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13th February, 2023

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Dear Sir

Sub:- Transcript of earnings conference call held on 10th February, 2023
Ref:- Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

We are herewith enclosing copy of the transcript of the Company's earnings conference call for Q3 FY23 held on 10th February, 2023. This transcript is also uploaded on our website www.natcopharma.co.in.

Thanking you

Yours faithfully
For NATCO Pharma Limited

CHEKURI
VENKAT
RAMESH

Ch. Venkat Ramesh
Company Secretary &
Compliance Officer

“Natco Pharma Limited

. Q3 FY '23 Earnings Conference Call”

February 10, 2023

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

MODERATOR: **MR. KUNAL RANDERIA – NUVAMA WEALTH**

Moderator: Ladies and gentlemen, good day and welcome to NATCO Pharma Limited Q3 FY '23 Earnings Conference Call hosted by Nuvama Wealth. 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. Kunal Randeria from Nuvama Wealth. Thank you, and over to you, sir.

Kunal Randeria: Thank you, Vivian, and good morning, everyone. On behalf of Nuvama Institutional Securities, I welcome you all for NATCO Pharma's Q3 FY '23 Earnings Call. So with us today we have NATCO Pharma's senior management team represented by Mr. Rajeev Nannapaneni, Director and Chief Executive Officer: and Mr. Rajesh Chebiyam, Executive Vice President, Crop Health Science. Over to you, Rajesh, for opening remarks.

Rajesh Chebiyam: Thank you, Kunal. Good morning and welcome everyone to NATCO's conference call discussing our earnings results for the third quarter of FY '23. 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 would like to state that the material of the call, except for the participant questions, property of NATCO, cannot be recorded or broadcast without NATCO's expressed written permission .We'll begin with the results highlights and followed by an interactive Q&A session. So, again, we hope you have received our financials and the press release that was sent earlier. It's also available on our website.

NATCO recorded consolidated total revenue of INR 513.3 crores for the third quarter ended 31 December 2022 as against INR 590.7 crores for the same period last year. That had a one-time licensing fee revenue. Net profit for the period on a consolidated basis was INR 62.3 crores as against INR 80.4 crores same period last year.

For the nine months ending December 31, '22, the company actually recorded a total revenue of INR 1,884.8 crores as against INR 1,433.2 crores same period last year, reflecting almost 31.5% growth. And on the net profit side, the company recorded INR 439.5 crores as against INR 220.5 crores, reflecting almost 100% improvement in PAT. On the segment and revenue split, this has already been shared with you. We'll pause here and we'll take questions. Thank you.

Moderator: The first question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: A couple of questions from me. One on the employee cost, I believe there's a INR 29 crores one-time VRS. Is this one-time? And if so, ex the VRS, the employee cost ends up being INR 77 crores for the quarter, which is materially lower than the previous quarters?

Rajeev Nannapaneni: VRS, I have to check that number, Tarang. Give me a moment. Let me just check and find out.

Tarang Agrawal: Okay. I'll just take my second question till then. How should we look at accretion in the agrochemical business from here on?

Rajeev Nannapaneni: Let me answer the VRS question. I think that is for the year that charge has happened. In this particular quarter, it doesn't reflect that INR 27 crores charge from what I understand. And so, the consistent salary is what's been shown in this quarter. Okay? And the second question is, how is the agro division? Agro division is doing very well. Even though it's off-season, we couldn't launch because the court clearance took us till October.

So I think we had a good reasonable start. I think we had about little less than INR 10 crores of revenue in that division. I think we feel that it should do very well. I think this quarter, in the January to March quarter and, of course, the coming kharif we'll do extremely well. And our thinking is that, we should do about INR 150 crores to INR 200 crores in this division, which is so far has not contributed any revenues, so this will happen this year in the next 12 months and I think we're very confident. I think everything looks good.

Tarang Agrawal: So, Rajeev, I mean, in terms of your conversations with your B2B customers and the way you must have firmed up your channels. I mean, all of that is in place, correct?

Rajeev Nannapaneni: I think B2B customers are all lined up and I believe I think B2B customers will not -- will make up probably 25% to 30% of sale. I think 65% to 70% of sales will be our direct label, our own label. And the real value is in your own label, Tarang, not selling to B2B customers. And I think we are seeing good traction, we have launched all the combinations, and some of the combinations we are the only product other than the innovators. So, I think we're in very good space and I'm very excited. I think this quarter you will -- we'll see some uptake because of the UP sugar season, I think, and then, of course, the kharif in the next quarter.

So, as you know, in agro, I think a lot of the sales happen in the kharif season. So a lot of the sale will get reflected in this quarter and the next quarter, I think. It will be lumpy in Q4 and Q1 of next year. So I think that's where things are going.

Moderator: The next question Chetan Doshi from Tulsi Capital.

Chetan Doshi: See, of late, if you see last five years of revenue from pharma, there is no big growth coming, except for one-time sales in the current year first quarter. And secondly, our margins are getting suppressed year-on-year, if you see. Now, this development of pesticide is definitely a good idea, but that is how the company is looking for making up the losses or they are planning to have some new development going on in pharma also where high-margin business they are expecting?

