

13 August 2024

India | Equity Research | Q1FY25 results review

Natco Pharma

Pharma

Setting the stage for a strong FY25

Natco's Q1FY25 beat was driven by higher sales of gRevlimid while its subsidiaries in Brazil and Canada (INR 1.8bn of sales) also did well. India biz saw an uptick on a sequential-basis while a high base of last year dented YoY growth (-23%). Crop science growth continued to be marred by stock returns. Management guides for profit growth of 20% for FY25 driven by better market share in gRevlimid (to touch ~33% in H2FY26). Natco has a net cash balance of ~INR 20bn – earmarked for R&D (8–10% of sales), acquisition in RoW markets and dividends. We raise our FY25E–26E earnings by 13–28% to factor in better traction in exports. We lower our rating to **HOLD** and raise our TP to INR 1,430 on 20x for its base business' FY26E earnings and NPV of INR 254 for limited competition opportunities in US.

Momentum in exports boosts growth and margins

Q1FY25 revenue grew 19.5% YoY (27.5% QoQ) to INR 13.6bn (I-Sec: INR 12.8bn) led by sustained momentum in the export business. Gross margin expanded 396bps YoY (12bps QoQ) to 86.8% due to profit share of gRevlimid. EBITDA grew 52.4% YoY (+61.8 QoQ) to INR 8bn (I-Sec: INR 5.9bn). EBITDA margins expanded 1,277bps YoY (1,251bps QoQ) to 59.1% (I-Sec: 46.3%). PAT rose 59.1% YoY (73.1% QoQ) to INR 6.7bn (I-Sec: INR 4.8bn) boosted by higher other income (+144.2% YoY).

Base biz growth healthy; gRevlimid share to gradually improve

Domestic formulations revenues declined 22.8% YoY (+95.0% QoQ) to INR 1bn. Adjusting for a one-off, India biz is growing at 8–10%. On a low base, we expect the domestic business to grow 8.7% over FY24–26E driven by improved momentum in oncology and new product launches. Export revenue was up 36.9% YoY (26.7% QoQ) to INR 12.1bn driven by higher sales and profit share of gRevlimid and traction in subsidiaries. We expect exports to grow 18.9% CAGR over FY24–26E led by gRevlimid. Crop sciences biz declined 65.1% YoY to INR 156mn in Q1FY25 due to provisions for sales returns and discounts. The biz is expected to stabilise in the next 2–3 years with revenues of INR 3bn. API business declined 47.8% YoY (-21.6% QoQ) to INR 392mn impacted by higher captive consumption. In Aug'24, the company has a net cash balance of ~INR 20bn, which it may utilise for M&A. Management has set FY25 revenue growth guidance at 15–20% and profit growth of 20%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	27,071	39,988	47,998	55,465
EBITDA	9,356	17,514	22,528	26,619
EBITDA Margin (%)	34.6	43.8	46.9	48.0
Net Profit	7,153	13,883	18,494	22,742
EPS (INR)	39.2	77.6	103.3	127.1
EPS % Chg YoY	320.8	97.9	33.2	23.0
P/E (x)	38.1	19.3	14.5	11.8
EV/EBITDA (x)	28.2	14.9	11.3	9.1
RoCE (%)	14.9	24.9	27.0	27.2
RoE (%)	15.7	25.9	28.2	28.0

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Market Data

Market Cap (INR)	268bn
Market Cap (USD)	3,188mn
Bloomberg Code	NTCPH IN
Reuters Code	NATP.BO
52-week Range (INR)	1,540 /724
Free Float (%)	50.0
ADTV-3M (mn) (USD)	15.0

Price Performance (%)	3m	6m	12m
Absolute	53.4	79.3	76.2
Relative to Sensex	44.0	68.0	54.3

Earnings Revisions (%)	FY25E	FY26E
Revenue	4.4	12.1
EBITDA	9.3	20.7
EPS	12.5	28.4

Previous Reports07-06-2024: [Company Update](#)28-05-2024: [Q4FY24 results review](#)

