

Retail Equity Research (South India Focus)

Natco Pharma Ltd

Pharmaceuticals

BSE CODE : 524816

NSE CODE: NATCOPHARM

BLOOMBERG CODE: NTCPH:IN

SENSEX : 37,877

Hold

12M Investment Period

Rating as per Mid Cap

CMP Rs.829 TARGET Rs.881 RETURN 6% ↑

(Closing: 14-08-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Exports overshadow domestic challenges...

NATCO Pharma (NATCO) is a R&D focussed, vertically integrated pharmaceutical company with an experienced management team and presence across multiple speciality therapeutic segments.

- We upgrade our rating from "Sell" to "Hold" by valuing Natco at 26x FY22 EPS with a target of Rs.881.
- We expect the combination of existing products such as Chloroquine, Oseltamivir as well as the launch of Revlimid in the U.S and its focus on other regulated markets to drive overall profitability.
- Total revenues were up 13% YoY during the quarter led by strong performance in the export formulation and API segments.
- Formulation exports grew by 29% YoY, led by strong showing in the U.S where Chloroquine and Oseltamivir posted good volumes.
- The domestic formulation segment de-grew by 24% during the quarter with its Hepatitis and Oncology products posting decline in numbers.

Exports drive revenue growth

Total revenues grew 13% YoY to Rs.582cr during Q1FY21, mainly on the back of strong performance in the export formulation and API segments, which grew by 28.7% and 99.9%, respectively. The main revenue drivers in the exports were the sales of Oseltamivir and Chloroquine in the U.S, both of which have been recommended for the treatment of Covid-19. The APIs of these formulations also saw a large offtake for Natco. However, the increase in volumes of these low-margin products led to bottom-line de-growth, with EBITDA margins contracting by more than 800bps YoY. Natco received a Target action date of December for the approval of Revlimid sales in the U.S.

Covid-19 lockdown impacts domestic numbers

The domestic formulation segment de-grew by 24% in the quarter with its Hepatitis and Oncology products posting a decline in numbers. For Oncology, this was mainly attributed to the Covid-19 lockdown in the country as patients were hesitant to visit hospitals to receive their chemotherapy medications. There has been a pickup in volumes in April and May post the initial lockdown. Hepatitis sales continued its decline from Rs.500crs 3 years ago to Rs.117crs in FY20, with a further decline of 19% during the quarter. The company plans to launch 10-12 products in India in FY21 and has already launched 5 products in Q1FY21. Natco plans to enter the agrochemical business in India and is awaiting regulatory approvals for the filing of Chlorantraniliprole (CTPR), an insecticide. The management expects this segment to contribute 10-15% of revenues in the next 2-3 years

Natco settles Revlimid case in Canada

During the quarter, Natco was able to settle reach a settlement in the litigation trial related to its launch of Revlimid in Canada and the company will begin to commercialize the product this year. Further product approvals are expected in Canada and Brazil in FY21.

Valuations...

Despite the near-term challenges faced by the company domestically, we feel the Natco's strong portfolio of niche and generic drugs in the U.S, as well as its focus on increasing its share of revenue from other regulated markets like Canada, India and Brazil will drive profitability going forward. If the company can commercialize the highly anticipated Revlimid in the U.S, that would further boost the presence of the company in those regions. On the back of these assumptions, we expect a net profit CAGR of 15% over FY20-FY22E Hence, we upgrade our rating from SELL to HOLD with a target price Rs.881 based on 26x FY22E EPS.

