

Retail Equity Research
NATCO Pharma Ltd.
Pharmaceuticals

BSE CODE : 524816
BLOOMBERG CODE: NTCPH:IN

NSE CODE: NATCOPHARM
SENSEX : 72,470

12 Months Investment Period
Rating as per Small Cap

CMP Rs.958
TARGET Rs. 1,116
RETURN


16%

(Closing: 26-03-24)

KEY CHANGES:

TARGET



RATING



EARNINGS



Export formulations boosted revenue

NATCO Pharma Ltd. (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.

- 9MFY24 revenue increased 62% YoY, owing to robust sales growth in export formulations and APIs.
- EBITDA grew 110% YoY to Rs. 1,254cr, and EBITDA margin expanded 982 bps to 42.8% in 9MFY24 on the strong performance of Revilimid.
- Export formulation business registered 69% growth in 9MFY24, backed by Glatiramer and Everolimus sales.
- Aims to double its revenue by launching new agro products, through targeted advertising in key agrarian states and improving revenue realisation from existing ones.
- We expect revenue to improve on the back of strong formulation business, stabilisation of prices in U.S, launches of niche molecules and new agro brands. However, increase in freight rates due to red sea crisis may impact profitability. Hence, we downgrade to Accumulate rating with a target price of Rs.1,116 based on 12x FY26E EPS.

Revenue driven by export sales & APIs

9MFY24 revenue increased 62% YoY to Rs. 2,931cr, driven by growth in the export formulations and API, especially from the U.S., Brazil, and Canada. EBITDA grew 110% YoY to Rs. 1,254cr and the EBITDA margin expanded 982bps to 42.8% on the strong performance of Revlimid and new product launches. Adj. PAT was registered at Rs. 1002 cr (+128% YoY). All the segments showed robust double-digit growth, with export formulations and API experiencing YoY increases of 69% and 45%, respectively. An uptick in export formulations was led by Glatiramer and Everolimus sales. Brazil and Canada are the best subs in the ROW, and each sub filled seven to eight products. The company started its new subsidiary operations in Colombia and Indonesia, extending its product line with a particular emphasis on complex generics and branded generic business.

Growth going ahead..

Natco holds 23 FTFs (First to File) in the pipeline, with 15 approvals. They have filed FTFs for semaglutide (weight loss) and olaparib (ovarian/breast cancer). Pomalyst (cancer/multiple myeloma) has been launched in several markets, including India, Canada, and Australia. Natco Pharma plans to launch 2-3 high-value product launches within one year, further improving the product basket. Management is optimistic about Revilimd, and sales are likely to improve in the upcoming quarters from new geographies. The company has invested \$2 million in Cellogen, which is working on a promising molecule in CART-cell therapy, which is initial stage. The management is eyeing inorganic growth via emerging market acquisitions and aims to finalise deals within a year, supported by a robust balance sheet and strong net cash position.

Brand push enhance agro chem sales in India

The company is expected to launch several new products in the agrobusiness over the next 2 years and to double its revenue to 300-400cr. The company is currently brand building with farmers in key states (Maharashtra, Andhra Pradesh, and Telangana) through targeted advertising. Once raw material prices started to stabilise, establish the brand in the market and later exploit export opportunities.

Outlook and valuation

We expect revenue to improve on the back of strong formulation business, stabilisation of prices in U.S, launches of niche molecules and new agro brands. However, increase in freight rates due to red sea crisis may impact profitability. Hence, we downgrade to Accumulate rating with a target price of Rs.1116 based on 12x FY26E EPS.

