Natco Pharma (NATPHA)

ICICI direct Research

CMP: ₹ 1375 | Target: ₹ 1675(22%) | Target Period: 12 months | BUY

October 7, 2024

Company update

Preparing for post-gRevlimid era with time-tested focused approach...

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:

- Q1FY25- Revenues in line but significant beat in profitability- Revenues grew ~20% YoY to ₹ 1367 crore driven by export formulations which grew 37% to ₹ 1210 crore on the back of significant traction from anti-cancer drug gRevlimid. Other segments remained weak with 48% de-growth in APIs to ₹ 39 crore, 23% de-growth in the domestic formulations to ₹ 102 core and 65% de-growth in the crop protection to ₹ 16 core. EBITDA grew 55% YoY to ₹ 809 crore while EBITDA margins improved 1310 bps to 59%. EBITDA growth was mainly driven by strong GPM improvement (~407 bps YoY to 86.8%). PAT grew 61% YoY to ₹ 669 crore.
- Company banks on 6-7 niche products to fill the expected g Revlimid void – Over the last 10 years 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. Already, its partner Mylan has settled a US patent litigation with Novo-Nordisk for generic Ozempic (to be outsourced from Stelis) which registered ~US$ 9 billion sales in the US in CY23. 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 and tie-ups with the CDMO players.

Rating and Target price

- Our target price is ₹ 1675 based on 18x FY26E base business EPS of ₹ 87.2 plus ₹ 110 NPV for gRevlimid.

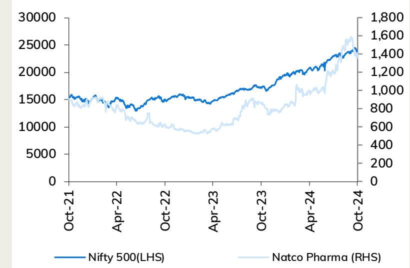
Particulars

Particular	Amount
Market Capitalisation	₹ 25163 crore
Debt (FY24)	₹ 369 crore
Cash (FY24)	₹ 70 crore
EV	₹ 25461 crore
52 week H/L (₹)	1639/724
Equity capital	₹ 36 crore
Face value	₹ 2 crore

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	49.7	49.7	49.7	49.7
FIIs	12.8	13.7	16.1	17.5
DIIs	14.0	11.3	9.7	7.9
Others	23.5	25.3	24.5	25.0

Price Chart



Key risks

(i) Slower ramp up in the new launches in the US.

(ii) Kothur plant warning letter and its implication on cost and launches.

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ICICI Securities – Retail Equity Research

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	5027.5	5214.1	24.4
EBITDA	582.6	606.2	263.5	936.4	17.1	1745.3	2375.1	2145.4	31.8
EBITDA Margins (%)	30.4	29.5	13.5	34.6		43.7	47.2	41.1	
Net Profit	460.8	440.9	170.0	714.2	15.7	1388.3	1833.3	1596.1	30.7
EPS (₹)	25.2	24.1	9.3	39.0		75.9	100.2	87.2	
PE (x)	54.6	57.1	148.0	35.2		18.1	13.7	15.8	
EV to EBITDA (x)	43.6	41.7	95.9	26.6		14.3	10.0	10.5	
RoNW (%)	12.2	10.7	4.0	14.7		23.7	24.4	17.8	
RoCE (%)	14.0	13.1	4.6	17.1		26.9	29.9	22.8	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