Valuation and risks

Gradually improvement in market share of gRevlimid and table pricing in this product had driven ~37% YoY growth in its export biz in Q1FY25. Besides, the company also recorded INR 400–500mn one-time tender sales in Canada. Ahead, management expects a significant improvement in its market share in gRevlimid, which will likely touch ~33% in H2FY26. The company has a strong pipeline of FTF opportunities that includes assets such as Semaglutide, Olaparib and Ibrutinib, which should drive growth in the long term while the company also aims to file 2–3 limited competition products in the US every year. Traction in subsidiaries in Brazil and Canada have improved considerably and in Q1FY25 it generated a PBT of INR 430mn. India growth is expected to stabilise at 8–10%. And it may launch semaglutide in India when the patent expires in Mar'26. Besides, the company has a cash balance of INR 20bn which it may use to grow inorganically and R&D.

We raise our revenue estimates by ~4%/12% and EPS estimates by ~13%/28% for FY25E/FY26E, factoring-in higher contribution from export business. The stock currently trades at valuations of 14.5x FY25E and 11.8x FY26E earnings, and EV/EBITDA multiple of 11.3x FY25E and 9.1x FY26E. We lower our rating to **HOLD** (earlier Add), but with a higher SoTP-based target price of INR 1,430 (earlier INR 1,145), including NPV of INR 254/share for exclusive products.

Key upside risks: Faster rise in market share in gRevlimid; and healthy growth in domestic business.

Key downside risks: Delay in US launches; and increased competition in gCopaxone and gRevlimid.

Q1FY25 conference call takeaways

India

- Domestic business grew 8-10% post adjusting for one-off sales last year.
- Semaglutide will be a key new launch in domestic market, post patent expiry in Mar'26.

Agrochemicals

- Q1 growth was impacted due to provision for sales returns and discounts.
- Management is targeting to achieve revenue of INR 2.5-3bn from this business in next 2-3 years.

US

- Revlimid share will move from single-digit, from time of launch, to 33% at time of patent expiry in Jan'26.
- Mylan is the front-end partner in Semaglutide. Profit share of Mylan will be higher in this product and CMO Stelis will also have a share in profits.
- Natco has sole FTF for weight loss indication of Semaglutide and in diabetes they have mix of sole (~60% of market) and some joint FTFs
- Remediation at its Kothur plant is ongoing. Timeline for re-inspection by the USFDA is uncertain. The company though has started moving products to Vizag plant (gRevlimid) and CMO site to de-risk dependence on this plant.
- Key products which will drive growth in longer term include Semaglutide, Olaparib and Ibrutinib.
- Natco has filed 3 FTF products in Q1. Further, it will file 2 sole FTFs in FY25 and has a decent pipeline of sole FTF products for near term.

Subsidiaries

- In Q1 subsidiaries had sales of INR 1.8bn and PBT of INR 430mn.
- Canada recorded highest quarterly revenue Q1 due to a tender order of INR 400-500mn.
- In Canada it has a portfolio of more than 40 products (dossiers filed) of 20 products are marketed.
- Export business has grown on revenue and margin ex-Revlimid.
- Ahead, the company expects growth momentum in subsidiaries to continue, as it has good pipeline of products pending approval in Canada and Brazil.

Q1 financials

- Revenue grew 21.6% YoY driven by export formulation while domestic remained stable.
- Revenue and margins of base business (ex-gRevlimid) has also improved.
- API biz growth was impacted due to higher captive consumption.
- The company currently has cash balance of INR 20bn.

Guidance

- Management expects strong growth in Q2FY25 and aims to achieve a 20% growth in profits in FY25.
- The company is unlikely to make a meaningful increase in dividend payout as it is conserving cash for acquisitions.
- It may acquire companies with disruptive technology or businesses that will provide it access to newer markets like Africa, Western Europe etc.

