

## Exemplary numbers propelled by gRvlimid; future pipeline looks promising...

About the stock: Natco has, over the years, developed a knack for manufacturing complex generic products with few competitors, especially for the US market.

- India formulations mainly comprise oncology products (39 brands). For the US, it follows partnership products for risky launches and acquired Dash Pharma for a front-end presence. It owns six FDF, two API manufacturing facilities and two crop health sciences units.
- Maiden entry into crop protection was via launch of pheromone product, Natmate. Also launched CTPR pesticides subsequently.
- FY24 revenue break-up - domestic formulations: 10%, export formulations: 81% (mainly from the US, Canada, Brazil), APIs: 6%, crop protection: 3%

### Investment Rationale:

- Q4FY24- Bumper quarter driven by gRevlimid traction** – Revenues grew ~17% YoY to ₹ 1057 crore driven by export formulations which grew 35% to ₹ 955 crore on the back of significant traction from anti-cancer drug g Revlimid. Typically, gRevlimid sales are higher in Q4 and Q1 quarters. Other segments remained weak with 31% de-growth in APIs to ₹ 50 crore, 43% de-growth in the domestic formulations to ₹ 52.4 core. EBITDA grew 43% YoY to ₹486 crore while EBITDA margins improved 821bps to 46%. EBITDA growth was mainly driven by strong GPM improvement (~1529 bps YoY to 86.5%). PAT grew 41% YoY to ₹ 386 crore.
- gRevlimid traction expected for some time but the company banks on 6-7 niche products to fill the void – Over the last 10 years (and going) the company has successfully demonstrated its capabilities in exploiting limited competition block-buster products especially in the US via launches such as gCopaxone, gTamiflu and now gRevlimid. The company is now banking on some new FTF opportunities, notably gOzempic (Anti-diabetic), gWeovy (Weight management) and gLynparza (Anti-cancer) among others. (Total pipeline- Key Solo Para IV FTFs- 8; Key Para IV products -7). The management is confident on the prospects of some of these products to maintain the blockbuster traction beyond FY26. The Kothur warning letter is not expected to have much impact as the company has dome dual filing including from Vizag for most of the important products. The company is banking on three-prong strategy of niche filings, geographical expansion and acquisitions (preferably in the ROW markets.)

### Rating and Target price

- Our target price is ₹ 1250 based on 13x FY26E base business EPS of ₹ 81.6 plus ₹ 191 NPV for gRevlimid.

### Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY23E-26E)	FY24	FY25E	FY26E	3 year CAGR (FY23E-26E)
Revenues	1915.0	2052.1	1944.8	2707.9	12.2	3992.7	4687.6	4931.5	22.1
EBITDA	582.6	606.2	263.5	936.4	17.1	1745.3	2077.7	2047.4	29.8
EBITDA Margins (%)	30.4	29.5	13.5	34.6		43.7	44.3	41.5	
Net Profit	460.8	440.9	170.0	714.2	15.7	1388.3	1520.4	1494.1	27.9
EPS (₹)	25.2	24.1	9.3	39.0		75.9	83.1	81.6	
PE (x)	41.3	43.2	112.0	26.6		13.7	12.5	12.7	
EV to EBITDA (x)	33.1	31.6	72.6	20.0		10.8	8.6	8.1	
RoNW (%)	12.2	10.7	4.0	14.7		23.7	21.1	17.5	
RoCE (%)	14.0	13.1	4.6	17.1		26.9	26.7	22.4	

Source: Company, ICICI Direct Research



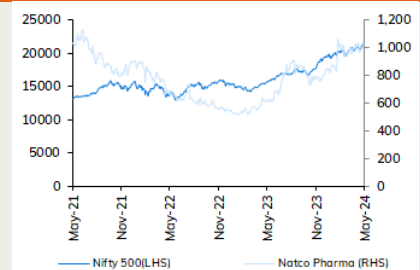
### Particulars

Particular	Amount
Market Capitalisation	₹ 19032 crore
Debt (FY24)	₹ 369 crore
Cash (FY24)	₹ 70 crore
EV	₹ 19330 crore
52 week H/L (₹)	1108/615
Equity capital	₹ 36 crore
Face value	₹ 2 crore

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	49.8	49.7	49.7	49.7
FIs	11.0	12.8	13.7	16.1
DIs	15.2	14.0	11.3	9.7
Others	24.1	23.5	25.3	24.5

### Price Chart



### Key risks

- Slower ramp up in the new launches in the US.
- Kothur plant warning letter and its implication on cost and launches.

### Research Analyst

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Exhibit 1: Quarterly Summary

₹ Crore	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Sales	312.7	408.1	370.1	545.4	590.6	877.2	432.1	487.3	897.9	1136.4	1028.4	765.4	1056.9	17.7	38.1
Raw Material Expenses	54.5	79.1	92.5	93.0	296.3	147.7	105.8	115.4	258.4	196.0	215.8	162.2	142.6	-44.8	-12.1
% of Revenues	17.4	19.4	25.0	17.1	50.2	16.8	24.5	23.7	28.8	17.2	21.0	21.2	13.5	-1529 bps	-770 bps
Gross Profit	258.2	329.0	277.6	452.4	294.3	729.5	326.3	371.9	639.5	940.4	812.6	603.2	914.3	43.0	51.6
Gross Profit Margin (%)	82.6	80.6	75.0	82.9	49.8	83.2	75.5	76.3	71.2	82.8	79.0	78.8	86.5	1529 bps	770 bps
Employee Expenses	94.6	108.1	109.2	118.2	109.3	151.9	110.3	105.6	118.9	138.2	122.4	121.9	142.5	19.8	16.9
% of Revenues	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	0 bps	0 bps
Other Expenses	106.0	113.3	105.0	247.5	209.8	189.7	120.7	165.6	181.5	278.3	235.2	206.4	285.9	57.5	38.5
% of Revenues	-8.1	-6.1	-0.5	-8.5	24.6	-8.7	-1.0	-1.8	3.3	-8.3	-4.5	-4.3	-12.0	-1529 bps	-770 bps
Total Expenditure	255.1	300.5	306.7	458.7	615.4	489.3	336.8	386.6	558.8	612.5	573.4	490.5	571.0	2.2	16.4
% of Revenues	90.7	86.8	75.5	91.4	25.2	91.9	76.6	78.2	68.0	91.0	83.6	83.1	98.5	3057 bps	1540 bps
EBITDA	57.6	107.6	63.4	86.7	-24.8	387.9	95.3	100.7	339.1	523.9	455.0	274.9	485.9	43.3	76.8
EBITDA Margins(%)	18.4	26.4	17.1	15.9	-4.2	44.2	22.1	20.7	37.8	46.1	44.2	35.9	46.0	821 bps	1006 bps
Depreciation	30.4	33.8	34.7	36.0	38.1	39.6	41.7	41.5	41.0	43.5	43.6	44.2	55.5	35.4	25.6
Interest	3.5	2.0	4.0	5.0	6.7	4.2	3.8	3.8	3.8	4.2	4.2	4.6	6.2	63.2	34.8
Other income	28.4	17.0	38.0	30.2	13.8	34.3	20.5	20.0	29.0	18.2	32.4	30.2	53.4	84.1	76.8
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	52.1	88.8	62.7	75.9	-55.8	378.4	70.3	75.4	323.3	494.4	439.6	256.3	477.6	47.7	86.3
Total Tax	17.7	16.0	4.7	10.6	0.9	65.4	13.5	19.1	48.6	79.7	70.6	43.6	91.3	87.9	109.4
Tax rate (%)	34.0	18.0	7.5	14.0	-1.6	17.3	19.2	25.3	15.0	16.1	16.1	17.0	19.1		
PAT	34.4	72.8	58.0	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	40.6	81.6
PAT Margin (%)	11.0	17.8	15.7	12.0	-9.6	35.7	13.1	11.6	30.6	36.5	35.9	27.8	36.6	596 bps	876 bps
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PAT after MI	34.4	72.8	58.0	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	40.6	81.6
EPS (₹)	1.9	4.0	3.2	3.6	-3.1	17.1	3.1	3.1	15.0	22.7	20.2	11.6	21.1		

