Natco Pharma (NATPHA)

CMP: ₹ 870 | Target: ₹ 1305(50%) | Target Period: 12 months | **BUY**

February 14, 2025

Result update

gRevlimid momentum to persist; Preparing for next round of blockbusters…

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.
- Q3FY25 revenue break-up - domestic formulations: 21%, export formulations: 62% (mainly from the US, Canada, Brazil), APIs: 14%, crop protection: 3%

Investment Rationale:

- Q3FY25: No Revlimid show but ensuing quarters promising - Revenues de-grew ~39% YoY to ₹ 464 crore crippled by export formulations which de grew 53% to ₹ 286 crore probably on account of absence of anti-cancer drug gRevlimid. Other segments also witnessed mixed performance with 44% growth in APIs to ₹ 66.6 crore, 7% growth in the crop protection to ₹ 15 core and 3% de-growth in the domestic formulations to ₹ 96 core. EBITDA de grew 90% YoY to ₹ 27.6 crore while EBITDA margins squeezed 2996 bps to 6%. The decline in EBITDA was primarily due to inability to capitalize on operating leverage. PAT de grew 38% YoY to ₹ 132.4 crore.
- Company bets on 6-7 niche products to bridge gRevlimid gap –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. We continue to have faith in Natco's ability to focus on blockbusters which are capable of generating robust cash flows for 3-5 years horizon before they fade. The company is spending good amount of money on the R&D (8-10% on normalised sales).

Rating and Target price

- Our target price is ₹ 1305 based on 38x FY27E base business EPS of ₹ 32.5 plus ₹ 66 NPV for gRevlimid. We believe the correction is overdone.

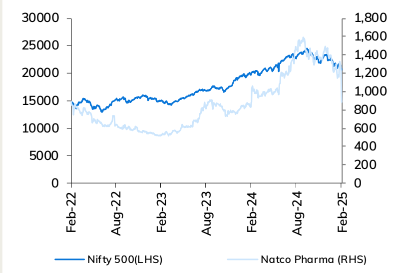
Particulars

Particular	Amount
Market Capitalisation	₹ 15921 crore
Debt (FY24)	₹ 369 crore
Cash (FY24)	₹ 70 crore
EV	₹ 16219 crore
52 week H/L (₹)	1639/848
Equity capital	₹ 36 crore
Face value	₹ 2 crore

Shareholding pattern

(in %)	Mar-24	Jun-24	Sep-24	Dec-24
Promoter	49.7	49.7	49.6	49.6
FIIs	16.1	17.5	17.5	17.9
DIIs	9.7	7.9	6.8	5.6
Others	24.5	25.0	26.1	26.9

Price Chart



Key risks

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

(ii) Delays in the resolution of Kothur plant warning letter and its implication on cost and launches.

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Vedant Nilekar
vedant.nilekar@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Revenues	2052.1	1944.8	2707.9	3992.7	24.8	4836.7	5449.4	3622.2	-3.2
EBITDA	606.2	263.5	936.4	1745.3	42.3	2412.9	2285.1	905.0	-19.7
EBITDA Margins (%)	29.5	13.5	34.6	43.7		49.9	41.9	25.0	
Net Profit	440.9	170.0	714.2	1388.3	46.6	2057.2	1700.7	595.6	-24.6
EPS (₹)	24.1	9.3	39.0	75.9		112.4	92.9	32.5	
PE (x)	36.1	93.7	22.3	11.5		7.7	9.4	26.7	
EV to EBITDA (x)	26.4	60.8	16.7	9.0		6.4	6.3	14.7	
RoNW (%)	10.7	4.0	14.7	23.7		28.8	19.6	6.5	
RoCE (%)	13.1	4.6	17.1	26.9		34.5	25.2	8.6	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