Exhibit 1: Quarter review

YE 31 March (INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	%QoQ	FY24	FY23	% YoY
Sales	13,626	11,405	19.5	10,683	27.5	39,988	27,071	47.7
Gross Profit	11,824	9,445	25.2	9,257	27.7	32,822	20,798	57.8
Gross Margin (%)	86.8	82.8	396bps	86.7	12bps	82.1	76.8	525bps
EBITDA	8,048	5,280	52.4	4,973	61.8	17,514	9,356	87.2
EBITDA margin (%)	59.1	46.3	1277bps	46.6	1251bps	43.8	34.6	924bps
Interest	52	42	23.8	62	(16.1)	192	145	32.4
Depreciation	441	435	1.4	555	(20.5)	1,868	1,638	14.0
Other income	481	197	144.2	420	14.5	1,281	1,046	22.5
PBT	8,036	5,000	60.7	4,776	68.3	16,735	8,619	94.2
Tax	1,436	921	55.9	903	59.0	2,852	1,466	94.5
Effective tax rate (%)	16.8	15.9	87bps	19.1	-230bps	17.0	17.0	3bps
PAT	6,685	4,203	59.1	3,863	73.1	13,883	7,153	94.1
EPS (INR)	36.6	23.0	59.1	21.2	73.1	77.6	39.2	97.9

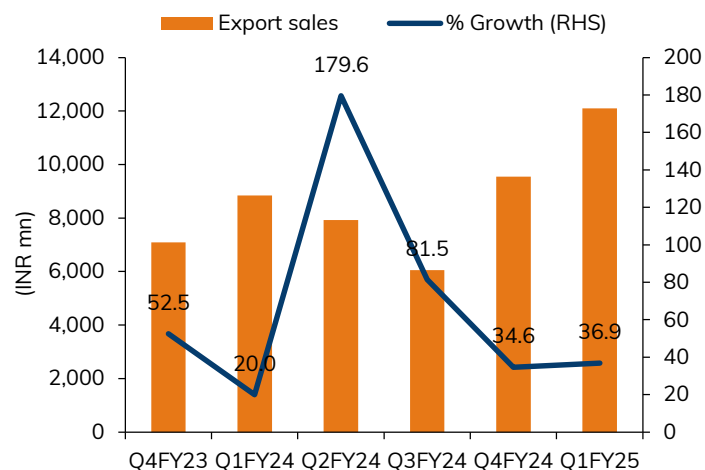
Source: Company data, I-Sec research

Exhibit 2: Business mix

Segmental Revenue (INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	%QoQ	FY24	FY23	% YoY
APIs	392	751	(47.8)	500	(21.6)	2,492	2,103	18.5
Domestic formulations	1,022	1,324	(22.8)	524	95.0	3,867	3,749	3.1
Export formulations (incl profit share)	12,101	8,842	36.9	9,549	26.7	32,369	20,632	56.9
Other operating income	436	238	83.2	534	(18.4)	1,450	1,702	(14.8)
Crop Health Science	156	447	(65.1)	(40)	(490.0)	1,083	409	164.8
Total	14,107	11,602	21.6	11,067	27.5	41,261	28,595	44.3

