

13 November 2024

India | Equity Research | Q2FY25 results review

Natco Pharma

Pharma

Strong quarter, pipeline build-up underway

Natco's Q2FY25 result was strong driven by gRevlimid. Cashflow generated from gRevlimid windfall is being used to develop NCEs, oligonucleotides and other complex products. Natco has a sole FTF on Ozempic (8mg/3ml and 2 mg/3ml) and Wegovy for US markets. It may acquire an asset worth up to USD 300mn to fill in the gap created by loss of exclusivity in gRevlimid in FY27. Its crop science biz is incurring EBITDA loss of INR 400-500mn p.a and will breakeven by Mar'26. Management maintains 20% profit growth guidance for FY25. Net cash balance of ~INR 26bn has been earmarked for R&D (8-10% of sales), M&A and dividends. Raise FY25-26E EPS by 12-14% to factor in better sales of gRevlimid. Maintain **HOLD** with TP of INR 1,430 on 20x FY26E EPS of base biz and NPV of INR 250 for limited competition opportunities in US.

Traction in exports boosts growth and margins

Q2FY25 revenue grew strong 32.9% YoY (+0.6% QoQ) to INR 13.7bn (I-Sec- INR 13.7bn) led by sustained momentum in exports business. Gross margin expanded 797bps YoY (+27bps QoQ) to 87.0% due to profit share of gRevlimid. EBITDA grew 75.6% YoY to INR 8.0bn (I-Sec - INR 5.9bn) while margin expanded 1426bps YoY (-40bps QoQ) to 58.7%. PAT rose 83.3% YoY (+1.2 QoQ) to INR 6.8bn (I-Sec - INR 4.8bn) boosted by higher other income (+117.0% YoY).

Slowdown in base biz; gRevlimid sales to inch up in FY26E

Domestic formulations revenue declined 0.2% YoY (+0.1% QoQ) to INR 1bn. On a low base, we expect domestic business to grow 8.7% over FY24-26E driven by improved momentum in oncology and new product launches (including Semaglutide in FY26). Export revenue (including profit share and subsidiaries) was up 52.9% YoY (0.1% QoQ) to INR 12.1bn driven by higher sales and profit share of gRevlimid. Management anticipates a QoQ dip in gRevlimid sales in Q3FY25 and supplies will resume from Q4FY25. We expect exports to grow at 22.0% CAGR over FY24-26E. Crop sciences business revenue declined 72.8% YoY to INR 141mn in Q2FY25. The business is likely to stabilise in next 2-3 years with revenue of INR 3bn. API business declined 36.2% YoY (+26.5% QoQ) to INR 496mn impacted by higher captive consumption. The company has 10 niche molecules, including NCEs, oligonucleotides and other complex products in development pipeline.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	39,988	47,998	57,855	44,787
EBITDA	17,514	25,168	30,544	14,643
EBITDA Margin (%)	43.8	52.4	52.8	32.7
Net Profit	13,883	20,664	25,816	14,203
EPS (INR)	77.6	115.4	144.2	79.3
EPS % Chg YoY	97.9	48.8	24.9	(45.0)
P/E (x)	17.6	11.8	9.5	17.2
EV/EBITDA (x)	13.6	9.0	6.9	13.5
RoCE (%)	24.9	29.8	29.8	14.1
RoE (%)	25.9	31.1	30.7	14.3

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Market Data

Market Cap (INR)	245bn
Market Cap (USD)	2,901mn
Bloomberg Code	NTCPH IN
Reuters Code	NATP.BO
52-week Range (INR)	1,639 /752
Free Float (%)	50.0
ADTV-3M (mn) (USD)	16.2

Price Performance (%)	3m	6m	12m
Absolute	(7.3)	40.3	72.1
Relative to Sensex	(5.7)	33.5	52.5

ESG Score	2022	2023	Change
ESG score	60.8	61.5	0.7
Environment	42.1	49.5	7.4
Social	52.1	48.6	-3.5
Governance	75.4	76.4	1.0

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	4.3
EBITDA	11.7	14.7
EPS	11.7	13.5