₹ Crore	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Sales	545.4	590.6	877.2	432.1	487.3	897.9	1136.4	1028.4	765.4	1056.9	1367.1	1377.3	463.6	-39.4	-66.3
Raw Material Expenses	93.0	296.3	147.7	105.8	115.4	258.4	196.0	215.8	162.2	142.6	180.2	177.6	82.8	-49.0	-53.4
% of Revenues	17.1	50.2	16.8	24.5	23.7	28.8	17.2	21.0	21.2	13.5	13.2	12.9	17.9	-333 bps	497 bps
Gross Profit	452.4	294.3	729.5	326.3	371.9	639.5	940.4	812.6	603.2	914.3	1186.9	1199.7	380.8	-36.9	-68.3
Gross Profit Margin (%)	82.9	49.8	83.2	75.5	76.3	71.2	82.8	79.0	78.8	86.5	86.8	87.1	82.1	333 bps	-497 bps
Employee Expenses	118.2	109.3	151.9	110.3	105.6	118.9	138.2	122.4	121.9	142.5	142.0	151.5	141.6	16.2	-6.5
% of Revenues	21.7	18.5	17.3	25.5	21.7	13.2	12.2	11.9	15.9	13.5	10.4	11.0	30.5	1462 bps	1954 bps
Other Expenses	247.5	209.8	189.7	120.7	165.6	181.5	278.3	235.2	206.4	285.9	235.6	237.7	211.6	2.5	-11.0
% of Revenues	45.4	35.5	21.6	27.9	34.0	20.2	24.5	22.9	27.0	27.1	17.2	17.3	45.6	1868 bps	2838 bps
Total Expenditure	458.7	615.4	489.3	336.8	386.6	558.8	612.5	573.4	490.5	571.0	557.8	566.8	436.0	-11.1	-23.1
% of Revenues	84.1	104.2	55.8	77.9	79.3	62.2	53.9	55.8	64.1	54.0	40.8	41.2	94.0	2996 bps	5289 bps
EBITDA	86.7	-24.8	387.9	95.3	100.7	339.1	523.9	455.0	274.9	485.9	809.3	810.5	27.6	-90.0	-96.6
EBITDA Margins(%)	15.9	-4.2	44.2	22.1	20.7	37.8	46.1	44.2	35.9	46.0	59.2	58.8	6.0	-2996 bps	-5289 bps
Depreciation	36.0	38.1	39.6	41.7	41.5	41.0	43.5	43.6	44.2	55.5	44.1	45.8	47.0	6.3	2.6
Interest	5.0	6.7	4.2	3.8	3.8	3.8	4.2	4.2	4.6	6.2	5.2	4.1	4.4	-4.3	7.3
Other income	30.2	13.8	34.3	20.5	20.0	29.0	18.2	32.4	30.2	53.4	43.6	57.6	187.5	520.9	225.5
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	75.9	-55.8	378.4	70.3	75.4	323.3	494.4	439.6	256.3	477.6	803.6	818.2	163.7	-36.1	-80.0
Total Tax	10.6	0.9	65.4	13.5	19.1	48.6	79.7	70.6	43.6	91.3	135.1	141.7	31.3	-28.2	-77.9
Tax rate (%)	14.0	-1.6	17.3	19.2	25.3	15.0	16.1	16.1	17.0	19.1	16.8	17.3	19.1		
PAT	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	668.5	676.5	132.4	-37.8	-80.4
PAT Margin (%)	12.0	-9.6	35.7	13.1	11.6	30.6	36.5	35.9	27.8	36.6	48.9	49.1	28.6	77 bps	-2056 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	65.3	-56.7	313.0	56.8	56.3	274.7	414.7	369.0	212.7	386.3	668.5	676.5	132.4	-37.8	-80.4
EPS (₹)	3.6	-3.1	17.1	3.1	3.1	15.0	22.7	20.2	11.6	21.1	36.5	37.0	7.2		

Source: Company, ICICI Direct Research

Q3FY25 Results / Conference call highlights

- Other Income consists of ₹90 crore from sale of land and one-time pre-tax gain.
- No Revlimid sales during the quarter resulted in low export formulation business however company expects 1/3rd market share starting from Q4FY25 and for next year.
- Mylan and Novo Nordisk have reached a settlement of the US patent litigation related to generic Ozempic.
- Company received two approvals during the quarter, Bosentan (With lupin and will launch later) and Everolimus (Launched is expected in Q4FY25).
- Natco expects Wegovy, Ozempic, Olaparib, Erdafitinib and Capmatinib where company has sole FTF should be good opportunity for company in future.
- Semaglutide India launch is expected in March 26.
- Company intends to do acquisition probably in RoW market/US market (front end).
- Natco anticipates to receive 7–8 new approvals in FY26 for RoW market.
- Crop sciences business target set for ₹120-150 crore revenues for FY26.
- Present market for Everolimus is US$ 120 million and Natco have 50-50 partnership.
- Subsidiary sales for the quarter were ₹190 crore.
- Remediation action on Kothur site is on and company has moved its key products to Vizag facility.
- 50-60% drop in profits is expected in FY27 post waning Revlimid.
- R&D expenses shall continue to be 7–8% of sales.

Financial Tables

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY24	FY25E	FY26E	FY27E
Revenues	**3,992.7**	**4,836.7**	**5,449.4**	**3,622.2**
Growth (%)	47.4	21.1	12.7	-33.5
Raw Material Expenses	716.6	733.8	1,077.0	833.4
Employee Expenses	525.0	646.8	758.6	507.4
Other expenses	1,005.8	1,043.2	1,328.7	1,376.4
Total Operating Expenditure	2,247.4	2,423.8	3,164.3	2,717.2
EBITDA	**1,745.3**	**2,412.9**	**2,285.1**	**905.0**
Growth(%)	86.4	38.2	-5.3	-60.4
Depreciation	186.8	183.9	197.1	210.2
Interest	19.2	18.1	13.7	9.3
Other Income	134.2	337.5	163.4	108.6
PBT	1,673.5	2,548.4	2,237.8	794.1
Total Tax	285.2	491.2	537.1	198.5
PAT before MI	1,388.3	2,057.2	1,700.7	595.6
Minority Interest	0.0	0.0	0.0	0.0
Adjusted PAT	**1,388.3**	**2,057.2**	**1,700.7**	**595.6**
Growth(%)	94.4	48.2	-17.3	-65.0
EPS (Adjusted)	**75.9**	**112.4**	**92.9**	**32.5**

