

## Retail Equity Research

# Natco Pharma Ltd

## Pharmaceuticals

BSE CODE : 524816

NSE CODE: NATCOPHARM

BLOOMBERG CODE: NTCPH:IN

SENSEX : 62,869

## Buy

12Months Investment Period

Rating as per Small Cap

**CMP Rs.583**
**TARGET Rs. 704**
**RETURN 21%**

(Closing: 02-12-22)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↑

**EARNINGS** ↓

## Muted revenue growth; agro-chem to aid earnings

NATCO Pharma (NATCO) is an India-based vertically integrated and R&D focused enterprise, engaged in developing, manufacturing and marketing finished dosage formulations and active pharmaceutical ingredients and intermediates.

- Natco witnessed 67% revenue growth in H1FY23, owing to robust Revlimid sales.
- EBITDA margins expanded 1436bps to 37% in H1FY23 from 23% in H1FY22 led by strong contribution from export formulations.
- Export formulation business registered a 204% growth in H1FY23 with revenues at Rs. 1020 cr. Brazilian and Canadian subs, backed by strong new launches, have reported robust growth with 40-50% share in profitability.
- In the Crop Health Science Division, the CTPR (Chlorantraniliprole) associated products which were launched are expected to drive earnings in the near-term.
- We remain optimistic on Natco's future profitability backed by the traction in CTPR and Revlimid sales and recovery in domestic formulation.
- Hence, we upgrade our rating to a Buy with a target price of Rs.704 based on 16x FY24E EPS.

### Revenue effected by price erosion in the US

An uptick in export formulation, led by Revlimid sales, delivered strong growth of 67% in H1FY23 revenues, with an EBITDA growth of 172%. However, lower contribution in Q2FY23 resulted in a 51% QoQ de-growth of revenues. Export formulations grew 49% YoY while API and domestic formulation businesses de-grew 42% and 6% respectively. EBITDA was reported at Rs. 95 cr (up 32% YoY, -76% QoQ) which was mainly driven by the base business. Additionally, EBITDA margins expanded 340bps YoY. Adj. PAT was registered at Rs. 58.6cr.

### Growth going ahead..

Although the profit share associated with Lenalilomide product in the US was minimal during the past quarter, it is expected to gain traction by Q4FY23 and Q1FY24. In terms of growth of the domestic business, Natco plans an acquisition in order to fill the gaps in their portfolio. Strong orderbook and new launches in the Brazilian and Canadian subs will aid in continuous growth of the subsidiaries. The launch of Apixaban in Brazil and Canada has seen a rise in profit shares from the subs. The launch of CTPR in the Crop Health Science Division is expected to drive earnings in the future quarters. 50-60% of the revenue is expected to come from B2B. In the pharma specialty space, Natco aims to strengthen the product range through launch of anti-infective therapy molecules.

### Crop Sciences to drive earnings

In the agro-chemical business front, revenue from Crop Heath Sciences grew 100% to Rs.1 cr. The onset of the Rabi and Kharif season bodes well for the agro business, and is expected to drive sales in the near-term. The management has indicated addition of field force during these seasons to enhance sales.

### Outlook and valuation

We expect Natco's revenue and operating performance to improve on the back of a strong agro sales, focus on US front end business, increased R&D and new launches of niche molecules with high entry barriers. The sale of Revlimid and CTPR promises strong growth in terms of revenue and profitability in the near-term. Hence, we upgrade to a Buy rating with a target price of Rs.704 based on 16x FY24E EPS.

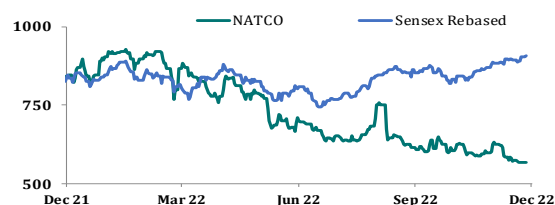
### Company Data

Market Cap (Rs cr)	10,284
Outstanding Shares (cr)	18.3
Free Float	51.2%
Dividend Yield	0.4%
52 week high (Rs)	942
52 week low (Rs)	559
6m average volume (cr)	0.03
Beta	0.64
Face value	Rs.2

Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	48.8	48.8	48.8
FPI's	11.9	11.6	11.5
MFs/Institutions	16.2	15.2	14.5
Public	23.1	24.2	25.2
Total	100.0	100.0	100.0
Promoter's pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	-7.9%	-20.2%	-31.5%
Absolute Sensex	5.0%	12.9%	9.5%
Relative Return*	-12.8%	-33.1%	-40.9%

\*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	1,945	2,981	3,523
Growth (%)	-8.6	53.3	18.2
EBITDA	263	835	1021
EBITDA Margin(%)	13	28	29
PAT Adj.	169	632.2	803.0
Growth (%)	-	274.1	27.0
Adj.EPS	9.3	34.6	44.0
Growth (%)	-	274.1	27.0
P/E	60.9	16.3	12.8
P/B	2.4	2.2	1.9
EV/EBITDA	40.4	12.6	10.2
ROE (%)	4.0	14.0	15.8
D/E	0.1	0.1	0.0