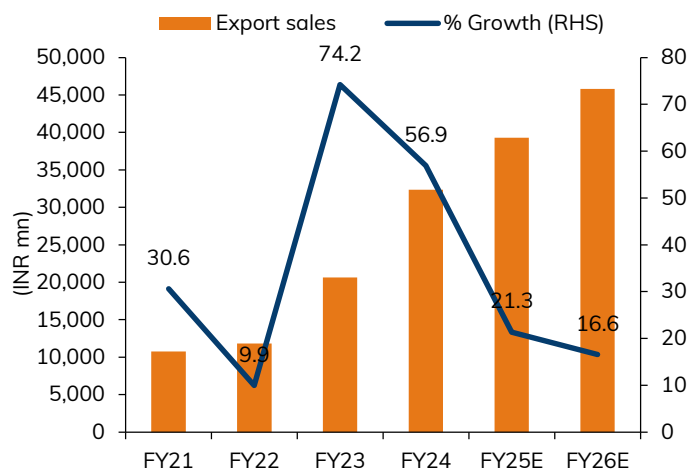
Source: Company data, I-Sec research

Exhibit 3: Revenue growth driven by gRevlimid



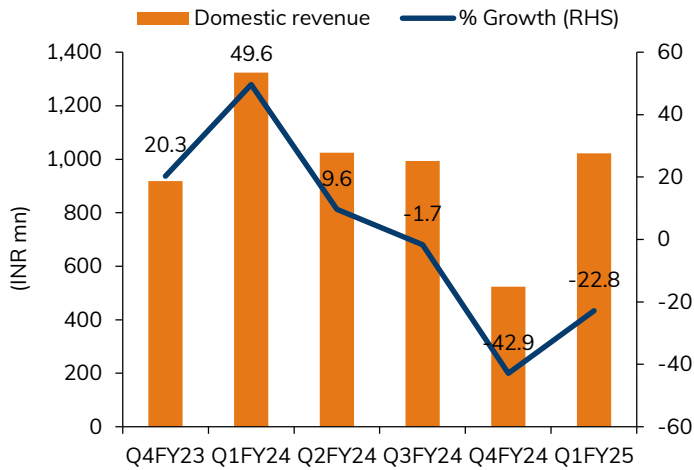
Source: Company data, I-Sec research

Exhibit 4: US growth to be supported by gRevlimid and other limited-competition products