Company Data

Market Cap (Rs cr)	17,374
Enterprise Value (Rs cr)	16,602
Outstanding Shares (Rs cr)	17.9
Free Float	0.50
Dividend Yield	1.0%
52 week high	1,108
52 week low	540
6m average volume (cr)	0.08
Beta	0.7
Face value (Rs)	2.0

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	49.8	49.7	49.7
FPI's	11.0	12.8	13.7
MFs/Institutions	15.2	14.0	11.3
Public	24.1	24.0	25.3
Total	100.0	100.0	100.0
Promoter's pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.0%	11.1%	76.9%
Absolute Sensex	0.7%	10.8%	25.9%
Relative Return*	20.3%	0.4%	51.0%

*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	3,802	4,506	5,074
Growth (%)	40.5	18.5	12.6
EBITDA	1538	1856	2086
EBITDA Margin(%)	40.4	41.2	41.1
PAT Adj.	1203.8	1470.1	1664.3
Growth (%)	59.0	22.1	13.2
Adj. EPS	67.3	82.1	93.0
Growth (%)	62.1	22.1	13.2
P/E	9.3	7.6	6.7
P/B	1.9	1.5	1.3
EV/EBITDA	7.2	5.6	4.4
ROE (%)	22.2	22.2	20.7
D/E	0.0	-0.1	-0.2

Vinod T P
Research Analyst



Quarterly Financials (Consolidated)

(Rs cr)	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	759	493	54.0	1031	-26.4	2931	1809	62.0
EBITDA	268	106	153.2	458	-41.5	1254	597	110.2
EBITDA margins %	35.3	21.5	1384bps	44.4	-906bps	42.8	33.0	982bps
Depreciation	44	42	6.5	44	-85.1	131	123	6.9
EBIT	224	64	247.7	414	-46.0	1123	474	137.0
Interest	5	4	21.1	4	10	13	12	10
Other Income	37	21	77.9	29	25.9	86	76	13.9
Exceptional Items	0	0		0		0	1	
PBT	256	81	214.9	440	-41.7	1196	538	122.5
Tax	44	19	128.3	71	-38.2	194	98	97.9
Share of profit from Associate	0	0		0		-	-	
Reported PAT	213	62	241.4	369	-42.4	1002	440	128.0
Adjustments	0	0		0		0	1	
Adj PAT	213	62	241.4	369	-42.4	1002	440	128.0
No. of Shares	18.3	18.3	0.0	18.3	0.0	18.3	18.3	0.0
Adj EPS (Rs)	11.6	3.4	241.4	20.2	-42.4	54.8	24.0	128.0

Change in Estimates

	Old estimates		New estimates			Change (%)	
Year / Rs Cr	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	3,232	3,781	3,802	4,506	5,074	17.6	19.2
EBITDA	1,131	1,331	1538	1856	2086	36.0	39.5
Margins (%)	35	35.2	40.4	41.2	41.1	544.0bps	600.0bps
Adj. PAT	878	1,053	1204	1470	1664	37.1	39.6
EPS	49.1	58.8	67.3	82.1	93.0	37.0	39.7

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	1,945	2,707	3,802	4,506	5,074
% change	-5.2	39.2	40.5	18.5	12.6
EBITDA	264	978	1,538	1,856	2,086
% change	-56.5	271.0	57.3	20.7	12.3
Depreciation	143	164	182	197	210
EBIT	120.9	813.7	1355.8	1659.6	1875.2
Interest	18	15	18	20	18
Other Income	99.0	104.6	152.1	180.2	203.0
PBT	202	904	1,490	1,820	2,060
% change	-65.0	347.0	64.9	22.1	13.2
Tax	32	147	286	350	396
Tax Rate (%)	15.9	16.2	21.0	21.0	21.0
Reported PAT	170	757	1,204	1,470	1,664
Adj.*	0.0	0.0	0.0	0.0	0.0
Adj. PAT	170	757	1,204	1,470	1,664
% change	-61.4	345.4	59.0	22.1	13.2
No. of shares (cr)	18	18	18	18	18
Adj EPS (Rs)	9.3	41.5	67.3	82.1	93.0
% change	-61	345	62	22	13
DPS (Rs)	4.5	5.5	7.0	8.0	8.0