Previous Reports

13-08-2024: [Q1FY25 results review](#)

07-06-2024: [Company Update](#)

Valuation and risks

Higher sales and profit share of gRevlimid led to 52.9% surge in Natco's export business in Q2FY25. Contribution from gRevlimid may taper down in Q3FY25; however, the company is on track to meet its revenue target for FY25. Going ahead, management expects significant improvement in its market share in gRevlimid, which it expects to touch ~33% in Jan'26. Natco has settled Ozempic with Novo Nordisk. It has sole FTF for 8mg/3ml and 2 mg/3ml and shared exclusivity for two strengths. Pipeline also consists of FTF opportunities like Olaparib (partnered with Alembic), Ibrutinib, Capmatinib, Bosentan and Carfilzomi which should drive growth in medium term. The company also aims to file 2–3 limited competition products in the US every year. India growth is expected to stabilise at 8–10%. It has 3-4 launches lined up including Semaglutide in FY26. Besides, the company has cash balance of INR 26bn, which it may use to grow inorganically and for R&D.

We raise our revenue estimates by ~4% and EPS estimates by ~12%/14% for FY25/26E, factoring in higher contribution from gRevlimid. The stock currently trades at valuations of 11.8x FY25E and 9.5x FY26E earnings, and EV/EBITDA multiple of 9.0x FY25E and 6.9x FY26E. We maintain our **HOLD** rating with an unchanged SoTP-based target price of INR 1,430, including NPV of INR 250/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.

Q2FY25 conference call takeaways

India

- The company aims to launch Semaglutide molecule in India in FY26.

Agrochemicals

- Agrochemical business is incurring EBITDA loss of INR 400-500mn every year and is likely to breakeven by Mar'26.

US

- Sales from gRevlimid were flat QoQ.
- gRevlimid will be a small contributor in Q3FY25.
- Management does not foresee any challenges in scaling up its market share in gRevlimid to 33% by Jan'26.
- Olaparib litigation outcome is awaited and may take one more year. Natco has partnered with Alembic post regulatory issues at its plant and will have 50% profit share for this product.
- Bosentan and Carfilzomib are smaller exclusive opportunities for the company.
- Capmatinib is new sole FTF product disclosed by the company and is expected to be a decent opportunity.
- Semaglutide will be an important product for the company in US, India and other regulated markets. Launch timeline in US has not been disclosed.
- Natco filed Erdafitinib on its own (USD 100mn product). It will have 100% profit share; launch timeline is uncertain.
- Development pipeline includes 10 molecules comprising NCEs (oncology products), oligonucleotides and other complex products.
- Invested USD 8mn in eGenesis, Inc. a biotechnology company focused on xenotransplantation, focused on developing safe and effective human compatible organs for transplant.

Subsidiaries

- Subsidiaries had revenue of INR 1.2bn.
- Management continues to evaluate M&A opportunities in RoW markets.

Guidance

- Maintains 20% profit growth guidance for FY25.
- Q3FY25 will be weaker as compared to Q2FY25 due to lower gRevlimid revenue.
- Growth will be challenging in FY27 and FY28 due to loss of exclusivity in gRevlimid.
- Q2FY25 EBITDA margins are likely to be maintained for FY25.
- Management is confident of achieving 15-20% growth in 2-3 years.
- It may look to acquire assets worth USD 5-300mn.

Exhibit 1: Quarterly review

YE 31 March (INR mn)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Sales	13,711	10,314	32.9	13,626	0.6	27,337	21,719	25.9
Gross Profit	11,935	8,156	46.3	11,824	0.9	23,759	17,601	35.0
Gross Margin (%)	87.0	79.1	797bps	86.8	27bps	86.9	81.0	587bps
EBITDA	8,043	4,580	75.6	8,048	(0.1)	16,091	9,860	63.2
EBITDA margin (%)	58.7	44.4	1426bps	59.1	-40bps	58.9	45.4	1346bps
Interest	41	42	(2.4)	52	(21.2)	93	84	10.7
Depreciation	458	436	5.0	441	3.9	899	871	3.2
Other income	638	294	117.0	481	32.6	1,119	491	127.9
PBT	8,182	4,396	86.1	8,036	1.8	16,218	9,396	72.6
Tax	1,541	819	88.2	1,436	7.3	2,977	1,740	71.1
Effective tax rate (%)	17.3	16.1	126bps	16.8	51bps	17.1	16.0	107bps
PAT	6,765	3,690	83.3	6,685	1.2	13,450	7,893	70.4
EPS (INR)	37.1	20.2	83.3	36.6	1.2	77.2	45.3	70.4