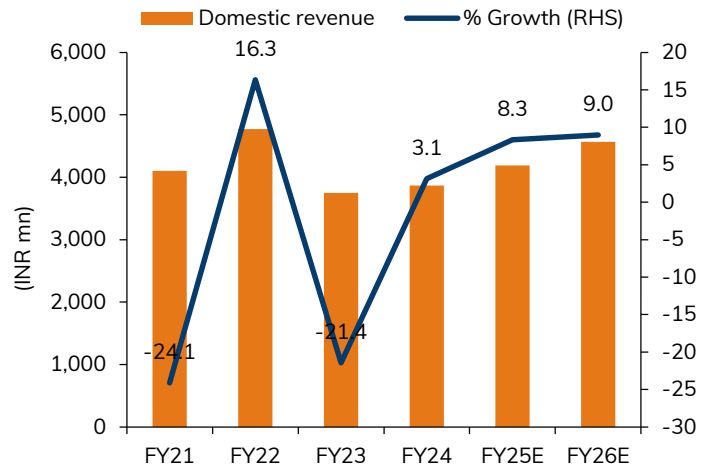
Source: Company data, I-Sec research

Exhibit 5: Domestic business grew 8-10% YoY excluding one-off sales



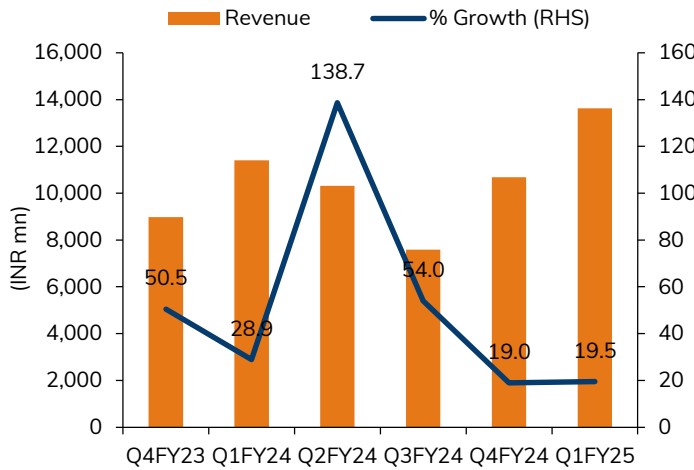
Source: Company data, I-Sec research

Exhibit 6: India business CAGR expected at 8.7% over FY24-26E



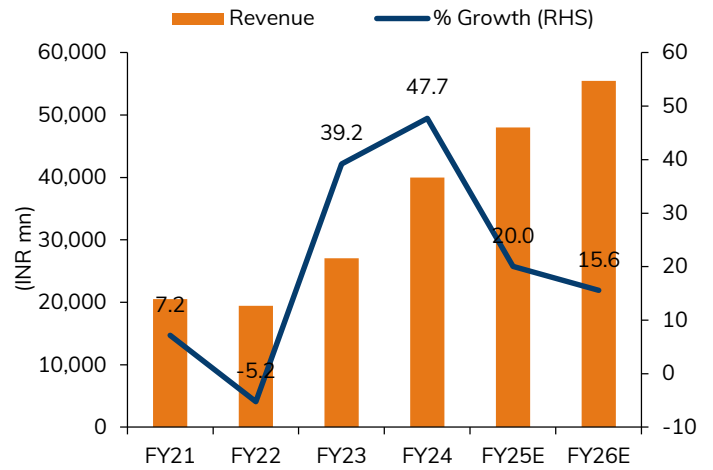
Source: Company data, I-Sec research

Exhibit 7: Growth driven by strong performance in export business



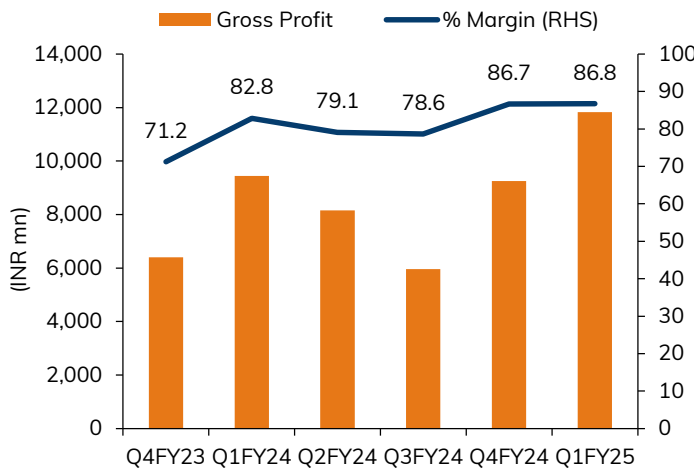
Source: Company data, I-Sec research

Exhibit 8: Total revenue estimated to grow 17.8% over FY24-26



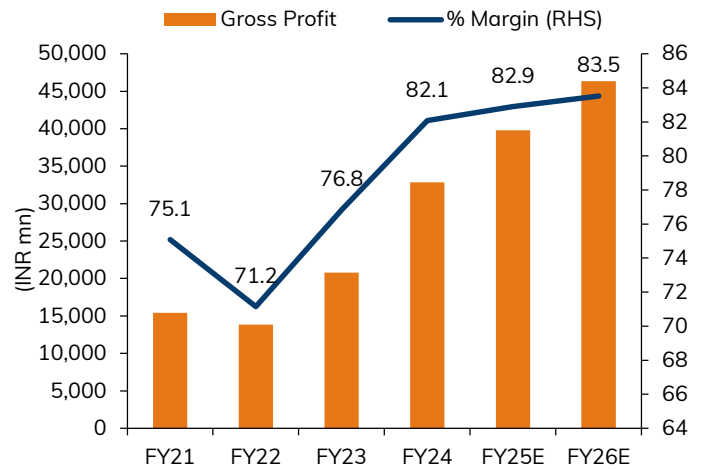
Source: Company data, I-Sec research

Exhibit 9: Margin expansion due to profit share of gRevlimid



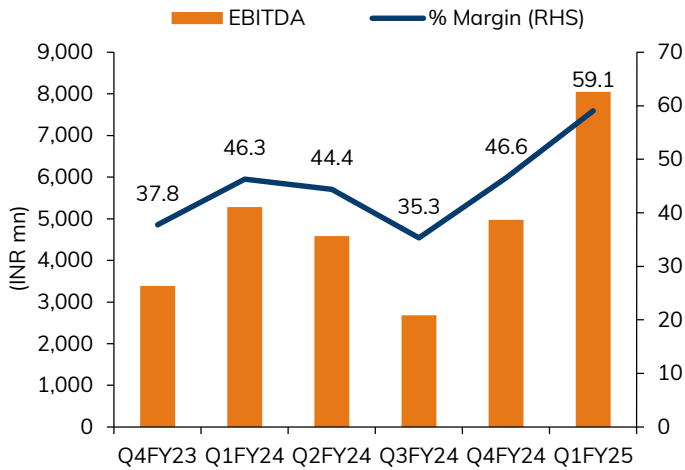
Source: Company data, I-Sec research