Company Data

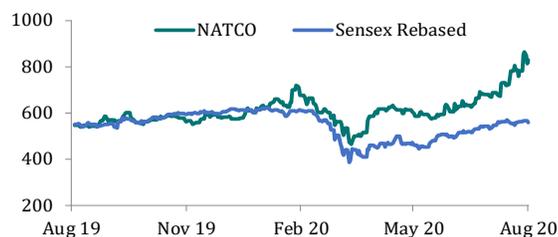
Market Cap (cr)	Rs.15,099
Enterprise Value (cr)	Rs.15,256
Outstanding Shares (cr)	18.1
Free Float(%)	51
Dividend Yield(%)	0.9
52 week high	Rs.898
52 week low	Rs.450
6m average volume (cr)	0.02
Beta	0.4
Face value	Rs.2

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	49	49	49
FII's	21.9	21.7	20.4
MFs/Insti	9.7	10.4	12.7
Public	19.4	18.9	17.9
Total	100.0	100.0	100.0

Promoter Pledge

Price Performance	3 month	6 Month	1 Year
Absolute Return	39.4%	20.3%	47.7%
Absolute Sensex	23.2%	-7.1%	2.7%
Relative Return*	16.2%	27.4%	44.9%

over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	1,915	2,139	2,371
Growth (%)	(8.6)	11.7	10.8
EBITDA	582	652	806
EBITDA Margin(%)	30.4	30.5	34.0
PAT Adj.	458	507	619
Growth (%)	(28.7)	10.6	22.1
Adj.EPS	25.1	27.8	33.9
Growth (%)	(28.7)	10.6	22.1
P/E	33.0	29.9	24.5
P/B	4.0	3.7	3.3
EV/EBITDA	26.7	23.5	18.9
ROE (%)	12.6	12.8	14.2
D/E	0.1	0.1	0.1

Joe V Samuel
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

(Rs cr)	Q1FY21	Q1FY20	YoY%	Q4FY20	QoQ%
Sales	582	513	13.4	477	22.0
EBITDA	190	212	(10.6)	151	25.9
EBITDA margins	32.6%	41.4%	(880)bps	31.6%	100bps
Depreciation	28	22	27.3	31	(8.2)
EBIT	162	190	(15.0)	120	34.6
Interest	4	7	(43.1)	4	5.7
Other Income	-	-	-	-	-
Exceptional Items	-	-	-	-	-
PBT	158	184	(14.0)	117	35.5
Tax	36	41	(12.2)	24	53.2
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	122	143	(14.5)	93	31.3
Adjustments	-	-	-	-	-
Adj PAT	122	143	(14.5)	93	31.3
No. of Shares	18.1	18.1	-	18.1	-
EPS (Rs)	6.7	7.8	(14.5)	5.2	31.3

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1,990	2,110	2,139	2,371	7.5%	12.4%
EBITDA	676	759	652	806	-3.5%	6.2%
Margins (%)	34	36	31	34	(300)bps	(200)bps
Adj. PAT	532	597	507	619	-4.8%	3.6%
EPS	29	33	28	34	-4.3%	2.7%

Sector wise sales

(Rs cr)	Q1FY21	Q1FY20	YoY%
API	144	72	99.9
Domestic formulation	125	164	(23.8)
Export formulation	274	213	28.7

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	2,185	2,095	1,915	2,139	2,371
% change	6.0	-4.0	-8.6	11.7	10.8
EBITDA	928	795	582	652	806
% change	36	-14	-26.7	12.0	23.6
Depreciation	66	81	100	106	117
EBIT	862	714	483	546	689
Interest	15	19	22	18	12
Other Income	40	130	107	107	119
PBT	887	825	569	636	796
% change	42	-7	-31.1	11.8	25.2
Tax	192	182	111	129	177
Tax Rate (%)	22	22	20	20	21
Reported PAT	695	642	458	507	619
Adj.*	0	0	-0.4	0	0
Adj. PAT	695	642	458	507	619
% change	43.0	-8.0	-28.7	10.6	22.1
No. of shares (cr)	18	18	18	18	18
Adj EPS (Rs)	38	35	25	28	34
% change	35	-7	-29	10.7	22.1
DPS (Rs)	8	6	7	7	7

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	95	91	67	74	91
Non-cash adj.	-156	139	-54	-93	-102
Changes in W.C	-29	1	-10	-23	-17
C.F. Operation	464	669	417	386	577
Capital exp.	-423	-457	-356	137	-200
Change in inv.	-693	-156	189	-61	-73
Other invest.CF	0	-2	0	-63	-75
C.F - Investment	-1116	-612	-167	13	-348
Issue of equity	896	-135	-54	0	0
Issue/repay debt	-230	102	-69	-313	-148
Dividends paid	-181	-111	-1	-148	-148
Other finance.CF	-15	-19	25	0	0
C.F - Finance	651	-51	-251	-357	-146
Chg. in cash	-1	5	-1	43	82
Closing cash	22	280	66	108	190