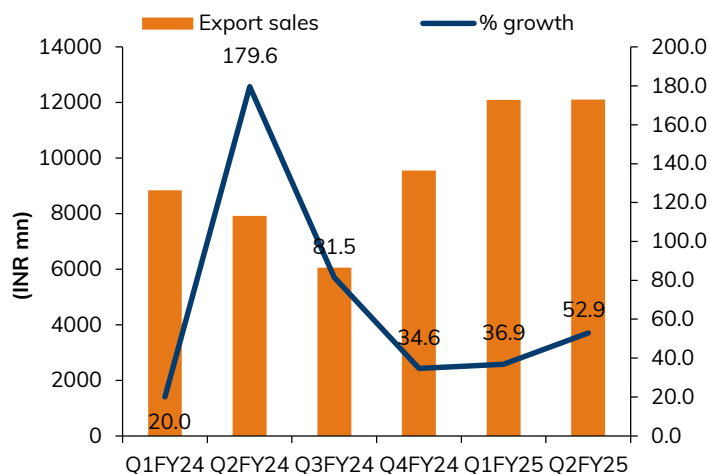
Source: Company data, I-Sec research

Exhibit 2: Business mix

Segmental Revenue (INR mn)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
APIs	496	778	(36.2)	392	26.5	888	1,529	(41.9)
Domestic formulations	1,023	1,025	(0.2)	1,022	0.1	2,045	2,349	(12.9)
Export formulations (incl. profit share)	12,113	7,923	52.9	12,101	0.1	24,214	16,765	44.4
Other operating income	576	324	77.8	436	32.1	1,012	562	80.1
Crop Health Science	141	518	(72.8)	156	(9.6)	297	965	(69.2)
Total	14,349	10,568	35.8	14,107	1.7	28,456	22,170	28.4