Exhibit 10: Gross margin to stay at ~84% in FY26E



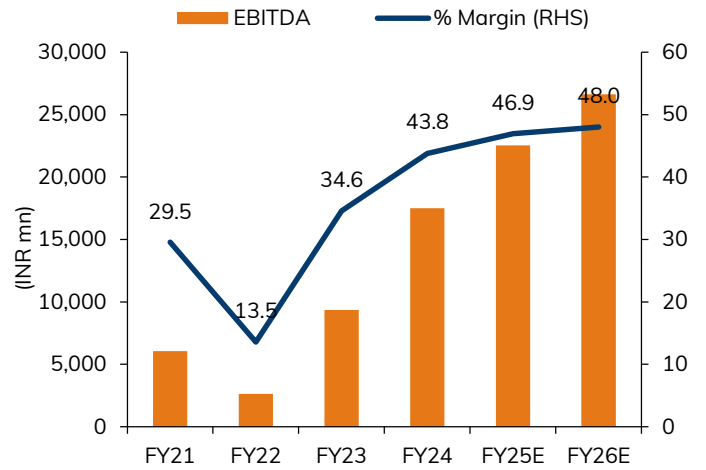
Source: Company data, I-Sec research

Exhibit 11: Operating leverage drove 1277bps YoY expansion in margins



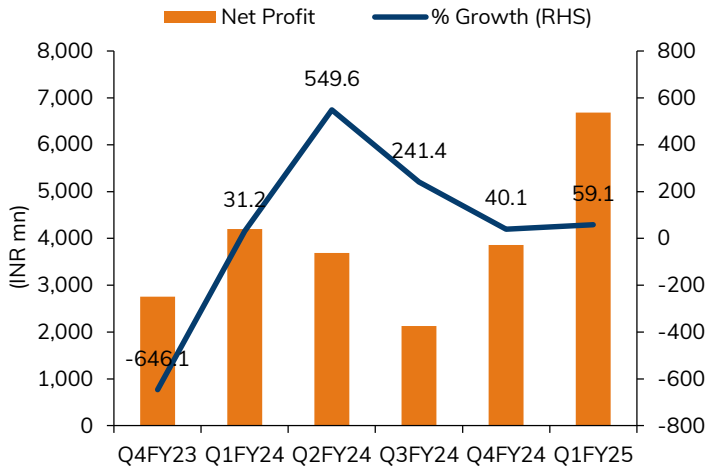
Source: Company data, I-Sec research

Exhibit 12: EBITDA margin will be between 47–48% in FY25-26E



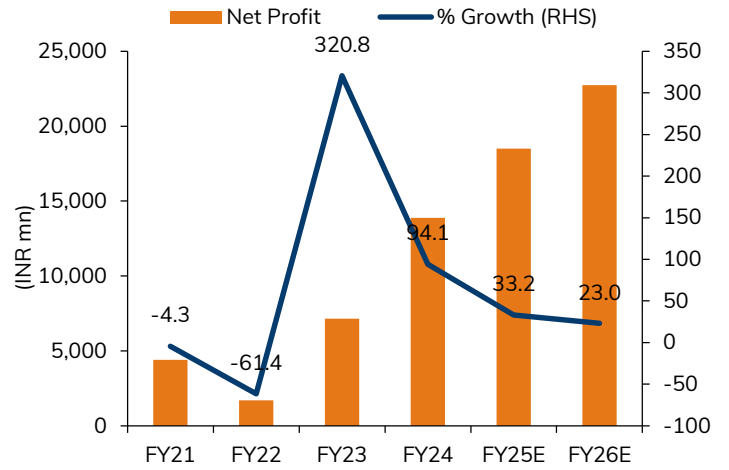
Source: Company data, I-Sec research

Exhibit 13: Better operating performance drives profit



Source: Company data, I-Sec research

Exhibit 14: gRevlimid to drive growth in net profits ahead



Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	49.7	49.7	49.7
Institutional investors	25.0	25.8	25.3
MFs and others	5.2	4.1	2.7
FIs/Banks	-	-	-
Insurance	6.0	5.6	5.1
FIIIs	13.8	16.1	17.5
Others	25.3	24.5	25.0