Rajeev Nannapaneni: Okay. To answer your question, see, if you look at our earnings five years ago, lot of it used to come from one or two products, it used to come from Tamiflu and little bit from Glatiramer and used to come from few -- and doxorubicin. Practically the earnings of those three products have declined dramatically, as you know. Oseltamivir has completely vanished. Doxorubicin has come down by 85% to 90%. So if you look at, let's say, our balance sheet for 4, 5 years ago, almost 40% to 50% used to come from these big one-time products. So we actually had to redo the models completely. So essentially what we did is, we have built subs in Brazil, we have a sub in Canada, we have build our ROW business, we started the agro business. So essentially, if you look at that business, we have actually build back the same business that we had about five years ago with a more steady state revenue and on top of that we have Revlimid. So I think it's a very dramatic transformation.

I think in terms of what we have done in terms of building a more sustainable wider business. So when you build a sustainable wider business in multiple geographies, which don't have that extra supernormal profit, obviously, the margins are going to be low and there's no way around it. And if you look at this particular quarter, for example, Revlimid is very -- there's no -- very little revenue, but still it's a very steady state revenue that we have, and revenues are equal to what we have, let's say, made about 3, 4 years ago when we had all the one-times. This is without any one-time. So -- but you need to understand something. Okay?

I mean, I say this all the time, but I'll repeat it one more time. The growth in business doesn't happen from base. The growth in this business happens from your super extraordinary pharma mix. I challenge you on this, on any pharma company that look at any company's balance sheet, your base business gives you that minimum margin, which pays the bills and they get normal profit. If you want to get growth, you want to get something special, you need to have something interesting, and that interesting product is what delivers that bump in the earnings. Without that, you'll never have steady growth in earnings or extra profits.

That's the nature of the business because of the competition that is there in this business, because what has happened is, if you look at a product where there are multiple competitors, there's not too much margin to be made in a lot of our key markets, especially the US or even our export business. That's the structure of the business and in a way, I think Street has to get used to it, and even more so pronounced in our balance sheet compared to other people, but more or less that's a structure of the business and this is -- it's across the sector, in my personal opinion. Okay?

Tarang Agrawal: So, in pharma sector, you are not looking for any big growth coming in next 2 to 3 years?

Rajeev Nannapaneni: I'm not saying there is no growth. I think you didn't understand what I'm trying to say. I think what I'm trying to say, you will get growth from your base business and you will get growth from the filings for which you have -- where you have the niche complex filing where you'll have an asset. And these will drive the earnings is what I am saying. If you want earnings growth, it will come from that, not necessarily -- base business cannot contribute for all the growth. It will come from the niche limited competition filings.

Tarang Agrawal: So we are planning to get into some specific areas where we can look for good volumes and margins, both. So some development is going on, on that subject?

Rajeev Nannapaneni: No. What I'm trying to tell you is -- I'm telling the exact opposite. What I'm saying is that, you will get business through diversification and multiple countries that will contribute to some percentage of your growth. But the real growth will come from when you do the niche and the small -- what you call, high-value small-volume products, that's where the real value will come from. So example, we have a lot of Para IV filings and I think we have publicly disclosed.

We are trying to do some couple of FTFs over and above what we already have. And if we deliver like another 3, 4 FTFs, then this whole decade is set. I think our whole concentration is doing more niche hard-to-do generics where we see a lot of value, while we build our base business by expanding our geography.

Tarang Agrawal: One last question, regarding this pesticides...

Moderator: Mr. Doshi, sorry to interrupt, sir.

Tarang Agrawal: One last question, please. See, in this pesticides business, you have written in the presentation is biopesticides, you mean to say that is biodegradable product?

Rajeev Nannapaneni: No. I think that is specifically referring to a particular product. So we have a product called pink bollworm which is a pheromone. So pheromone is, it interferes with the mating of -- it's a naturally occurring product, which interferes with the mating of the insects. Because it interferes with mating of the insects, it reduces the eggs that are laid on the plants, so therefore, there will be less infestation on the plant. It was specifically referring to that particular product.

So the core product, which is driving the earnings which is chlorantraniliprole is not a biopesticide, it is a regular pesticide. I think the flavor of the presentation was trying to tell you that in addition to this, we're also working on products which are bio image.

Rajesh Chebiyam: The Central Insecticides Board actually categorizes the pheromone under the biopesticide, so that's why we're in that. Okay?

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

Nitin Agarwal: Rajeev, now on Revlimid, how should we expect the next couple of quarters? We should start seeing a profit share booking from next -- from Q4 through Q1, like it happened last time?

Rajeev Nannapaneni: Yes, absolutely correct, Nitin. So I think Q4 and Q1 will -- is our expectation and most of the profit share will be booked. We'll -- we already shipped the quantify for our Q1. So I think -- so we'll have a very good Q1 and Q4 and we'll have a very good year. So our expectation is that, this year, overall as a company, I think, we should do about INR 2,700 crores to INR 2,800 crores in top line, and this year PAT also should be I think closer to INR 700 crores this year. I think that's our expectation. Probably our highest revenue and highest PAT in the history of the company. And I think lot of it will be helped by Revlimid that we're going to get in this particular quarter.

Nitin Agarwal: You said INR 700 crores of profit and about -- is this for '24 you meant right or '23?

Rajeev Nannapaneni: '23 March.

Nitin Agarwal: And lastly on the agro chem business, beyond CTPR, how should we think about this business in terms of launches and all incrementally going forward?