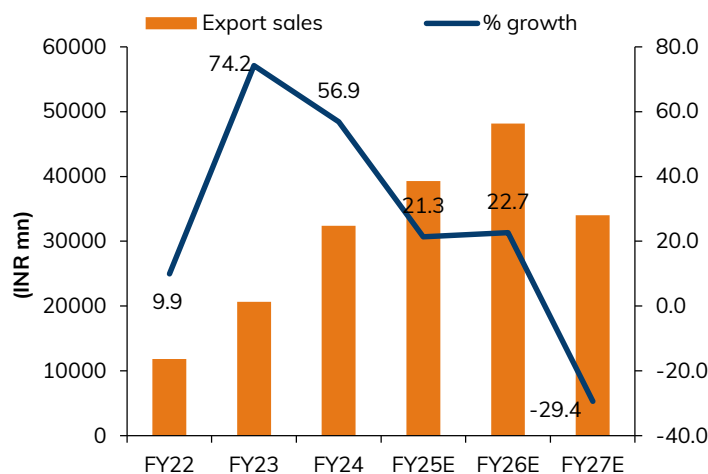
Source: Company data, I-Sec research

Exhibit 3: Revenue growth driven by gRevlimid



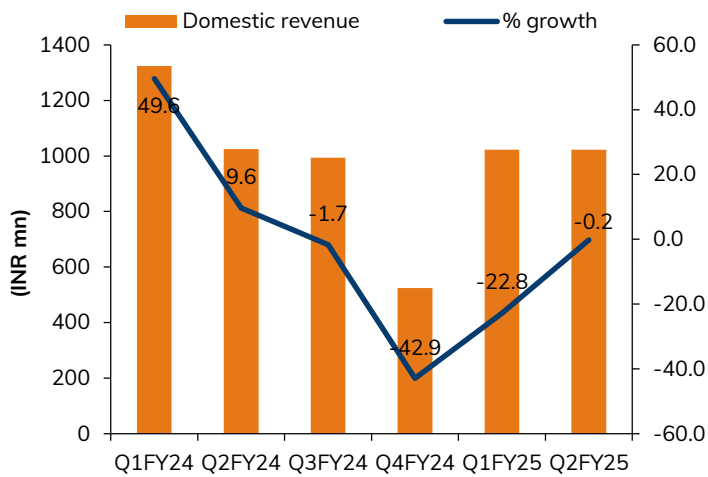
Source: Company data, I-Sec research

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



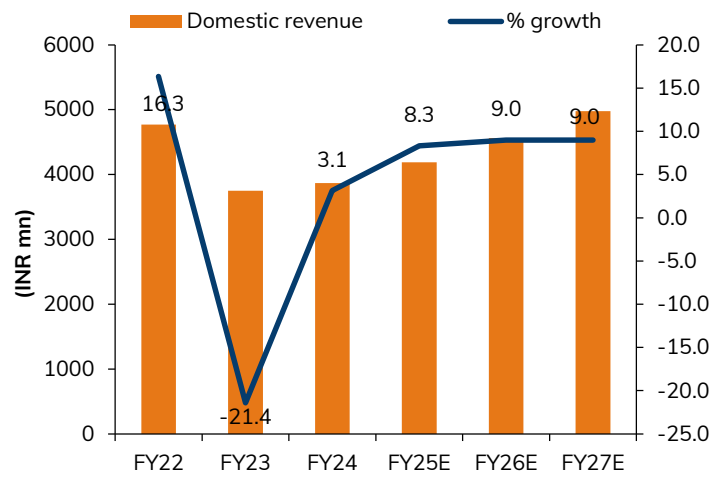
Source: Company data, I-Sec research

Exhibit 5: Domestic business flat YoY



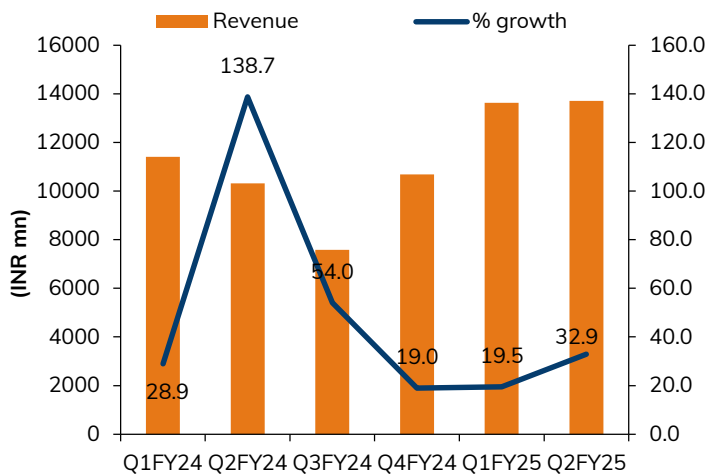
Source: Company data, I-Sec research

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



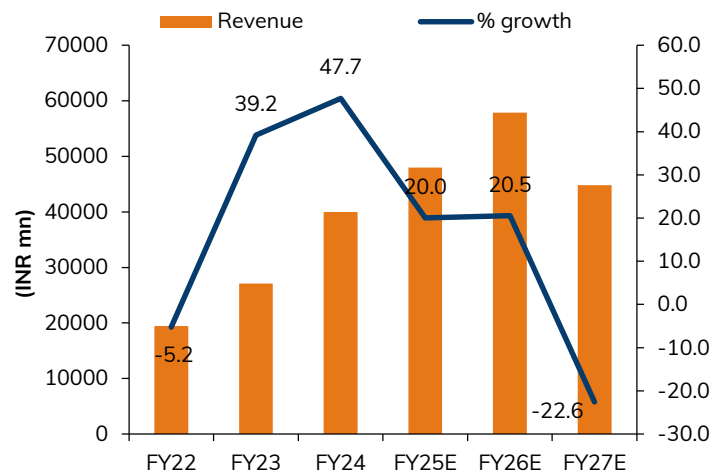
Source: Company data, I-Sec research

Exhibit 7: Growth driven by strong performance in export business



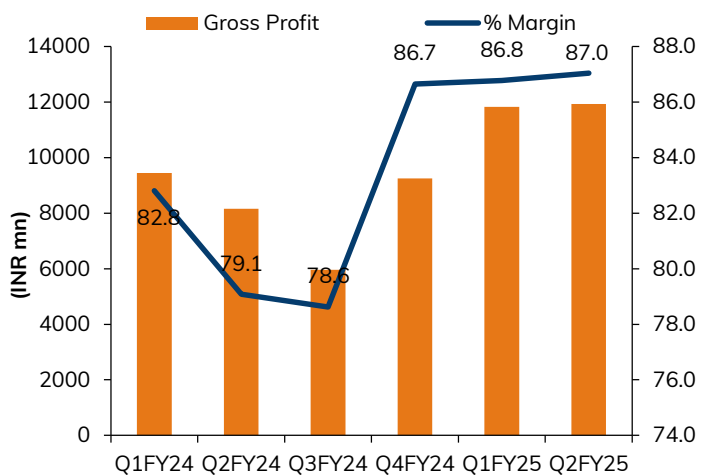
Source: Company data, I-Sec research

Exhibit 8: Total revenue estimated to grow 20.3% over FY24–26E



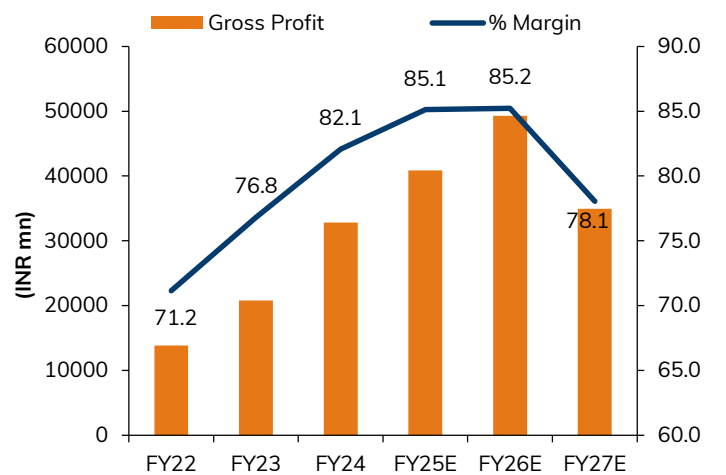
Source: Company data, I-Sec research

Exhibit 9: Margin expansion due to profit share of gRevlimid



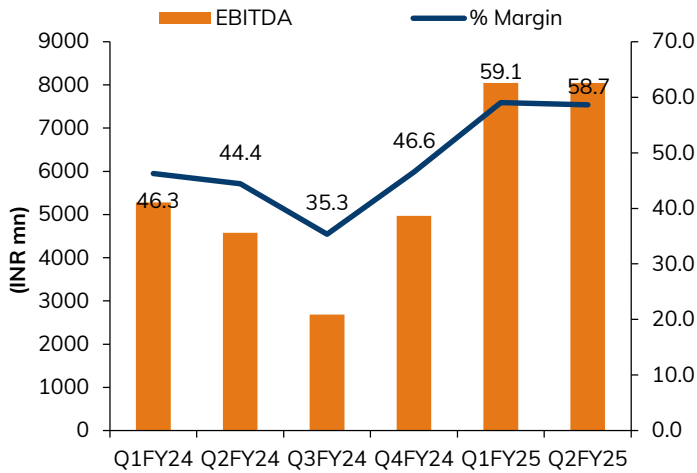
Source: Company data, I-Sec research

Exhibit 10: Gross margin to stay at ~85% in FY26E



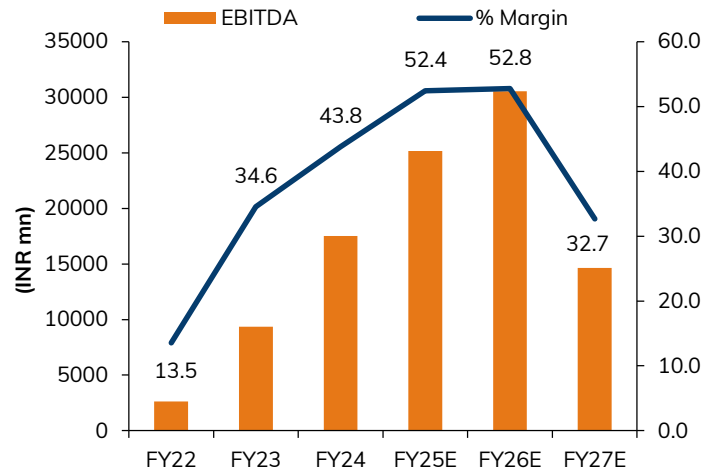
Source: Company data, I-Sec research

Exhibit 11: Operating leverage drove 1426bps YoY expansion in margin



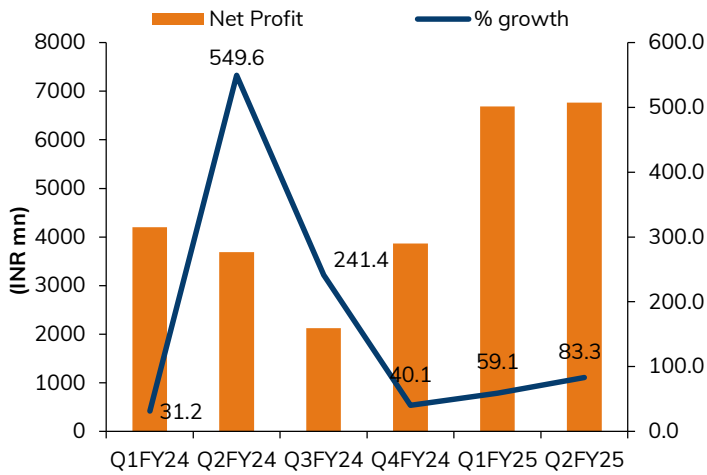
Source: Company data, I-Sec research

Exhibit 12: EBITDA margin to be ~52% in FY25-26E



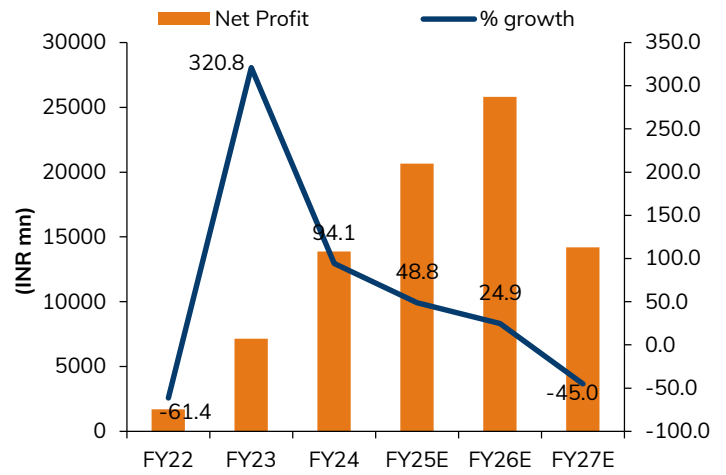
Source: Company data, I-Sec research

Exhibit 13: Better operating performance drives profit



Source: Company data, I-Sec research

Exhibit 14: gRevlimid to boost net profit ahead



Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	49.7	49.7	49.6
Institutional investors	25.8	25.3	24.6
MFs and others	4.1	2.7	2.7
FIs/Banks	-	-	0.2
Insurance	5.6	5.1	4.2
FIIIs	16.1	17.5	17.5
Others	24.5	25.0	25.8

Source: Bloomberg

Exhibit 16: Price chart



Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	39,988	47,998	57,855	44,787
Operating Expenses	22,474	22,831	27,311	30,144
EBITDA	17,514	25,168	30,544	14,643
EBITDA Margin (%)	43.8	52.4	52.8	32.7
Depreciation & Amortization	1,868	2,022	2,397	2,565
EBIT	15,646	23,145	28,147	12,078
Interest expenditure	192	186	151	116
Other Non-operating Income	1,281	1,938	3,108	5,151
Recurring PBT	16,735	24,897	31,103	17,113
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,852	4,232	5,288	2,909
PAT	13,883	20,664	25,816	14,203
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	13,883	20,664	25,816	14,203
Net Income (Adjusted)	13,883	20,664	25,816	14,203

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	35,800	49,523	68,624	77,685
of which cash & cash eqv.	9,529	20,552	33,986	47,714
Total Current Liabilities & Provisions	6,069	5,840	6,763	5,538
Net Current Assets	29,731	43,683	61,860	72,147
Investments	5,394	5,394	5,394	5,394
Net Fixed Assets	22,977	23,955	24,557	24,993
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,373	1,373	1,373	1,373
Total Intangible Assets	1,931	1,931	1,931	1,931
Other assets	1,149	1,327	1,546	1,256
Deferred Tax Assets	-	-	-	-
Total Assets	62,994	78,189	97,297	1,07,585
Liabilities				
Borrowings	3,712	3,212	2,712	2,212
Deferred Tax Liability	2	2	2	2
provisions	709	709	709	709
other Liabilities	40	40	40	40
Equity Share Capital	358	358	358	358
Reserves & Surplus	58,173	73,868	93,476	1,04,264
Total Net Worth	58,531	74,226	93,834	1,04,622
Minority Interest	-	-	-	-
Total Liabilities	62,994	78,189	97,297	1,07,585

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	9,539	17,740	20,186	15,608
Working Capital Changes	4,810	3,195	5,070	(3,875)
Capital Commitments	3,237	3,000	3,000	3,001
Free Cashflow	6,302	14,740	17,187	12,608
Other investing cashflow	1,471	-	-	-
Cashflow from Investing Activities	(4,708)	(3,000)	(3,000)	(3,001)
Issue of Share Capital	(7)	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	2,045	(500)	(500)	(500)
Dividend paid	(3,338)	(4,969)	(6,208)	(3,415)
Others	535	1,752	2,956	5,035
Cash flow from Financing Activities	(765)	(3,718)	(3,751)	1,119
Chg. in Cash & Bank balance	4,066	11,023	13,435	13,727
Closing cash & balance	9,529	20,552	33,987	47,713

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	77.6	115.4	144.2	79.3
Adjusted EPS (Diluted)	77.6	115.4	144.2	79.3
Cash EPS	88.0	126.7	157.6	93.7
Dividend per share (DPS)	18.7	27.8	34.7	19.1
Book Value per share (BV)	327.0	414.7	524.2	584.5
Dividend Payout (%)	24.0	24.0	24.0	24.0
Growth (%)				
Net Sales	47.7	20.0	20.5	(22.6)
EBITDA	87.2	43.7	21.4	(52.1)
EPS (INR)	97.9	48.8	24.9	(45.0)
Valuation Ratios (x)				
P/E	17.6	11.8	9.5	17.2
P/CEPS	15.5	10.8	8.7	14.6
P/BV	4.2	3.3	2.6	2.3
EV / EBITDA	13.6	9.0	6.9	13.5
P / Sales	6.2	5.2	4.3	5.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	82.1	85.1	85.2	78.1
EBITDA Margins (%)	43.8	52.4	52.8	32.7
Effective Tax Rate (%)	17.0	17.0	17.0	17.0
Net Profit Margins (%)	34.7	43.1	44.6	31.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(0.6)	(0.9)	(1.2)	(3.5)
Profitability Ratios				
RoCE (%)	24.9	29.8	29.8	14.1
RoE (%)	25.9	31.1	30.7	14.3
RoC (%)	29.7	40.4	45.4	26.6
Fixed Asset Turnover (x)	1.8	2.0	2.4	1.8
Inventory Turnover Days	76	58	56	67
Receivables Days	129	109	109	87
Payables Days	26	23	24	19

Source Company data, I-Sec research

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