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	206	546	658	1396	2606
Account Receivable	621	856	1146	1271	1460
Inventories	762	743	1027	1241	1279
Other Cur. Assets	390	328	625	741	834
Investments	308	392	451	519	597
Gross Fixed Assets	2973	3151	3451	3701	3951
Net Fixed Assets	2179	2239	2357	2411	2450
CWIP	130	64	89	104	0
Intangible Assets	133	188	200	200	200
Def. Tax (Net)	-30	-12	-39	-71	-108
Other Assets	371	291	418	541	609
Total Assets	5079	5645	6948	8371	9947
Current Liabilities	245	350	439	511	553
Provisions	113	102	135	148	167
Debt Funds	416	167	240	215	190
Other Liabilities	42	153	183	218	238
Equity Capital	37	37	36	36	36
Reserves & Surplus	4227	4837	5916	7243	8764
Shareholder's Fund	4264	4874	5952	7278	8800
Total Liabilities	5079	5645	6948	8371	9947
BVPS	234	267	332	407	492

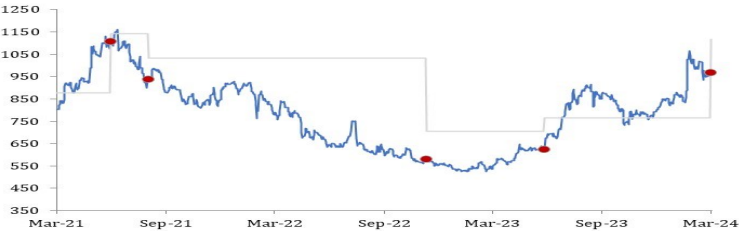
CASH FLOW

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	34	103	167	202	227
Non-cash adj.	-239	-222	-290	-126	-188
Changes in W.C	-231	63	-787	-387	-280
C.F. Operation	47	849	632	1293	1614
Capital exp.	-233	-146	-325	-265	-146
Change in inv.	330	-331	-71	-68	-78
Other invest.CF	-103	354	-128	-122	-68
C.F - Investment	-5	-477	-523	-455	-292
Issue of equity	0	0	-1	0	0
Issue/repay debt	54	-339	-52	-168	-168
Dividends paid	-82	-100	-125	-143	-143
Other finance.CF	-17	-14	0	0	0
C.F - Finance	35	-363	4	-100	-112
Chg. in cash	76	9	112	738	1210
Closing cash	206	546	658	1396	2606

RATIOS

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	13.5	36.1	40.4	41.2	41.1
EBIT margin (%)	6.2	30.1	35.7	36.8	37.0
Net profit mgn.(%)	8.7	28.0	31.7	32.6	32.8
ROE (%)	4.1	16.6	22.2	22.2	20.7
ROCE (%)	2.8	16.7	22.8	22.8	21.3
W.C & Liquidity					
Receivables (days)	97	100	96	98	98
Inventory (days)	146	101	85	92	91
Payables (days)	93	118	132	138	144
Current ratio (x)	5.6	5.5	6.0	7.1	8.6
Quick ratio (x)	3.4	4.0	4.1	5.2	7.3
Turnover &Leverage					
Gross asset T.O (x)	0.7	0.9	1.2	1.3	1.3
Total asset T.O (x)	0.4	0.5	0.6	0.6	0.6
Int. covge. ratio (x)	6.8	56.1	76.7	82.9	104.1
Adj. debt/equity (x)	0.1	0.0	0.0	-0.1	-0.2
Valuation					
EV/Sales (x)	6.0	4.1	2.9	2.3	1.8
EV/EBITDA (x)	44.5	11.4	7.2	5.6	4.4
P/E (x)	67.0	15.0	9.3	7.6	6.7
P/BV (x)	2.7	2.3	1.9	1.5	1.3

Recommendation Summary (Last 3 years)



Dates	Rating	Target
18 th November, 2020	Reduce	827
16 th February, 2021	Hold	877
24 th June, 2021	Hold	1,143
27 th August, 2021	Hold	1,033
05 th December 2022	Buy	704
21 st June 2023	Buy	765
27 th March, 2024	Accumulate	1,116

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:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **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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