₹ Crore	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Sales	408.1	370.1	545.4	590.6	877.2	432.1	487.3	897.9	1136.4	1028.4	765.4	1056.9	1367.1	20.3	29.3
Raw Material Expenses	79.1	92.5	93.0	296.3	147.7	105.8	115.4	258.4	196.0	215.8	162.2	142.6	180.2	-8.1	26.4
% of Revenues	19.4	25.0	17.1	50.2	16.8	24.5	23.7	28.8	17.2	21.0	21.2	13.5	13.2	-407 bps	-31 bps
Gross Profit	329.0	277.6	452.4	294.3	729.5	326.3	371.9	639.5	940.4	812.6	603.2	914.3	1186.9	26.2	29.8
Gross Profit Margin (%)	80.6	75.0	82.9	49.8	83.2	75.5	76.3	71.2	82.8	79.0	78.8	86.5	86.8	407 bps	31 bps
Employee Expenses	108.1	109.2	118.2	109.3	151.9	110.3	105.6	118.9	138.2	122.4	121.9	142.5	142.0	2.7	-0.4
% 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	113.3	105.0	247.5	209.8	189.7	120.7	165.6	181.5	278.3	235.2	206.4	285.9	235.6	-15.3	-17.6
% of Revenues	-6.1	-0.5	-8.5	24.6	-8.7	-1.0	-1.8	3.3	-8.3	-4.5	-4.3	-12.0	-12.3	-407 bps	-31 bps
Total Expenditure	300.5	306.7	458.7	615.4	489.3	336.8	386.6	558.8	612.5	573.4	490.5	571.0	557.8	-8.9	-2.3
% of Revenues	86.8	75.5	91.4	25.2	91.9	76.6	78.2	68.0	91.0	83.6	83.1	98.5	99.2	813 bps	62 bps
EBITDA	107.6	63.4	86.7	-24.8	387.9	95.3	100.7	339.1	523.9	455.0	274.9	485.9	809.3	54.5	66.6
EBITDA Margins(%)	26.4	17.1	15.9	-4.2	44.2	22.1	20.7	37.8	46.1	44.2	35.9	46.0	59.2	1310 bps	1322 bps
Depreciation	33.8	34.7	36.0	38.1	39.6	41.7	41.5	41.0	43.5	43.6	44.2	55.5	44.1	1.4	-20.5
Interest	2.0	4.0	5.0	6.7	4.2	3.8	3.8	3.8	4.2	4.2	4.6	6.2	5.2	23.8	-16.1
Other income	17.0	38.0	30.2	13.8	34.3	20.5	20.0	29.0	18.2	32.4	30.2	53.4	43.6	139.6	-18.4
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	88.8	62.7	75.9	-55.8	378.4	70.3	75.4	323.3	494.4	439.6	256.3	477.6	803.6	62.5	68.3
Total Tax	16.0	4.7	10.6	0.9	65.4	13.5	19.1	48.6	79.7	70.6	43.6	91.3	135.1	69.5	48.0
Tax rate (%)	18.0	7.5	14.0	-1.6	17.3	19.2	25.3	15.0	16.1	16.1	17.0	19.1	16.8		
PAT	72.8	58.0	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	668.5	61.2	73.1
PAT Margin (%)	17.8	15.7	12.0	-9.6	35.7	13.1	11.6	30.6	36.5	35.9	27.8	36.6	48.9	1241 bps	1235 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	72.8	58.0	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	668.5	61.2	73.1
EPS (₹)	4.0	3.2	3.6	-3.1	17.1	3.1	3.1	15.0	22.7	20.2	11.6	21.1	36.5		

Source: Company, ICICI Direct Research

Q1FY25 Results / Conference call highlights

- The growth in revenue and profits were primarily driven by export formulation business as domestic pharma business remains stable on the segmental split.
- Revlimid share will move to 1/3rd of Market at time of patent expiry in Jan'26.
- Natco pharma has exclusivity of Semaglutide FTF in weight loss where as in Diabetes FTF it has shared and solo (~60% of market) both.
- Mylan is the front-end partner in Semaglutide. Profit share of Mylan will be higher in this product and CDMO Stelis will also have a share in profits
- The total number of dossiers filled in Canada are 40 and more than 20 products of that has started with the sales activities.
- Management believes that Agro-Chemical business will require 2-3 years to become a branded business with a stable income.
- A reasonable amount of dividend will be paid in FY25 as management will require cash for making acquisitions if any opportunity comes up in the current fiscal year.
- Due to the observation at Kothur plant, the Injectables portfolio has been moved to a CDMO player.
- The remediation work is on-going in Kothur plant, some of the products have been moved out internally to different plants and others are outsourced externally.
- Exports business has done well and Canada has reported highest turnover ever.
- Management is hopeful that the number of fillings will keep on growing from subsidiaries in Canada and Brazil.
- Excluding receivables, the company has a cash of ₹2000 crore.
- The company wouldn't mind to sit on cash until and unless it doesn't find a suitable acquisition opportunity. Company is looking to acquire company with potentially disruptive technology or business which should make a significant impact on its earning or/and fills in the gap such as absence in certain geographies.
- Management expects strong growth in Q2FY25 and aims to achieve a 20% growth in profits in FY25