Source: Company, ICICI Direct Research

### Q4FY24 Results / Conference call highlights

- The management is guiding for ~15-20% sales growth and ~20% PAT growth in FY25.
- On the domestic fund the company took a one-time charge of ₹ 35 crore due to change in its business model which was reflected in the de-growth. The crop care business was a complete washout during the quarter due to ₹ 55 crore charge on account of 1) higher than expected stock returns and 2) non-utilisation charge for certain assets meant for agri intermediates.
- The company is most likely scout for acquisition opportunities in ROW markets as Indian assets are pricy.
- Buyback of shares possible if there is no big-ticket acquisition.
- Two FTF filings is planned for FY25
- Brazil and Canada annual run-rate- US\$ 25 million and US\$ 40 million respectively.
- The company believes crop protection is still a viable business despite setback in Q4. Management's own estimates for FY24 was ₹140-150 crore.
- The management expects to reach ₹ 300 crore sales in crop protection 3 years down the line.
- No major impact due to Red Sea crises as most of the shipments are via air route.
- The management will keep exploring opportunities in Oligopeptides, difficult to manufacture Generics and Para IVs.
- Distribution and profit-sharing agreement with Teva for gRevlimid to continue after FY26 as well.
- Investment in Cellogen Therapeutics Private Ltd is primarily to explore opportunities in CAR-T segment.
- Capex for FY25 would be ₹ 300-350 core (mostly maintenance capex).

## Financial Tables

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
<b>Revenues</b>	<b>2,707.9</b>	<b>3,992.7</b>	<b>4,687.6</b>	<b>4,931.5</b>	
Growth (%)	39.2	47.4	17.4	5.2	
Raw Material Expenses	627.3	716.6	900.0	998.2	
Employee Expenses	486.7	525.0	616.7	685.3	
Other expenses	657.5	1,005.8	1,093.1	1,200.5	
Total Operating Expenditure	1,771.5	2,247.4	2,609.8	2,884.0	
<b>EBITDA</b>	<b>936.4</b>	<b>1,745.3</b>	<b>2,077.7</b>	<b>2,047.4</b>	
Growth(%)	255.4	86.4	19.0	-1.5	
Depreciation	163.8	186.8	203.6	217.9	
Interest	15.6	19.2	14.0	11.4	
Other Income	103.8	134.2	140.4	147.7	
PBT	860.8	1,673.5	2,000.5	1,965.9	
Total Tax	146.6	285.2	480.1	471.8	
PAT before MI	714.2	1,388.3	1,520.4	1,494.1	
Minority Interest	0.0	0.0	0.0	0.0	
<b>Adjusted PAT</b>	<b>714.2</b>	<b>1,388.3</b>	<b>1,520.4</b>	<b>1,494.1</b>	
Growth(%)	320.1	94.4	9.5	-1.7	
<b>EPS (Adjusted)</b>	<b>39.0</b>	<b>75.9</b>	<b>83.1</b>	<b>81.6</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	684.4	1,387.2	1,520.4	1,494.1	
Add: Depreciation	163.8	186.8	203.6	217.9	
(Inc)/dec in Current Assets	-203.0	-362.5	-256.1	-106.2	
Inc/(dec) in CL and Provisions	94.1	53.1	90.2	64.6	
Others	109.8	-53.0	14.0	11.4	
<b>CF from operating activities</b>	<b>849.1</b>	<b>1,211.6</b>	<b>1,572.2</b>	<b>1,681.8</b>	
(Purchase)/Sale of Fixed Assets	-175.1	-356.7	-350.0	-300.0	
(Increase)/Decrease in Investments	-442.6	-732.1	0.0	0.0	
Others	140.6	56.1	0.3	0.4	
<b>CF from investing activities</b>	<b>-477.1</b>	<b>-1,032.7</b>	<b>-349.7</b>	<b>-299.6</b>	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan	0.0	0.0	0.0	0.0	
Dividend & Dividend tax	-100.4	-170.8	-164.7	-164.7	
Others	-262.6	-76.1	-114.0	-61.4	
<b>CF from financing activities</b>	<b>-363.0</b>	<b>-246.9</b>	<b>-278.7</b>	<b>-226.1</b>	
Net Cash flow	9.0	-68.0	943.8	1,156.0	
Opening Cash	111.1	131.9	70.4	1,014.2	
<b>Closing Cash</b>	<b>120.1</b>	<b>63.9</b>	<b>1,014.2</b>	<b>2,170.3</b>	
<b>Free Cash Flow</b>	<b>674.0</b>	<b>854.9</b>	<b>1,222.2</b>	<b>1,381.8</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	36.5	35.8	35.8	35.8	
Reserve and Surplus	4,837.3	5,817.3	7,173.0	8,502.4	
Total Shareholders funds	4,873.8	5,853.1	7,208.8	8,538.2	
Total Debt	166.1	368.5	268.5	218.5	
Deferred Tax Liability	12.4	0.2	0.2	0.2	
Minority Interest / Others	1.7	4.0	4.3	4.7	
Long Term Provisions	85.3	70.9	70.9	70.9	
<b>Total Liabilities</b>	<b>5,139.3</b>	<b>6,296.7</b>	<b>7,552.7</b>	<b>8,832.5</b>	
Gross Block - Fixed Assets	3,357.0	3,606.9	3,931.9	4,206.9	
Accumulated Depreciation	985.3	1,172.1	1,375.7	1,593.6	
Net Block	2,371.7	2,434.8	2,556.2	2,613.3	
Capital WIP	64.3	137.3	162.3	187.3	
Total Fixed Assets	2,436.0	2,572.1	2,718.5	2,800.6	
Goodwill on Consolidation	55.2	56.0	56.0	56.0	
Investments	392.3	539.4	539.4	539.4	
Inventory	742.9	700.5	863.0	902.5	
Debtors	856.1	1,188.9	1,282.5	1,349.2	
Cash	131.9	70.4	1,014.2	2,170.3	
Other Current Assets	964.4	1,620.2	1,620.2	1,620.2	
Total Current Assets	2,695.3	3,580.0	4,779.9	6,042.1	
Creditors	263.8	235.5	295.8	328.0	
Provisions	16.9	102.9	111.1	120.0	
Other Current Liabilities	237.4	271.2	292.9	316.3	
Total Current Liabilities	518.1	609.6	699.8	764.4	
Net Current Assets	2,177.2	2,970.4	4,080.1	5,277.7	
LT L & A & Other Non CA	78.6	158.8	158.8	158.8	
<b>Application of Funds</b>	<b>5,139.3</b>	<b>6,296.7</b>	<b>7,552.7</b>	<b>8,832.5</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios					
(Year-end March)	FY23	FY24	FY25E	FY26E	
<b>Per share data (₹)</b>					
Adjusted EPS	39.0	75.9	83.1	81.6	
BV per share	266.3	319.8	393.9	466.6	
Dividend per share	5.5	9.5	9.0	9.0	
Cash Per Share	7.2	3.8	55.4	118.6	
<b>Operating Ratios (%)</b>					
Gross Profit Margins	76.8	82.1	80.8	79.8	
EBITDA Margins	34.6	43.7	44.3	41.5	
PAT Margins	26.4	34.8	32.4	30.3	
Inventory days	432	357	350	330	
Debtor days	115	109	100	100	
Creditor days	153	120	120	120	
Asset Turnover	0.8	1.1	1.2	1.2	
EBITDA Conversion Rate	90.7	69.4	75.7	82.1	
<b>Return Ratios (%)</b>					
RoE	14.7	23.7	21.1	17.5	
RoCE	17.1	26.9	26.7	22.4	
RoIC	16.7	27.6	31.6	30.3	
<b>Valuation Ratios (x)</b>					
P/E	26.6	13.7	12.5	12.7	
EV / EBITDA	20.0	10.8	8.6	8.1	
EV / Net Sales	6.9	4.7	3.8	3.4	
Market Cap / Sales	7.0	4.8	4.1	3.9	
Price to Book Value	3.9	3.3	2.6	2.2	
<b>Solvency Ratios</b>					
Debt / EBITDA	0.2	0.2	0.1	0.1	
Debt / Equity	0.0	0.1	0.0	0.0	
Current Ratio	4.9	5.8	5.4	5.1	
Working Capital Cycle	394	346	330	310	

Source: Company, ICICI Direct Research

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