Nannapaneni: I can't think so far, my friend. There are so many moving parts, we can't make that judgment. I'll tell you for next quarter, I can tell you for this year. And maybe in the end of the year, when the year starts with the following year, I think we'll tell you about the following year. I will not give guidance. Sorry.

Moderator: The next question is from the line of Manthan Rastogi from Alpha Wealth.

Manthan Rastogi: My question is what we are doing on our growing our domestic business because it has been on a base line for a couple of quarters now.

Rajeev Nannapaneni: I think it's been stable. Unfortunately, we've not grown. I think we have a good pipeline coming up in the next 12 months. We have a lot of 3, 4 big launches. And obviously, Semaglutide is one of the biggest launch we have. So, I think my expectation is that Semaglutide should really jump start this business. That's probably the biggest launch we have.

But we also have some smaller launches. So, if you take a 2- to 3-year perspective, I think the business should do well. We expect the business to compound at 15%, 20%. I know the numbers look flat right now. But I think we take a patient, I think, in 2, 3 years, again, it comes back to what I was saying. It's all about our pipeline. You will only get growth if you have a good product.



If you don't have a product launch, there's no growth in the business. And it's true in domestic also and it's true for export market. So that's how it works. Without pipeline, you have nothing. And you need to have pipeline where you're backward integrated doing your own manufacturing, only then you have margin. Otherwise, there is no margin also.

So, I think the key here is that we need good pipeline, which allows you to sustain growth, and which I believe we have. Just that you just have to wait until it actually comes. So that's a patient scale you had to play.

Manthan Rastogi: Right. Got it. Just one more question. Are you facing any issues from Canada subsidiary with India, Canada?

Rajeev Nannapaneni: Because of the diplomatic issues?

Manthan Rastogi: Yes, diplomatic issue, yes.

Rajeev Nannapaneni: No, not at this time.

Moderator: The next question is from the line of Rajesh Jain from RK Capital.

Rajesh Jain: I have 2 questions. So the first question is like, what could be the impact of the biopharma on NATCO Pharma business in your assessment?

Rajeev Nannapaneni: As of now, no. Because the biopharma portfolio is not there. We don't have biopharma portfolio on our products. So I don't see much impact. But again, it's more now Trump has come. So, we have to see how and what disruption that will cause in the generic business, we don't know. So we have to be cautious about what's going to happen.

But as of now, specific to that act, no. But what the future holds, I don't know. We'll see how things play out.

Rajesh Jain: Okay. The second question is, how is your agro business doing? And what is the outlook for FY '26 specifically on the agro side?

Rajeev Nannapaneni: I think we believe right now it's doing okay. We're still losing money. If you take us all the one time write-off and all that, I think we're losing about INR40 crores, INR50 crores a year. I think the objective first is that by '26 March, we want to break even. I think that is the internal objective that we have given in the group. So we expect that it will break even I think. So to answer your question, yes, I think '26 March is our target that we should break even in that business.

Moderator: The next question is from the line of Ankit Minocha for Adezi Ventures Family Office.

Ankit Minocha: So you were talking to a previous participant about maintenance of the margin in FY '26 as well. Are you assuming any pricing erosion in Revlimid when you say that? Or it depends on the pricing erosion as you're able to maintain that?



Rajeev Nannapaneni:

I don't know what the answer to that question is. What I said is that we have nearly 1/3 share, and we'll see how the erosion is. Overall, we are expecting that we should do all right. But again, we'll have clarity next year post March earnings, I think we'll have clarity on how the following year is going to be. But yes, we'll see how things move. It's very hard to judge the market. It's all linked with the market erosion, which is not in our control and hard to judge.

Ankit Minocha:

Sure. Sure. And secondly, just a general understanding about the industry, the generic industry in the U.S. I mean last year was good in terms of the pricing environment. But are we seeing any acceleration of pricing erosion in the U.S. market is now starting to come in this year? Or do you feel the pricing environment is still pretty stable?

Rajeev Nannapaneni:

Overall, the business, I think you have a good portfolio and breadth of portfolio, you do reasonably well. I think that's one. The second thing is you need to have good pipelines, which are first wave generics, which gives you a good amount of profitability. I think these are the 2 ways that you actually make money in this business. But I think your new pipeline is what drives the profitability. Without that, I don't think you have that push in the audience. So these 2 things are required. I think that's how it works.

Moderator:

The next question is from the line of Jash from Dalal & Broacha Stock Broking.

Jash:

So just a broader question. By FY '26, we will have about \$400 million, \$500 million of cash potentially. So what is the potential size of the acquisition we're looking? Any broad color?

Rajeev Nannapaneni:

Good question. I don't know. We're looking at different levels of transactions. I mean, if the size is bigger, then we can use the cash and give you the combination and maybe debt and then maybe some equity too. It all depends.

I mean, we're looking at one transaction, which is about \$3 million transaction, we are looking at one transaction which is about \$5 million, \$6 million. So I mean, you get different types of transactions. But what you consummate in the end it all depends on if we're able to take you on the price and the diligence goes well.

So we're open to any size of transaction. But I think if you want to range, this is the range. But again, we have not closed anything, so it's very difficult to say that this is going to happen. So it's very hard to judge. But looking at different kinds of transactions because of the cash that we have, allows us more flexibility to do something large. That is clear.

Jash:

Okay. And anything on the table right now?

Rajeev Nannapaneni:

Sorry, say that again?

Jash:

Anything on the table right now?

Rajeev Nannapaneni:

We're looking at different transaction. I mean we're not closing anything at this time.

Moderator:

The next question is from the line of Rahul Chaudhari, an Individual Investor.



Rahul Chaudhari: Sir, just picking up on the last caller. So when you said 300 million, you mean USD 300 million range?

Rajeev Nannapaneni: Yes.

Rahul Chaudhari: That's good. Great. Sir, I was just comparing how we did the Revlimid, the deal. Is it fair to assume that the Ozempic and Wigovy in U.S. is losing exclusivity in 2031? As of now, the information is public domain.

Rajeev Nannapaneni: There are multiple patents. I think there's some patents in '31, there are some in '33 and some in '35. I don't recollect the dates, yes. But there are over a period of time.

Rahul Chaudhari: Okay. So we can't do an educated guess and say like in 4 years, how we did in Revlimid, this should also start doing all right, sir. Okay.

Rajeev Nannapaneni: I'll take one last question.

Moderator: We take the next question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Sir, my question was again on the Ozempic side. Like I think because of the device enrollment, if there is any different in the device with respect to innovators, we might have to carry on human factor study. So do you see any risk in that because it's a big product and a lot of supply constraints are there, and then they are big products. So I just wanted to ask, is there any human factor study, any risk in human factor studies, if there is any differences?

Rajeev Nannapaneni: I can't discuss about the regulatory review questions and all that.

Ankit Gupta: But as of now, you're confident of launching?

Rajeev Nannapaneni: I can say that we'll do what it takes to get it approved. I think our partner Mylan is handling the regulatory assets of this. And whatever it takes to get this approved.

Ankit Gupta: Okay. And you remain confident?

Rajeev Nannapaneni: Yes. We address the right partner, and they have bought a lot of complex endings approved. And I think we are in good hands, and I think we will get it done, yes. Can we conclude, please? Thank you.

Moderator: Sure. Would you like to add any closing remarks?

Rajeev Nannapaneni: No, nothing. Thanks for your interest, and thanks for the call.

Hrishikesh Patole: Yes. Thank you all. Again, the transcripts, once it's available, will be uploaded to the website. Thank you all and have a good day.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines.