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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

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Natural Capsules

Foray into steroidal API space to accelerate growth

We met the CEO of Natural Capsules (NTCP), Mr. Sunil Mundra, to understand the global capsule and steroidal API opportunities for the company. NTCP is traditionally a capsule-manufacturing company that has recently forayed into the API manufacturing space by investing around Rs 1,300mn in steroidal APIs (under the PLI scheme). Currently, India imports steroidal APIs worth Rs 15,000mn annually, and NTCP believes it would be able to substitute about 20% of this demand through its capacity. Commercial scale operations of steroidal APIs are likely to begin in 3QFY24, and gradually scale up to full capacity (potential to generate Rs 2,500–3,000mn in annual sales) over the next 3 years. At peak utilisation, the company expects to achieve EBITDA margin (without PLI incentive) of around 22%. It is eligible for a cumulative PLI incentive of Rs 670mn over the term of the scheme. In its traditional capsule-manufacturing business, NTCP is aggressively investing in capacities (tripled capacity in last 3 years) and venturing into high-margin categories like HPMC (Hydroxypropyl methylcellulose, vegetarian capsule). Until 2019, the company was a laggard in capsule manufacturing, but it managed to scale up the business after it introduced customised machines to manufacture 5mn capsules per day (exclusively developed by a machinery manufacturer). The new machines allow operational cost savings of 15 to 20%, enabling NTCP to tap larger customers like Abbott, Pfizer, Alkem, Cipla, Ajanta Pharma – that need suppliers who can offer a quick turnaround. The company supplies capsules for reputed branded products like *Becosules* and *Pan-D*. The stock currently trades at 21x FY23 EPS.

Second-largest capsule manufacturer in India – NTCP has tripled capacities in last 3 years to 22bn capsules per annum (cpa) using its new generation machines.

- The addition of new-generation machines (5mn capsules per day) has facilitated a meaningful 15-20% cost advantage to NTCP. Management expects to gradually increase the proportion of these new generation machines in its mix to improve business performance; It has an exclusive arrangement with the machine supplier for this purpose.
- Management is counting on NTCP's HPMC capsule revenue contribution to increase to 15% of sales by FY25 from low-single digit currently, which will aid in higher realisation per capsule. The company is gradually seeking to make inroads into the regulated markets, which could significantly boost its realisations. Larger scale of operations too would enable the company to tap bigger customers. Management expects NTCP's capsule-manufacturing capacity to expand from 18bcpa currently to 22bcpa in FY24.
- The company attributes the subdued 4QFY23 margins to some demand delays and pricing pressure, but is hopeful of the same to normalise in 1QFY24.
- Associated Capsule Group (ACG) is the largest capsule manufacturer in India and second-largest globally after Capsugel. ACG primarily caters to the current regulated market demand.
- NTCP aims to clock Rs 2,100mn in annual revenue from the capsule business in FY24, with operating margin of ~20%.

MANAGEMENT MEET UPDATE

Sector: Pharmaceuticals Rating: NR

CMP: Rs 407 Target Price: NA

Stock Info

Sensex/Nifty	63,523/18,857
Bloomberg	NTCP IN
Equity shares	9mn
52-wk High/Low	Rs 679/337
Face value	Rs 10
M-Cap	Rs 3.7bn/ USD 0.04bn

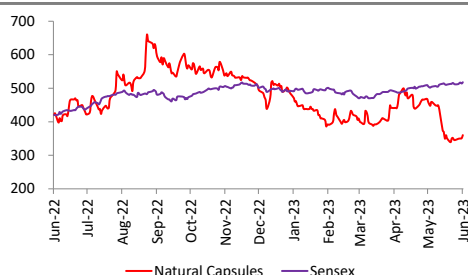
Financial Snapshot (Rs mn)

Y/E March	FY21	FY22	FY23
Sales	795	1,351	1,724
Gross profit	336	653	937
Gross Margin %	42%	48%	54%
EBITDA	109	256	350
Margin %	14%	19%	20%
PAT	69	139	184
EPS	7.3	19.6	19.8
DPS(Rs)	0.4	0.9	0.8
ROE(%)	11.7	19.2	15.9
P/E(x)	55.5	20.8	20.5
EV/EBITDA (x)	36.0	12.4	11.3

Shareholding pattern (%)

	Sep-22	Dec-22	Mar-23
Promoter	56.56	56.56	56.56
–Pledged	-	-	-
FII	-	-	-
DII	1.22	1.31	1.31
Others	42.22	42.13	42.13

Stock Performance (1-year)



Vishal Manchanda

vishalmanchanda@systematixgroup.in
+91 9737437148

Bezad Deboo

bezaddeboo@systematixgroup.in
+91 22 6704 8046

Foray into the steroidal API space – Targeting import substitution of molecules, predominantly imported from China