Rajeev Nannapaneni: I think, Nitin, CTPR is going to be the base of the business. I think CTPR will set up the business, and this should be the anchor that will allow us to build a larger portfolio. CTPR, its combinations itself, I think there's lot of scope in the next 2 years to build out the business. We have other products in pipeline and we will launch them over next period of next few years, and some of them involve patent litigation as well. So, I think to give you a timeline and what products and all, I think we'll disclose that over a period of time, but I think we are very excited about this possibility. And I think it has a lot of value.

Nitin Agarwal: And do you have, Rajeev, a sense of where the size of the business could be in the next 3 to 5 years overall agro chem piece for you?

Rajeev Nannapaneni: I think next 12 months I think I've stated I think what our expectation is that, this business should do about INR 150 crores to INR 200 crores. Over a period of time, I believe that this business can grow to about INR 400 crores to INR 500 crores, with mostly branded India business driving it and eventually the export also picking up. So I think that's our expectation of this business in the next few years, but I think, to start with, I think this is the number that we are working with.

Moderator: The next question is from the line of Venkat from 3Sigma Financial.

Venkat: Mr. Rajeev, we have been seeing that competitors are able to perform better in the domestic market from the growth point of view, while we are seeing challenges in growth is the problem with pricing or the sales, so what is actually limiting our growth compared to our competitors? And more so in oncology and other divisions, where we have -- where we historically had great leadership position actually?

Rajeev Nannapaneni: Domestic, I think it's always been a challenge for us because we have always done a limited segment. I think we always done a niche segment. I think that's for the challenge, because we did a niche segment I think our growth has been limited. I think now we've expanded the portfolio. Now we are covering GPs, we are doing cardio, we're doing diabeto, which were not done in the past. So I think we launched this division and we have expanded our field force. The benefit of that we will see in the next few years.

Onco has been a lot of competition. I think once you are more spread out in multiple divisions then the impact of a particular segment and the pricing of a particular segment will not impact the balance sheet as much. And we're also looking for an acquisition, Venkat. I think it will take some time. I think we are working on different acquisitions, which allows us better reach and a more deeper portfolio.

We have cash on the books. I mean, we have almost INR 1,030 crores of cash on the books and we have very little debt except for working capital debt, we don't have any debt at all. So, I mean

-- and we're getting more cash coming forward the next year. So I think we'll find something to plug the gap and I think it is going to be a combination of expanding field force and an acquisition, which will drive growth in that business. Okay?

Venkat: Yes. So the other question I wanted to have is, I'm sure you must be doing a competitive analysis on the sales effectiveness. So I'm hoping that periodic reviews in the right tooling is being provided for the sales representatives in the absence of that, the effectiveness may not be really so much actually because for comparable size company also, we are seeing better returns, better sales from other companies. I just wanted to make a comment we're not expecting any response from you, but we see an observation that I have made actually?

Rajeev Nannapaneni: Certainly, I think, Venkat, we could have done much better. I think I don't -- I generally don't run away from the question, so I'll answer it directly. It is what it is. I think we could have done much better. And I think -- but Venkat, you need to structurally also understand our -- we are -- we do domestic, it's not that we don't do domestic, but our strength is the regulated market. If you look at our facilities and all, we specialize in doing patent litigation abroad, we specialize in doing hard-to-do generics.

When you do a hard-to-do generic, typically, these are all niche peptide products where the value proposition is not so big in India. It is big outside India. And if you look at our balance sheet, most of our revenue comes out of US and regulated markets. So it's a challenge, when you do well in that, that sometimes you miss this. I think in hindsight I wish we could have done more things in India, but I think we are fixing it.

See, Venkat, the way I look at this business is, I think we need to build a more diversified business, I think part of that challenge is, you want to build this organically it takes time. It doesn't happen over a period of time. I mean, for example, the agro initiative we've taken it about 3 years. Now we are seeing light at the end of the tunnel. We believe that that business is going to increase by INR 150 crores to INR 200 crores. I think we are trying organically to build these businesses, but again, I like to build businesses with high-value and high-margin and bring something special to the table compared to -- as a company culturally, Venkat, I think we never done well selling a commodity.

We always do well selling something niche or something first in the country-type of portfolio, it's a different DNA. I mean, I don't want you to compare us, we are not an apples-to-apples comparison with our competitors. But I think, for example, we have done extremely well in the regulated market, and we are able to deliver these niche filings all the time. So I think you got look at the success at a larger context.

Venka: But one question is, most of the -- rather US has become very competitive market even, when I look at the pharma landscape, [inaudible…] people are focusing on the domestic market and that's why things were centered around the domestic market...

Moderator: Venkat sir, we are not able to hear you clearly.

Rajeev Nannapaneni: I understood the question, Venkat. But I'll tell you I'm exactly doing the opposite of what the industry is doing. So we are making money in US, when nobody is making money in the US and people are making money in India, we're not making as much money as in India. So I think even in the US, Venkat, I think, it's just -- the thought has been flawed too many times. I think there is ways of making money in the US, but you need to have a very clear strategy on how to make money. And you cannot make money by doing a commodity.