## Quarterly Financials (Consolidated)

(Rs cr)	Q2FY23	Q2FY22	YoY Growth (%)	Q1FY23	QoQ Growth (%)	H1FY23	H1FY22	YoY Growth (%)
<b>Sales</b>	<b>432</b>	<b>377</b>	<b>14.6</b>	<b>885</b>	<b>-51.2</b>	<b>1317</b>	<b>788</b>	<b>67.2</b>
<b>EBITDA</b>	<b>95</b>	<b>71</b>	<b>35.2</b>	<b>395</b>	<b>-75.9</b>	<b>491</b>	<b>180</b>	<b>172.1</b>
EBITDA margins (%)	22	19	336bps	45	-2263bps	37	23	1436bps
Depreciation	42	35	20.2	40	5.3	81	69	18.7
<b>EBIT</b>	<b>54</b>	<b>36</b>	<b>49.7</b>	<b>356</b>	<b>-84.9</b>	<b>409</b>	<b>112</b>	<b>266.1</b>
Interest	4	4	-5.0	4	-9.5	8	6	33.3
Other Income	21	38	-46.1	34	-40.2	55	55	-0.4
Exceptional Items	0	0	-	0	-	0	-	-
<b>PBT</b>	<b>70</b>	<b>70</b>	<b>0.7</b>	<b>386</b>	<b>-81.8</b>	<b>456</b>	<b>161</b>	<b>183.6</b>
Tax	14	5	187.2	65	-79.4	79	21	281.2
Share of profit from Associate	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>57</b>	<b>65</b>	<b>-12.7</b>	<b>320</b>	<b>-82.3</b>	<b>377</b>	<b>140</b>	<b>169.2</b>
Adjustments	0	0	-	0	-	0	-	-
<b>Adj PAT</b>	<b>57</b>	<b>65</b>	<b>-12.7</b>	<b>320</b>	<b>-82.3</b>	<b>377</b>	<b>140</b>	<b>169.2</b>
No. of Shares	18.3	18.3	0.0	18.3	0.0	18.3	19.3	-0.1
<b>Adj EPS (Rs)</b>	<b>3.1</b>	<b>3.6</b>	<b>-0.1</b>	<b>17.5</b>	<b>-0.8</b>	<b>20.6</b>	<b>7.3</b>	<b>1.8</b>

## Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	3,067	-	2,981	3,523	-2.8	-
EBITDA	1,042	-	835	1021	-19.9	-
Margins (%)	34.0	-	28.0	29.0	-600bps	-
Adj. PAT	820	-	632	803	-22.9	-
EPS	45	-	34.6	44.0	-23.0	-

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Sales</b>	<b>1,915</b>	<b>2,052</b>	<b>1,945</b>	<b>2,981</b>	<b>3,523</b>
% change	-8.6	7.2	-5.2	53.3	18.2
<b>EBITDA</b>	<b>582</b>	<b>606</b>	<b>263</b>	<b>835</b>	<b>1,021</b>
% change	-26.7	4.0	-56.7	217.9	22.4
Depreciation	100	117	143	170	174
EBIT	482.6	489.1	119.9	664.5	847.5
Interest	22	13	18	40	42
Other Income	107.4	103.6	99.0	149.1	176.2
<b>PBT</b>	<b>569</b>	<b>579</b>	<b>201</b>	<b>773</b>	<b>982</b>
% change	-31.1	1.9	-65.3	284.4	26.9
Tax	111	137	32	141	179
Tax Rate (%)	0.2	0.2	0.2	0.2	0.2
<b>Reported PAT</b>	<b>458</b>	<b>442</b>	<b>169</b>	<b>632</b>	<b>803</b>
Adj.*	0.0	0.0	0.0	0.0	0.0
<b>Adj. PAT</b>	<b>458</b>	<b>442</b>	<b>169</b>	<b>632</b>	<b>803</b>
% change	-28.7	-3.4	-61.8	274.1	27.0
No. of shares (cr)	18	18	18	18	18
<b>Adj EPS (Rs)</b>	<b>25.1</b>	<b>24.2</b>	<b>9.3</b>	<b>34.6</b>	<b>44.0</b>
% change	-29	-3	-62	274	27
DPS (Rs)	7.0	6.3	4.5	7.0	7.0

### BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	66	284	206	300	412
Account Receivable	551	413	621	653	772
Inventories	558	798	762	796	941
Other Cur. Assets	859	427	390	604	714
Investments	112	304	308	308	311
Gross Fixed Assets	2,124	2,677	2,973	3,473	3,773
Net Fixed Assets	1,576	2,014	2,179	2,509	2,635
CWIP	518	223	130	110	115
Intangible Assets	9	9	133	133	133
Def. Tax (Net)	-26	-41	-30	-33	-31
Other Assets	315	291	371	408	448
<b>Total Assets</b>	<b>4,562</b>	<b>4,751</b>	<b>5,079</b>	<b>5,821</b>	<b>6,489</b>
Current Liabilities	338	233	245	425	376
Provisions	101	112	113	147	174
Debt Funds	316	268	416	443	468
Other Liabilities	34	16	42	57	68
Equity Capital	37	37	37	37	37
Reserves & Surplus	3,737	4,085	4,227	4,711	5,366
Shareholder's Fund	3,774	4,122	4,264	4,748	5,402
<b>Total Liabilities</b>	<b>4,562</b>	<b>4,751</b>	<b>5,079</b>	<b>5,821</b>	<b>6,489</b>
BVPS	207	226	234	260	296

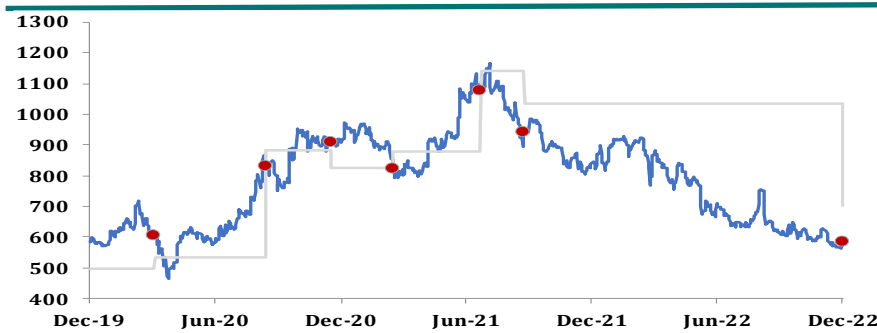
### CASH FLOW

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	67	70	34	94	116
Non-cash adj.	-54	131	-239	-33	-119
Changes in W.C	-98	-213	-231	-124	-427
<b>C.F. Operation</b>	<b>417</b>	<b>299</b>	<b>47</b>	<b>712</b>	<b>576</b>
Capital exp.	-356	-255	-233	-480	-305
Change in inv.	189	151	330	0	-3
Other invest.CF	0	0	-103	-37	-41
<b>C.F - Investment</b>	<b>-167</b>	<b>-103</b>	<b>-5</b>	<b>-517</b>	<b>-349</b>
Issue of equity	-54	0	0	2	0
Issue/repay debt	-69	-172	54	-123	-123
Dividends paid	-1	-114	-82	-148	-148
Other finance.CF	25	-13	-17	0	0
<b>C.F - Finance</b>	<b>-251</b>	<b>-186</b>	<b>35</b>	<b>-103</b>	<b>-115</b>
Chg. in cash	-1	9	76	92	113
Closing cash	66	284	206	300	412

### RATIOS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	30.4	29.5	13.5	28.0	29.0
EBIT margin (%)	25.2	23.8	6.2	22.3	24.1
Net profit mgn.(%)	23.9	21.5	8.7	21.2	22.8
ROE (%)	12.6	11.2	4.0	14.0	15.8
ROCE (%)	12.8	11.9	2.8	14.0	15.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	101	86	97	78	74
Inventory (days)	104	121	146	95	90
Payables (days)	3	4	7	8	9
Current ratio (x)	4.7	5.7	5.6	4.2	5.2
Quick ratio (x)	1.8	3.0	3.4	2.2	3.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.0	0.9	0.7	0.9	1.0
Total asset T.O (x)	0.4	0.4	0.4	0.5	0.6
Int. covge. ratio (x)	22.4	36.8	6.8	16.5	20.2
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.0
<b>Valuation</b>					
EV/Sales (x)	5.6	5.1	5.5	3.5	3.0
EV/EBITDA (x)	18.3	17.1	40.4	12.6	10.2
P/E (x)	22.5	23.3	60.9	16.3	12.8
P/BV (x)	2.7	2.5	2.4	2.2	1.9

## Recommendation Summary (Last 3 years)



Dates	Rating	Target
15 <sup>th</sup> February ,2019	Hold	640
30 <sup>th</sup> May ,2019	Sell	487
09 <sup>th</sup> March, 2020	Sell	534
14 <sup>th</sup> August, 2020	Hold	881
18 <sup>th</sup> November, 2020	Reduce	827
16 <sup>th</sup> February, 2021	Hold	877
24 <sup>th</sup> June, 2021	Hold	1,143
27 <sup>th</sup> August, 2021	Hold	1,033
05 <sup>th</sup> December 2022	Buy	704

Source: Bloomberg, Geojit Research.

## 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/Neutral	-	-	-

### 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/Sell:** Reduce your exposure to the stock due to limited upside.

**Not rated/Neutral :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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