- NTCP expects to begin the commercial production of steroidal APIs in 3QFY24. It is looking to manufacture *betamethasone*, *dexamethasone*, and *prednisolone*, which are covered under the PLI scheme. The company also intends to manufacture *hydrocortisone* (not under PLI). Indore-based Symbiotec (Unlisted) will also manufacture *prednisolone* under the PLI scheme. NTCP will likely manufacture other downstream products linked to these steroids. It is currently testing 29 different downstream steroids.
- Commercial production of steroidal APIs is challenging, as it requires fermentation in two different stages and two different synthesis stages that require 10 - 12 steps for the synthesis.
- The company is looking to perform all the manufacturing steps in-house, and there is no other player in India that manages the entire chain in-house.
- The import value of all steroidal products that NTCP is targeting at, is about Rs 15,000mn.
- With its expanded capacities the company is aiming to double its asset turnover and achieve 22% EBITDA margin (excluding PLI benefit) once its plants are fully utilised.
- The company has so far invested about Rs 1,300mn, and expects to invest another Rs 200mn.

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Net Revenues	598	616	795	1,351	1,724
YoY gr. (%)	9%	3%	29%	70%	28%
Cost of Goods Sold	354	362	459	698	787
Gross Profit	244	254	336	653	937
Margin (%)	41%	41%	42%	48%	54%
Employee Cost	56	59	80	85	107
Other Expenses	142	140	146	312	479
EBITDA	47	54	109	256	350
YoY gr. (%)	23%	17%	101%	135%	37%
Margin (%)	8%	9%	14%	19%	20%
Depreciation and Amortization	32	41	43	50	72
EBIT	15	13	66	206	278
Margin (%)	2%	2%	8%	15%	16%
Net Interest	5	9	4	21	34
Other Income	11	10	7	9	6
Exceptional Items	-2	-	-22	1	-
Profit Before Tax	23	14	91	194	250
Margin (%)	4%	2%	11%	14%	14%
Total Tax	1	5	22	55	66
Effective tax rate (%)	6%	38%	25%	28%	26%
Minority Interest	-	-	-	-	-
Profit after tax	22	8	69	139	184
EPS	3	1	7	20	20
YoY gr. (%)	73%	-54%	419%	167%	1%

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
PBT	21	14	92	194	250
Depreciation	32	41	43	50	72
Interest	4	7	1	18	34
Others	3	2	-17	-5	-4
Working capital	-31	15	-39	-159	-143
Direct tax	-8	-7	-22	-47	-55
Net cash from Op. activities	21	72	58	51	155
Net Capital expenditures	-71	-53	-164	-306	-1,059
Others	1	-4	79	1	13
Net Cash from Invst. activities	-71	-57	-85	-304	-1,046
Issue of share cap. / premium	-	-	-	-	1
Debt changes	54	9	34	215	460
Dividend paid	-6	-6	-4	-6	-8
Others	-5	-14	-5	57	439
Net cash from Fin. activities	43	-12	25	265	892
Net change in cash	-7	3	-2	12	1

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Equity Share Capital	62	62	62	70	93
Reserves & Surplus (Ex OCI)	493	494	559	760	1,390
Net Worth	555	556	621	831	1,482
Debt	54	63	103	316	965
Trade payables	83	70	161	176	274
Other Provisions	23	18	29	26	5
Other liabilities	37	56	70	96	160
Total Liabilities	751	763	985	1,444	2,887
Net block	244	238	346	629	968
CWIP	25	21	35	11	877
Other Non-current asset	29	55	23	20	28
Investments	51	56	0	1	-
Cash and Cash Equivalents	5	9	2	30	69
Debtors	322	304	267	263	521
Inventories	63	69	84	55	88
Other current asset	13	11	228	436	336
Total Assets	751	763	985	1,444	2,887

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Per Share(Rs)					
EPS	3.1	1.4	7.3	19.6	19.8
CEPS	7.7	8.3	11.9	26.6	27.6
BVPS	79.5	93.4	65.9	116.8	159.3
DPS	0.9	1.0	0.4	0.9	0.8
Return Ratio(%)					
RoCE	5.2	4.1	14.2	22.9	19.7
RoE	4.3	1.7	11.7	19.2	15.9
Balance Sheet					
Net Debt : Equity (x)	0.1	0.1	0.2	0.3	0.1
Net Working Capital (Days)	147.7	148.6	99.2	18.5	16.3
Valuation(x)					
PER	132.0	288.4	55.5	20.8	20.5
EV/EBITDA	62.0	45.5	36.0	12.4	11.3
EV/Sales	4.8	4.0	4.9	2.4	2.3

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Aniket Shah	Banking, Insurance	+91-22-6704 8034	aniketshah@systematixgroup.in
Bezad Deboo	Pharmaceuticals and Healthcare	+91-22-6704 8046	bezaddeboo@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Hena Vora	NBFCs & Diversified Financials	+91-22-6704 8045	henavora@systematixgroup.in
Pranay Shah	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Shraddha Kapadia	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8019	shraddhakapadia@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Varun Gajaria	Midcaps	+91-22-6704 8081	varungajaria@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Saumil Bhatia	Sales	+91-22-6704 8068	saumilbhatia@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Pearl Pillay	Sr. Associate	+91-22-6704 8088	pearlpillay@systematixgroup.in
--------------	---------------	------------------	--------------------------------

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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