I'll tell you, for example, just for the sake of explanation for all the benefit of the callers today. You could never make money in atorvastatin in the US, because there will be so many competitors on that generic and they'll never make money as a supplier of atorvastatin in the US, but if you have a brand of atorvastatin in the US, in India you will actually make a lot of money because you have a reasonably well-priced product. So what works in India, what works in the US are completely different.

So to succeed in the US, you cannot be trying to sell atorvastatin what model you have in India, you can't replicate that model in the US, you got to do something niche, something which has a difficult patent challenge, first-mover advantage or difficult chemistry, that's way you make money, which is what we're good at. So to say that, US is a bad market and all, US is bad. I mean, that matter -- even India market is also bad in lot of the segments. You have to find that sweet spot. And I think that's where the value is. And I think that's what you need to judge a company on, rather than trying to -- I mean, any business is bad if you look at it at a very macro level, but there always sweet spots that need to find, that's where the smartness is, isn't it. Okay?

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: Sir, three questions. First one in US, you mentioned business is profitable, no doubt, you are into niches, no doubt. I mean, post-Copaxone and Revlimid, we haven't heard the next level of products that your R&D team has been delivering in the past. So how is the next 5 years looking in terms of product approval, development work going on, filing expected, if you could just give some color there?

Rajeev Nannapaneni: I mean, we have other Para IV filings. I think we've publicly disclosed them. And I think some of them like…

Prakash Agarwal: I was just saying as exciting as the tool you have delivered in the past.

Rajeev Nannapaneni: Yes, fair enough. Okay. You want a jackpot. Yes, I think we have done other filings, Prakash. Again, I'm not at liberty to disclose at this time what other filings we have. I think we have done few other filings in this financial year. Hopefully, we're FTF on this. I think once we get a confirmation on that we'll speak about it. I think we have as exciting product as Revlimid coming up in the next -- by end of this decade. And in due course we'll reveal this pipeline.

And I think I'm very bullish about this business, and there are enough niches that we can exploit and you need to get like 2 or 3 of these ideas right to take care of your earnings till end of the decade. So I'm very confident and Prakash, in my personal view, I think we will disclose in due course. And I think very confident that we'll able to deliver.

Prakash Agarwal: And secondly on India business, you mentioned that we're also looking at M&A. But, I mean, 2022 if you look at calendar year, that was the most busiest year in terms of M&A, be it derma acquisitions, licensing of cardiovascular products like sacubitril. Did you see these assets where you considering them or you are looking at separately different kind of acquisition? Some color will help?

Rajeev Nannapaneni: We've looked at different assets, Prakash. I think a general comment is that, the valuations of domestic assets have gone up dramatically because of the nature of the atmosphere at this time, right? I mean, in terms of the -- in general, excitement in that assets. But there are a lot of assets coming, Prakash, and I'm hopeful that we'll able to consummate some deal in 2023. I know we missed an asset in '22. We can only do one acquisition, which is the front-end in the US that was the only acquisition we could close. But otherwise, we couldn't -- we tried very hard.

I think we looked at different assets, unfortunately we couldn't close. But there is enough traction in the business. I think we believe that we'll able to close something. There's a lot of assets that are there, and people are re-doing their portfolios. So, there are lot of opportunities. So I think we'll able to hopefully strike something in '23.

Prakash Agarwal: But with a similar focus of higher margin and low field force, will that the focus continue or...

Rajeev Nannapaneni: I think that's the idea, Prakash. That's what we're trying to do. And again, also a fair return on capital, Prakash, which is the most important thing, right? So, again, you don't want to bid something so high that you don't make any money at all. So I think you need to have -- just because everybody is doing it, I don't want to do a bad deal, right? I mean, nobody wants to do a bad deal. Doing no deal is better than doing a bad deal, right? So I think we'll find something. I'm confident. You have to be patient. You have to wait.

Sometimes -- see, I am not under pressure in that sense, right, because we have steady earnings going forward because of the steady cash flows and the portfolio that we have, and we have enough cash on the books. So it's not for lack of money, right? So it's just the right opportunities, just wait and you'll get the right one, yes, which will do the same.

Prakash Agarwal: No, totally understand that but it just that the India business both on onco and the HepC is declining quite a bit, now stabilized, but still, I mean, growth is clearly missing in your domestic portfolio?

Rajeev Nannapaneni: I think it can be fixed. I'm not worried about it. But we'll fix it. I think we have the resources to fix it. We have the cash to fix it. We have the strategy to fix it. So you just have to be patient, my friend. That's all I can say. That's the only answer I can give. We will do the right deal at the right price and we'll bring the right value for our shareholders. And sometimes you should not just get caught up in the frenzy, right, then you do a bad deal and it affects everyone, right? So I think just had to do at the right time. I think just be patient, that's all I can say.

But I'm working on it clearly. I think it's a very strategic asset and I think as the gentlemen said, I think we are trying to redo the business in a way that our dependence on the US also reduces. Right now we have businesses pivoted very heavily towards US and I think as we become a bigger company, I think it's important that we diversify away from US I mean, the agro initiative is part of that and also the acquisition and domestic asset is also part of that.

So as of now, if you look at the balance sheet, we'll probably do INR 400 crores in domestic out of INR 2,700 crores of top line, so domestic is like 15% or whatever that number is, yes, 15% to 16% of the top line. So like coming forward next year, hopefully, we'll be able to bring that up to -- because of the agro revenue, we can bring that up to 20%, 25%. In the long run, I think we are objectively thinking that we should make this business about 30% to 35%, which is more or less consistent with our larger peers, but that transformation Prakash will take time. It can't happen overnight, because we are limited towards the US and doing niches.