Financial Tables

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	**2,707.9**	**3,992.7**	**5,027.5**	**5,214.1**
Growth (%)	39.2	47.4	25.9	3.7
Raw Material Expenses	627.3	716.6	901.9	1,065.1
Employee Expenses	486.7	525.0	640.8	728.5
Other expenses	657.5	1,005.8	1,109.8	1,275.2
Total Operating Expenditure	1,771.5	2,247.4	2,652.5	3,068.8
EBITDA	**936.4**	**1,745.3**	**2,375.1**	**2,145.4**
Growth(%)	255.4	86.4	36.1	-9.7
Depreciation	163.8	186.8	176.4	188.7
Interest	15.6	19.2	15.7	12.8
Other Income	103.8	134.2	153.3	156.3
PBT	860.8	1,673.5	2,336.3	2,100.1
Total Tax	146.6	285.2	502.9	504.0
PAT before MI	714.2	1,388.3	1,833.3	1,596.1
Minority Interest	0.0	0.0	0.0	0.0
Adjusted PAT	**714.2**	**1,388.3**	**1,833.3**	**1,596.1**
Growth(%)	320.1	94.4	32.1	-12.9
EPS (Adjusted)	**39.0**	**75.9**	**100.2**	**87.2**

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	1,833.3	1,596.1
Add: Depreciation	163.8	186.8	176.4	188.7
(Inc)/dec in Current Assets	-203.0	-362.5	-351.4	-149.2
Inc/(dec) in CL and Provisions	94.1	53.1	90.8	86.0
Others	109.8	-53.0	15.7	12.8
CF from operating activities	**849.1**	**1,211.6**	**1,764.8**	**1,734.3**
(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
CF from investing activities	**-477.1**	**-1,032.7**	**-349.7**	**-299.6**
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	-115.7	-62.8
CF from financing activities	**-363.0**	**-246.9**	**-280.4**	**-227.5**
Net Cash flow	9.0	-68.0	1,134.8	1,207.2
Opening Cash	111.1	131.9	70.4	1,205.2
Closing Cash	131.9	70.4	1,205.2	2,412.4
Free Cash Flow	**674.0**	**854.9**	**1,414.8**	**1,434.3**

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	7,485.9	8,917.3
Total Shareholders funds	4,873.8	5,853.1	7,521.7	8,953.1
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
Total Liabilities	**5,139.3**	**6,296.7**	**7,865.7**	**9,247.4**
Gross Block - Fixed Assets	3,357.0	3,606.9	3,931.9	4,206.9
Accumulated Depreciation	985.3	1,172.1	1,348.5	1,537.2
Net Block	2,371.7	2,434.8	2,583.4	2,669.7
Capital WIP	64.3	137.3	162.3	187.3
Total Fixed Assets	2,436.0	2,572.1	2,745.7	2,857.0
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	864.8	963.0
Debtors	856.1	1,188.9	1,376.0	1,427.1
Cash	131.9	70.4	1,205.2	2,412.4
Other Current Assets	964.4	1,620.2	1,620.2	1,620.2
Total Current Assets	2,695.3	3,580.0	5,066.2	6,422.6
Creditors	263.8	235.5	296.4	350.0
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	700.4	786.4
Net Current Assets	2,177.2	2,970.4	4,365.8	5,636.2
LT L & A & Other Non CA	78.6	158.8	158.8	158.8
Application of Funds	**5,139.3**	**6,296.7**	**7,865.7**	**9,247.4**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	39.0	75.9	100.2	87.2
BV per share	266.3	319.8	411.0	489.2
Dividend per share	5.5	9.5	9.0	9.0
Cash Per Share	7.2	3.8	65.9	131.8
Operating Ratios (%)				
Gross Profit Margins	76.8	82.1	82.1	79.6
EBITDA Margins	34.6	43.7	47.2	41.1
PAT Margins	26.4	34.8	36.5	30.6
Inventory days	432	357	350	330
Debtor days	115	109	100	100
Creditor days	153	120	120	120
Asset Turnover	0.8	1.1	1.3	1.2
EBITDA Conversion Rate	90.7	69.4	74.3	80.8
Return Ratios (%)				
RoE	14.7	23.7	24.4	17.8
RoCE	17.1	26.9	29.9	22.8
RoIC	16.7	27.6	36.3	31.5
Valuation Ratios (x)				
P/E	35.2	18.1	13.7	15.8
EV / EBITDA	26.6	14.3	10.0	10.5
EV / Net Sales	9.2	6.3	4.7	4.3
Market Cap / Sales	9.3	6.3	5.0	4.8
Price to Book Value	5.2	4.3	3.3	2.8
Solvency Ratios				
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	5.5	5.1
Working Capital Cycle	394	346	330	310

Source: Company, ICICI Direct Research

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