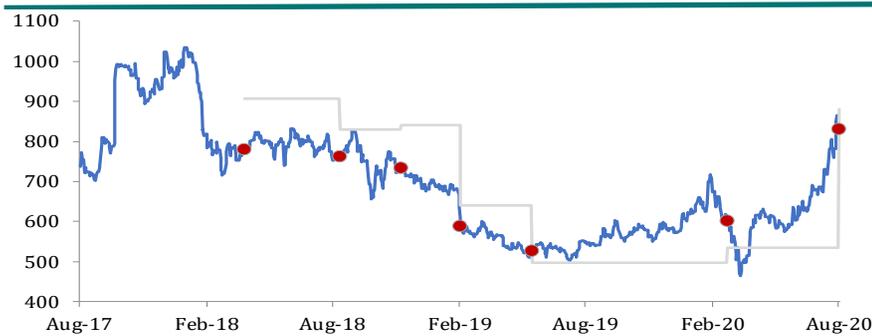
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19E	FY20A	FY21E	FY22E
Cash	22	280	66	108	190
Accounts Receivable	638	506	551	645	747
Inventories	438	529	558	733	650
Other Cur. Assets	791	711	859	938	1039
Investments	77	168	112	172	247
Gross Fixed Assets	1,393	1,680	2133	2126	2426
Net Fixed Assets	1,013	1,219	1576	1463	1646
CWIP	480	637	518	388	288
Intangible Assets	6	9	9	10	8
Def. Tax (Net)	-14	-12	-26	7	5
Other Assets	247	235	315	377	453
Total Assets	3,701	4,290	4562	4844	5277
Current Liabilities	403	328	338	432	383
Provisions	46	80	101	105	117
Debt Funds	173	386	316	151	151
Other Liabilities	6	9	34	23	23
Equity Capital	37	37	37	37	37
Reserves & Surplus	3,035	3,453	3737	4096	4566
Shareholder's Fund	3,072	3,489	3774	4132	4603
Total Liabilities	3,701	4,290	4562	4844	5277
BVPS	167	191	207	226	252

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	42.5	37.9	30.4	30.5	34.0
EBIT margin (%)	39.5	34.1	25.2	25.5	29.1
Net profit mgn.(%)	31.8	30.7	23.9	23.7	26.1
ROE (%)	29.4	19.6	12.6	12.8	14.2
ROCE (%)	28.1	20.5	12.8	13.2	15.0
W.C & Liquidity					
Receivables (days)	93	100	101	102	107
Inventory (days)	66	84	104	110	106
Payables (days)	2	1	4	4	2
Current ratio (x)	4.2	5	4.7	4.5	5.3
Quick ratio (x)	1.6	2.4	1.8	1.7	2.4
Turnover & Leverage					
Gross asset T.O (x)	1.7	1.4	1.0	1.0	1.0
Total asset T.O (x)	0.7	0.5	0.4	0.5	0.5
Int. covge. ratio (x)	56	37	22	31	58
Adj. debt/equity (x)	0.1	0.1	0.1	0.0	0.0
Valuation					
EV/Sales (x)	7.1	7.4	8.1	7.2	6.4
EV/EBITDA (x)	16.6	19.4	26.7	23.5	18.9
P/E (x)	22.0	23.6	33.0	29.9	24.5
P/BV (x)	5.0	4.3	4.0	3.7	3.3

Recommendation Summary (3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
09 th April, 2018	Buy	908
24 th August, 2018	Accumulate	831
21 th November, 2018	Buy	842
15 th February, 2019	Hold	640
30 th May, 2019	Sell	487
09 th March, 2020	Sell	534
14 th August, 2020	Hold	881

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

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