To transform yourself to something else, it takes that -- it takes a 5- to 7-year cycle, it doesn't -- you can't change your earnings tomorrow because you want to, right, it takes the process. You just have to be patient with us.

Prakash Agarwal: And just last quick one on Revlimid. So it would be fair to understand with market share increasing the delta of your revenues will increase or it would get offset by the incremental competition, little bit price declines, et cetera, for next year. How...

Rajeev Nannapaneni: See, I don't want to speak about it, Prakash, because I don't really know. We will know in the Q4 and Q1. I think I'll probably give you more ideas in the coming quarters when we do the Q4 earnings. And as of now, I don't want to guess anything, but I think it should do well. I think our expectation is that, it should do well. We will -- I think we will speak more about it during the next quarter earnings.

Prakash Agarwal: And this agro INR 150-odd crores is for '24 or '25, I mean, revenue expectations?

Rajeev Nannapaneni: I think in the next 12 months. So a lot of the sale of agro -- again, this is another very lumpy business, it happens in Q4 and Q1. And little bit in Q2. So most of the sale will happen between Q4 and Q1. I think Q1 will be the biggest quarter for that business.

Prakash Agarwal: Okay. So this calendar year, basically?

Rajeev Nannapaneni: Yes. So when I'm saying 12 months, I assume -- see, the problem is 12 months will include 1 quarter from the previous year and 1 quarter for the next year, right? And then you have 2 kind of easy quarters, right, because of the way the business is. And we don't have any export business to bring consistency in revenue, so it's primarily driven by India right now. So the lumpiness will continue, Prakash, Q4 and Q1 will always be strong for two reasons, one is because of Revlimid and because of agro. And then the other 2 quarters will be a little slower, because those two are missing. So that's how the balance sheet is going to be. And the way I think it, it's going to be like this for the next few years.

Moderator: The next question is from the line of Nikhil from SIMPL.

Nikhil Upadhyay: Rajeev, I have three questions. One is -- so continuation to the previous participant question, when you said that our FY '23 guidance is INR 2,700 crores to INR 3,000 crores on top line and INR 700 crores on PAT. And if I just adjust for last year that inventory write-off and all. So what are you building in terms of pricing for March '23 when you say INR 700 crores? So is it like a significant price erosion or is it like a smaller volume offtake in March quarter and a larger offtake in Q1?

Rajeev Nannapaneni: That's my expectation, Nikhil. That's our expectation. I don't know let the quarter end I think. But this is what -- I mean, I'll just make an estimate based on how the earnings are going to be, but that's our expectation. Yes, that's correct.

Nikhil Upadhyay: And secondly, one of the competitors on the agro chem side had mentioned that the patents for the product are valid till '27. So this should remain a limited competition market. And we had also mentioned in previous calls that we are open to do B2B business. And what we see is that, there are a lot of people who have submitted their files to the government for approval.

So how should we understand? So should it remain a 2, 3 player market? Or would we be open to more licensing and allow competition? Because in a way if we allow competition by B2B we are killing our own margins in this product. So how will it...

Rajeev Nannapaneni: It's not like that. Structurally, the business is not like that. The domestic market doesn't work like that, Nikhil. I think -- okay, let me answer your question. The patents which are there till 2025, okay, and I think we litigated and we won. Okay. That's the first thing. And there are very few people who are litigated and won and you're right that there are only 2, 3 suppliers in the market right now, right? Therefore, in that sense, it's a limited supplier market, so that is where the value is coming from.

Typically what happens is, these 2, 3 competitors, including us, will have our own brand, which we sell and we'll get a certain amount of market share. And certain percentage of the market which cannot be serviced by you give it on a P2P basis. But B2B value also remains with you, because you are selling the technical or the formulation to that person. So it doesn't destroy value, because some people are strong in certain markets, some people are not strong in certain markets. So it is a fairly well set model. I think everybody does that. I think you do little bit yourself and you give some to third-party, that's the structure of the business.

It happens in domestic also, where -- even domestic formulation in pharma also the same thing happens. There will be some companies are very strong regionally and some companies which are strong in certain geographies or certain segment of doctors. So it doesn't destroy value as long as a limited number of suppliers and the number of suppliers are limited because of the patent thing. So I don't agree with the characterization that it will hurt you completely. It does hurt you a little bit, but on a net-net basis, you always gain because of the superior access you got.

Nikhil Upadhyay: So net-net, on a ROCE basis if you look at the whole product as a profile of B2B and own product basis, would you say it the ROCE profile of this business will remain in a 25%, 30% range or would you be similar to our domestic market kind of ROCE profile? Because it's a 3-, 4-year approach, we have taken, right? So in a way we are defining the pricing?

Rajeev Nannapaneni: It will be bit fairly profitable. How much money you'll make, I think we can -- and we're expecting about 20%, 25% margin, I think that's what I'm expecting but net margin after expenses after everything on a broad scale INR 100, we're expecting about INR 25, INR 30. But let's see how it looks. So far, it looks good. We have some high-cost inventory that we initiated yet but I think when it – [inaudible …], I think that's sort of margin is very reasonable, yes, I think so.

Nikhil Upadhyay: And last question on the subsidiaries. Now for last 4 quarters, the subsidiaries are at a run rate of INR 80 crores sequentially and this is to some extent supported by Revlimid tenders in Canada. Do you see that this run rate can be impacted when the new tenders will come in or when does the new tender in Canada come in or any idea if you can provide?

Rajeev Nannapaneni: It can come earlier and some tenders are for 2 years around. So it depends on -- I don't know exactly which tender is when, but it will hold up. See, if you look at our earnings also -- see, there is a netting off effect that is there, but actual subsidiary revenue is INR 169 crores this quarter. So if you look at our PAT as well, nearly 40% of PAT is coming from the subsidiary and it kind of shows what we're trying to do is to diversify our revenue, diversify geographies.

So to answer your question, it's a fairly steady state revenue and I think it will hold up a little bit, but not for long. But again, you need to come up with some other product which can offset the loss that you had, but subsidiaries itself is contributing a significant part of our sales.

Moderator: The next question is from the line of Arun Malhotra from CapGrow Capital.

Arun Malhotra: I wanted to ask a couple of things. We have mentioned that Para IV 11 products have been approved. What is the size of this opportunity for these 11 and for the 19 products where -- which are still in litigation?

Rajeev Nannapaneni: 19 products are there in the litigation, 11 products are approved. I don't know...

Rajesh Chebiyam: What we said in the presentation that were 19 Para IVs are in the pipeline, like this is as of March 31, 2022, right? So we usually consolidate and update once in a year, not necessarily quarterly. And the market size varies depending on the product. There are some which is $1 billion opportunities, some are in the...

Rajeev Nannapaneni: Because -- see, just because you do a Para IV it doesn't mean it has value, my friend, because sometimes there are joint filers, so let's say there are 8 filers and everybody is doing a Para IV, then really -- it doesn't really have much value. I think Para IV is just an indication that you're challenging your patent, but doesn't necessarily mean you'll make a -- just because you're doing a Para IV doesn't mean that you'll make money on that particular product because if there are a lot of competitors it doesn't really matter, right? So what you need to do is, judge the filing by the product. I mean, the product has limited competition then it has value. So I think that's how you have to look at.

Arun Malhotra: And 11 approved, what does that indicate? Any opportunity size where we could have some color?

Rajeev Nannapaneni: I think we have -- the presentation has the products where we have sole FTF and much shared FTF. I think we can -- I mean, it's there in the presentation, I think, for example, just to give a flavor, I'll give -- I can't recollect all of them on top of my head, but for example, carfilzomib on one strength we shared at FTF, but on one strength we are the sole FTF, on Bosentan suspension we are the sole FTF. So every product has its own sort of dynamics. So, I mean, this is not the right time to go by product-by-product, but broadly I think that's how it works.

Rajesh Chebiyam: Just want to add one point here, just to clarify your question. See, we have roughly around 26 commercial products in the US, right? Of that, what we're suggesting in the presentation is about 11 of them are approved. So that means, some of them are launched and Para IVs are generally a higher value because limited competition and possibly first to filings. So that's what we're trying to indicate...

Rajeev Nannapaneni: I think we'll give more clarity in the presentation next time, where we believe there is limited competition, which are shared. I think that will give better color to the pipeline. We'll do.

Arun Malhotra: Yes, that would be helpful for us in estimating the future revenue.

Rajeev Nannapaneni: Yes. Sure thing. I think we've made -- clarify that in the presentation, I think, Rajesh, I think will address that in the presentation.

Arun Malhotra: Yes. Second is, can you throw some light on current Revlimid pricing scenario in big ways?

Rajeev Nannapaneni: I don't want to talk about it at this time. I think we'll speak about it, I think, in the coming quarter. And it will have a better idea on what things are. Generally we don't give up your commercial strategy and we don't speak about...

Arun Malhotra: Not our strategy, I'm saying how the prices in the industry are? Or how the prices are?

Rajeev Nannapaneni: I can't answer that question, my friend. I'm sorry, I can't answer.

Moderator: The next question is from the line of Rahul from Investore.

Rahul: My question is, what about the management of the overall profitability, because we are losing something in this quarter. So are we going to make up it completely in the Q4? Or still there will be some pretty downfall in the profit?

Rajeev Nannapaneni: I think I've answered this question earlier. So I think I'll repeat that question. I think the way our nature of our business is like Q4 and Q1 will be lumpy and Q2 and Q3 will be on the lower side.

We look at the earnings on an annual basis and that's how we look at it and it's going to be like this going forward as well because agro is also going to significantly contribute to the base business. And lot of the sale comes from kharif and little bit in rabi, so that's the nature of the business.

And I think if you look at the 9-month earnings, I think the press release can addresses that, our 9 months earnings, we did about INR 1,884 crores of revenue and we have a profit of INR 442 crores. So I think we have given a guidance that going forward we'll do about INR 2,700 crores based on how Revlimid goals and a PAT which is probably closer to INR 700 crores, a little less than INR 700 crores in that case. So what we're implying is that...

Rahul: I have only one doubt there. See, I understand your business because I have been investing from last 24 months in your pest company. So my thing is, are we going to pull the losses of other quarters into these so that if this is going to be substandard?