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement (₹ crore)

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit/(Loss) after taxation	1,387.2	2,057.2	1,700.7	595.6
Add: Depreciation	186.8	183.9	197.1	210.2
(Inc)/dec in Current Assets	-362.5	-912.9	-255.7	720.6
Inc/(dec) in CL and Provisions	53.1	198.1	79.0	-37.4
Others	-53.0	18.1	13.7	9.3
CF from operating activities	**1,211.6**	**1,544.4**	**1,734.8**	**1,498.3**
(Purchase)/Sale of Fixed Assets	-356.7	-331.4	-300.0	-300.0
(Increase)/Decrease in Investments	-732.1	-103.6	0.0	0.0
Others	56.1	5.9	0.9	1.0
CF from investing activities	**-1,032.7**	**-429.1**	**-299.1**	**-299.0**
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	-170.8	-164.7	-164.7	-164.7
Others	-76.1	-180.5	-63.7	-59.3
CF from financing activities	**-246.9**	**-345.2**	**-228.4**	**-224.0**
Net Cash flow	-68.0	770.1	1,207.3	975.3
Opening Cash	131.9	70.4	104.6	1,311.9
Closing Cash	70.4	104.6	1,311.9	2,287.2
Free Cash Flow	**854.9**	**1,213.0**	**1,434.8**	**1,198.3**

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

(Year-end March)	FY24	FY25E	FY26E	FY27E
Equity Capital	35.8	35.8	35.8	35.8
Reserve and Surplus	5,817.3	7,114.1	8,650.1	9,080.9
Total Shareholders funds	5,853.1	7,149.9	8,685.9	9,116.7
Total Debt	368.5	206.1	156.1	106.1
Deferred Tax Liability	0.2	0.2	0.2	0.2
Minority Interest / Others	4.0	11.3	12.2	13.2
Long Term Provisions	70.9	69.5	69.5	69.5
Total Liabilities	**6,296.7**	**7,437.0**	**8,923.9**	**9,305.8**
Gross Block - Fixed Assets	3,606.9	3,841.1	4,116.1	4,391.1
Accumulated Depreciation	1,172.1	1,356.0	1,553.1	1,763.3
Net Block	2,434.8	2,485.1	2,563.0	2,627.8
Capital WIP	137.3	234.5	259.5	284.5
Total Fixed Assets	2,572.1	2,719.6	2,822.5	2,912.3
Goodwill on Consolidation	56.0	56.2	56.2	56.2
Investments	539.4	643.0	643.0	643.0
Inventory	700.5	774.6	973.7	753.5
Debtors	1,188.9	1,435.7	1,492.3	991.9
Cash	70.4	104.6	1,311.9	2,287.2
Other Current Assets	1,620.2	2,212.2	2,212.2	2,212.2
Total Current Assets	3,580.0	4,527.1	5,990.1	6,244.7
Creditors	235.5	314.4	353.9	273.9
Provisions	102.9	87.0	94.0	101.5
Other Current Liabilities	271.2	406.3	438.8	473.9
Total Current Liabilities	609.6	807.7	886.7	849.3
Net Current Assets	2,970.4	3,719.4	5,103.4	5,395.5
LT L & A & Other Non CA	158.8	298.8	298.8	298.8
Application of Funds	**6,296.7**	**7,437.0**	**8,923.9**	**9,305.8**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
Adjusted EPS	75.9	112.4	92.9	32.5
BV per share	319.8	390.7	474.6	498.2
Dividend per share	9.5	9.0	9.0	9.0
Cash Per Share	3.8	5.7	71.7	125.0
Operating Ratios (%)				
Gross Profit Margins	82.1	84.8	80.2	77.0
EBITDA Margins	43.7	49.9	41.9	25.0
PAT Margins	34.8	42.5	31.2	16.4
Inventory days	357	385	330	330
Debtor days	109	108	100	100
Creditor days	120	156	120	120
Asset Turnover	1.1	1.3	1.3	0.8
EBITDA Conversion Rate	69.4	64.0	75.9	165.6
Return Ratios (%)				
RoE	23.7	28.8	19.6	6.5
RoCE	26.9	34.5	25.2	8.6
RoIC	27.6	33.7	30.4	11.1
Valuation Ratios (x)				
P/E	11.5	7.7	9.4	26.7
EV / EBITDA	9.0	6.4	6.3	14.7
EV / Net Sales	4.0	3.2	2.6	3.7
Market Cap / Sales	4.0	3.3	2.9	4.4
Price to Book Value	2.7	2.2	1.8	1.7
Solvency Ratios				
Debt / EBITDA	0.2	0.1	0.1	0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	5.8	5.5	5.3	4.7
Working Capital Cycle	346	337	310	310

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 **E-mail Address**: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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