Source: Bloomberg

Exhibit 16: Price chart



Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	27,071	39,988	47,998	55,465
Operating Expenses	17,715	22,474	25,470	28,846
EBITDA	9,356	17,514	22,528	26,619
EBITDA Margin (%)	34.6	43.8	46.9	48.0
Depreciation & Amortization	1,638	1,868	1,998	2,184
EBIT	7,718	15,646	20,531	24,435
Interest expenditure	145	192	186	151
Other Non-operating Income	1,046	1,281	1,938	3,117
Recurring PBT	8,619	16,735	22,282	27,400
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,466	2,852	3,788	4,658
PAT	7,153	13,883	18,494	22,742
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	7,153	13,883	18,494	22,742
Net Income (Adjusted)	7,153	13,883	18,494	22,742

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	26,953	35,800	46,037	62,249
of which cash & cash eqv.	5,463	9,529	16,247	28,072
Total Current Liabilities & Provisions	5,175	6,069	4,269	4,772
Net Current Assets	21,778	29,731	41,768	57,477
Investments	3,923	5,394	5,394	5,394
Net Fixed Assets	22,391	22,977	26,236	27,550
ROU Assets	-	-	-	-
Capital Work-in-Progress	643	1,373	873	373
Total Intangible Assets	1,878	1,931	675	677
Other assets	616	1,149	1,327	1,493
Deferred Tax Assets	-	-	-	-
Total Assets	51,399	62,994	76,799	93,572
Liabilities				
Borrowings	1,667	3,712	3,212	2,712
Deferred Tax Liability	124	2	2	2
provisions	853	709	996	996
other Liabilities	17	40	11	11
Equity Share Capital	365	358	358	358
Reserves & Surplus	48,373	58,173	72,220	89,493
Total Net Worth	48,738	58,531	72,578	89,851
Minority Interest	-	-	-	-
Total Liabilities	51,399	62,994	76,799	93,572

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	9,035	9,539	13,414	17,829
Working Capital Changes	(1,306)	4,810	5,327	4,132
Capital Commitments	2,137	3,237	3,500	3,000
Free Cashflow	6,898	6,302	9,914	14,829
Other investing cashflow	842	1,471	-	-
Cashflow from Investing Activities	(2,979)	(4,708)	(3,500)	(3,000)
Issue of Share Capital	-	(7)	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(2,488)	2,045	(500)	(500)
Dividend paid	(1,720)	(3,338)	(4,447)	(5,469)
Others	1,554	535	1,751	2,965
Cash flow from Financing Activities	(2,654)	(765)	(3,196)	(3,004)
Chg. in Cash & Bank balance	3,402	4,066	6,718	11,825
Closing cash & balance	5,463	9,529	16,247	28,072

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	39.2	77.6	103.3	127.1
Adjusted EPS (Diluted)	39.2	77.6	103.3	127.1
Cash EPS	48.2	88.0	114.5	139.3
Dividend per share (DPS)	9.4	18.7	24.8	30.6
Book Value per share (BV)	267.1	327.0	405.5	502.0
Dividend Payout (%)	24.0	24.0	24.0	24.0
Growth (%)				
Net Sales	39.2	47.7	20.0	15.6
EBITDA	255.1	87.2	28.6	18.2
EPS (INR)	320.8	97.9	33.2	23.0
Valuation Ratios (x)				
P/E	38.1	19.3	14.5	11.8
P/CEPS	31.0	17.0	13.1	10.7
P/BV	5.6	4.6	3.7	3.0
EV / EBITDA	28.2	14.9	11.3	9.1
P / Sales	10.0	6.8	5.7	4.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	76.8	82.1	82.9	83.5
EBITDA Margins (%)	34.6	43.8	46.9	48.0
Effective Tax Rate (%)	17.0	17.0	17.0	17.0
Net Profit Margins (%)	26.4	34.7	38.5	41.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.8)	(0.6)	(0.8)	(1.2)
Profitability Ratios				
RoCE (%)	14.9	24.9	27.0	27.2
RoE (%)	15.7	25.9	28.2	28.0
RoC (%)	17.7	29.7	34.4	38.7
Fixed Asset Turnover (x)	1.2	1.8	2.0	2.1
Inventory Turnover Days	117	76	65	62
Receivables Days	134	129	109	107
Payables Days	41	26	15	14

Source Company data, I-Sec research

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