Rajeev Nannapaneni: I didn't understand your question, my friend. I am not able to understand your question. I didn't get it at all again. Can you say that one more? Could you rephrase that question, please?

Rahul: Yes. See, the quarter of Q4 I understand it will be [inaudible…] growth. But at the same time, the value of that particular quarter should not get dozed up because of the previous 2 quarters, right?

Rajeev Nannapaneni: I don't understand your question.

Rahul: For example, Q2 didn't do well and Q3 didn't do well means there will be a lot of pressure on Q4, right? So it should not depreciate my Q4, are there any plan for that? That's what I'm asking.

Rajeev Nannapaneni: I think Q4 I think the guidance addresses that question, no, I think our expectation is that, it will do well. And I think that's our expectation.

Moderator: The next question is from the line of Yogansh Jeswani from Mittal Analytics.

Yogansh Jeswani: Yes. Sir, lot of participants have asked you on CTPR. So just a few more follow-up on it. So in CTPR if you think the other companies have also come in and they have also come in with 20%, 25% discount to the pricing and I think Best Agro is one which is very upbeat about their CTPR launch. So given the market already has 2, 3 players and we innovator.

So how are we looking at this market in terms of the INR 150 crores guidance that you give? How competitive it is when I get in next 12, 16 months? And how are we differentiating ourselves? How are we presenting? Because out of the other competitors we are the only company who is not an ag chem company?

Rajeev Nannapaneni: See, again, I'll tell you, if you want to start a business and somebody comes and tells you that you have an opportunity to launch a product where the market size is almost INR 3,000 crores and there will be only 2 or 3 suppliers, would you like to start a business in that manner or would you like to start a business where you have 30 competitors and you're competing with -- for the same size? I think this is probably the best possible position that you could start from.

I know we are not an established player, but we have a reasonable network we have built over the last 2 years. We did a lot of hard work, building infrastructure, building the sales force and the manufacturing capability and we have a very good quality product. And we're getting good traction. And I think I'm giving this guidance after going into the market, and I think we should do well. And this is probably the best possible scenario that you could enter the market.

And then you asking me a chicken and egg question. So when do you -- then if you say that you are not a player in this business and you can never enter that business then, right? So I think it's probably the best scenario that you could enter. I think that's the way I can put it. And this sort of limited competition doesn't happen all the time and I think we're setting ourselves up for that and I think that's what we specialize on.

When we enter a market we don't try to be the -- we always like the only show in town or the only 1 or 2 shows in town so that your chances of success are much higher compared to a situation where you're dealing with 40 or 50 competitors. This is probably the best chance for us to do well because of the limited amount of competition. And and the market is big enough also, no. See, INR 3,000 crores, I'm actually saying not even 10% market share. We're not asking for beyond that, isn't it? We're not going and saying that we want more than that. So it's a very conservative estimate and I don't think it will be hard to meet, okay.

Yogansh Jeswani: No. I think I came across a little wrong in that sense. So, no, I'm not saying that this is a bad way to enter the market. In fact, this is a very good way to enter the market and CTPR has been a very good launch. What I meant to ask was the -- we are the -- out of the players, which are there in CTPR, we are the only player who is not an ag chem company.

So if you could just share your thoughts here? Your way of how you have entered the market, what kind of regions you have tapped in? The INR 150 crores guidance that you gave, out of that, how much will be the B2B part and how much will be the B2C part that you will do? And next say -- how much of that we still share between B2B to B2C, that's what I wanted to understand?

Rajeev Nannapaneni: Yes. Sure. I've already answered the question and you have missed it. I think 65% to 70% we're expecting from B2C and about 25% to 30% expecting from P2P, yes, principal-to-principal.

Yogansh Jeswani: And in terms of differentiating, is it solely based on price or is it also based on the combinations that we can offer in CTPR?

Rajeev Nannapaneni: It's a combination. See, again, you mentioned other competitors. I think the other competitors not launched all the combinations. Some -- I have launched all the combinations. They have launched only 1 or 2 of the combination. They have not launched the combination. So that way there is a differentiation between us and them, right? So it doesn't mean just because another competitor has come doesn't mean that he'll offer the whole portfolio, there he'll able to supply that particular market on time, doesn't mean that he has a full basket. We could be missing on someone else. And always traders play one against the other, right? So I think there is enough market for everyone. I think the market is good enough for everyone. I think it's large enough for everyone. And I think you can make your mark.

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

Nitin Agarwal: Rajeev, I think you answered this question partially before but how should we look at the subsidiaries incrementally going forward? The subsidiary businesses, again, largely dependent on how revenue scales up in these or are there more than -- more products which can meaningfully scale these businesses?

Rajeev Nannapaneni: I think there are lot of launches in both the subs. I think Brazil has about 5, 6 launches in the next 12 months. Canada also has some very good launches coming over the next few months. We are trying to diversify the portfolio and we have lot of filings and we're doing litigation in these markets. So I think the idea is to build a more diversified model. I'm not concerned about a drop in price on one of the products affecting the profitability, because we have a fairly diversified portfolio. Yes.

Nitin Agarwal: And secondly on the newer filings on the US that you've done, by when do you think you will get clarity from the FDA in terms of your first-to-file status on some of these products?

Rajeev Nannapaneni: In the next few months, hopefully in the next few months. Next 2, 3 months.

Nitin Agarwal: And how many in numbers are products that you are banking on could be meaningful for you, that you've done...

Rajeev Nannapaneni: I think I have 2 products -- 2 to 3 products. We will know whether we have FTF shortly. With all 3 are filed, Nitin, what I'm saying, I have filed all 3, but we just don't know what the FTF status is. So we will know shortly.

Moderator: The next question is from the line of Mr. Choudhry, a Farmer.

Choudhry: I'm a farmer industrial investor. First question is about CTPR. I understood from the market that you are only offering small packs up to 150 ml. Whereas -- I am from Ballari area, farmers do buy a lot of large packs 600 ml of Coragen. Okay? That's one thing. And second, I also understand --. Hello?

Rajeev Nannapaneni: Which territory are you from, I'm sorry, which state? Which state are you from, I'm saying? Which state?

Choudhry: Ballari, Karnataka. As I was inquiring with your people in Anantapur, they told me that they're essentially giving out, I mean, the largest packs are about 150 ml. Okay? Whereas the demand is quite strong for 600 ml packs in cotton belt, which I think would be your primary consumer. Okay?

Rajeev Nannapaneni: Just one moment. I'll get Rajesh to answer that question. Rajesh, can you answer that?

Rajesh Chebiyam: Mr. Choudhry, so till today we have launched the 10 ml, 30 ml, 60 and 150 ml. We are also offering the 300 and 600 ml, it's just on its way.

Choudhry: And I also heard that you people don't have a network in Karnataka as of now. Is your network limited to only Andhra and Telangana as of now?

Rajesh Chebiyam: No. I think the last quarter has been focused on building the team. So we do have some people who have started very recently. We are expanding. So the goal is in the next 1, 2 months, we'll have the full team in place in Karnataka.

Choudhry: You plan to cover the entire cotton belt Maharashtra and Madhya Pradesh and South?

Rajesh Chebiyam: So we are covering everything. So we are covering all the states. Karnataka, especially, our team is just getting onboard.

Choudhry: With regard to the other part, B2B, I noticed that the other -- one big player like UPL has grown mainly in B2B business, because technical competency, okay? And NATCO is a new entrant in agri business, but has a tremendous amount of technical competencies. Could you think in terms of expanding your business by building a large B2B portfolio and also utilize that to service your area of chosen area within India?

Rajeev Nannapaneni: Yes, sir. I think the idea is that only. I think our idea is that about 60% to 65% we want to do on our own direct customers, but 30% to 35% we're targeting on B2B as well. We have lined up quite a few customers. I think about 5, 6 customers we've already lined up. So we will get sale from both. I think the guidance that we gave of INR 150 crores in this business is based on the assumption that these customers are already onboarded. So I think we're fairly confident because we already have onboarded these customers.

Choudhry: Yes. But that is limited to only CTPR. I was talking about introducing other products which are complex where the APIs are probably imported or...

Rajeev Nannapaneni: We are working on a pipeline, Mr. Choudhry. So this is just a start. It's the first product we have launched -- first real product we have launched and has made a lot of bang. But we have a pipeline going forward the next 5, 6 years, we have a steady pipeline every year and -- but this is the most important product in the pipeline. I think that's why this is getting more attention. But yes, we have a steady pipeline and we are hoping to build a large business, not only directly to the customer, but also to third-party. We're very cognizantly working on that. Absolutely correct.

Choudhry: Could you give some color on your Brazil subsidiary's performance?

Rajeev Nannapaneni: Brazil subsidiary you said? Okay. Give me one moment. Brazil subsidiary last quarter did INR 38 crores of revenue.

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

N K Arora: All the people, all the companies which have lost generic Revlimid in USA, they have volume restriction. So does that mean there is no intensified prices on them by anybody to anyone?

Rajeev Nannapaneni: I think Teva markets the product, Mr. Arora. So there is erosion in the price, no question on erosion. So -- but I think the product should do well. I think there is enough money to be made on the product.

NK Arora: And secondly, sir, as we discussed in the previous con call our volume share is in mid-single-digit. On 7 March onwards it will be in double digits. So we had a significant increasing profits like every year as our volume raises.

Rajeev Nannapaneni: I think so, sir. That's our expectation. That's correct, sir. Yes, absolutely correct. So this will be my last question yes. These are all? Okay.

Moderator: Sir, the next question is from the line of Nikhil from SIMPL.

Nikhil Upadhyay: Just one question on the Revlimid case, if you can just educate us what is the thing and how do you think -- so can it blow out in a large way or what's your understanding?

Rajeev Nannapaneni: I think Teva is handling the case, my friend. So Teva is the ANDA holder. So they are handling the case. At this time, it will be very premature to say anything. So that's something I can't comment at this time. Yes.

Nikhil Upadhyay: And you won't be able to comment that even if -- so I'm just trying to understand that if it goes adverse because the profit share is between 3 players, whatever the penal actions or whatever the payments have to be done and all the 3 will have to do or how will it evolve like would it be...

Rajeev Nannapaneni: At this time, I can't comment. I think we are confident about our position. And at this time, I can't say anything beyond that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Rajesh Chebiyam: Thank you all. Again, any questions related to what was discussed during today's call, please feel free to reach out to us. We'll be more than happy to address those. Thank you all, and have a good day.

Rajeev Nannapaneni: Thank you.

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