

## Pharmaceuticals | Q1FY24 Result Update

### Higher gRevlimid supplies & base business traction drives earnings

- Natco's Q1FY24 results were above our estimates on account of better than expected growth across segments.
- Major drivers of business in Q1FY24 were from formulation exports, strong growth in domestic business of both Pharma & Agro and steady sales from subsidiaries.
- We upgrade our EPS estimates by 8.5%/8.5% in FY24E/FY25E assuming higher than expected sales including Agrochem segment. Maintain Accumulate with revised TP of Rs968.

### Complex and niche products to drive export growth

Exports increased 20.0%/24.7% YoY/QoQ in Q1FY24 driven by higher gRevlimid supplies in the US market. Similar growth is expected in Q2FY24 & Q4FY24 as well. The company has 42 products in pipeline that will drive growth beyond the gRevlimid opportunity. Natco is focused on filing differentiated products in the US where it has ~19 Para IVs in the pipeline out of which 11 are approved. We project export revenue CAGR of 30% over FY23-25E including gRevlimid estimates in the US.

### Traction in Agro segment while domestic business to recover

Natco's Crop Health Sciences grew 65% QoQ in Q1FY24 and booked profit for the first time. We expect Agrochem segment to generate revenues of Rs1.8bn in FY24 including CTPR sales and expect the segment to become sizeable to Rs4-5bn in long run. Domestic business grew 50%/44% YoY/QoQ in Q1FY24 on account of a one-time order and better performance in the oncology portfolio. In order to make the domestic business sizeable, Natco is looking for small bolt acquisitions to cover the major therapies of IPM. We expect Natco's domestic business revenue to recover from FY24E backed by 9-10 launches.

### Valuation

We like Natco Pharma's focus on niche drug filings, and expect strong cash flows backed by low competitive launches. We believe cash flows will be utilized towards inorganic opportunities, dividend payouts and R&D bio-study activities. Maintain our Accumulate rating with the revised target price of Rs968 on SOTP basis (Exhibit 4). Keys risks: Delay in niche approvals, higher price erosion in the US, Adverse pricing regulation by NPPA, adverse currency movement.

### Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	11,405	8,846	28.9	8,979	27.0
Total Expense	5,615	4,893	14.8	5,588	0.5
EBITDA	5,790	3,953	46.5	3,391	70.7
Depreciation	435	396	9.8	410	6.1
EBIT	5,355	3,557	50.5	2,981	79.6
Other Income	197	343	(42.6)	290	(32.1)
Interest	42	42	0.0	27	55.6
EBT	5,000	3,858	29.6	3,244	54.1
Tax	797	654	21.9	486	64.0
RPAT	4,203	3,204	31.2	2,758	52.4
APAT	4,713	3,204	47.1	2,758	70.9
			(bps)		(bps)
Gross Margin (%)	82.8	83.3	(49)	71.2	1159
EBITDA Margin (%)	50.8	44.7	608	37.8	1300
NPM (%)	36.9	36.2	63	30.7	614
Tax Rate (%)	15.9	17.0	(101)	15.0	96
EBIT Margin (%)	47.0	40.2	674	33.2	1375

CMP	Rs 867
Target / Upside	Rs 968 / 12%
NIFTY	19,633

### Scrip Details

Equity / FV	Rs 358mn / Rs 2
Market Cap	Rs 155bn
	USD 1.9bn
52-week High/Low	Rs 917/ 502
Avg. Volume (no)	7,73,178
Bloom Code	NTCPH IN

Price Performance	1M	3M	12M
Absolute (%)	27	34	29
Rel to NIFTY (%)	25	26	16

### Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	48.8	48.8	49.8
MF/Banks/FIs	14.9	15.4	15.2
FIs	11.7	11.9	11.0
Public / Others	24.5	23.9	24.1

### Valuation (x)

	FY23A	FY24E	FY25E
P/E	21.7	11.0	8.5
EV/EBITDA	15.9	8.2	5.9
ROE (%)	15.7	25.8	28.6
RoACE (%)	14.7	25.8	27.7

### Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	27.1	39.1	46.3
EBITDA	9.4	17.9	23.0
PAT	7.2	14.1	18.2
EPS (Rs.)	39.9	78.9	101.7

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### Exhibit 1: Quarterly revenue mix

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
API	751	508	47.8	728	3.2	2,481	2,103	(15.2)
Domestic formulation	1,324	885	49.6	918	44.2	4,771	3,749	(21.4)
Export formulation	8,842	7,369	20.0	7,092	24.7	11,842	20,632	74.2
Other operating income	238	417	(42.9)	261	(8.8)	305	178	(41.6)
Crop health science	447	10	4,370.0	270	65.6	51	409	702.0
Total	11,602	9,189	26.3	9,269	25.2	19,450	27,071	39.2

Source: Company, DART

### Exhibit 2: Actual vs DART estimates

Particulars (Rs mn)	Q1FY24	Q1FY24E	Variance (%)	Comment
Revenue	11,405	9,512	19.9	Higher sales across segments
EBITDA	5,790	4,304	34.5	Better product mix led to better margin
EBITDA margin (%)	50.8	45.3	552bps	
PAT	4,713	3,195	47.5	Higher than expected operating performance
EPS (Rs)	23.5	17.5	34.1	

Source: Company, DART

### Exhibit 3: Change in estimates

Particulars (Rsmn)	FY24E			FY25E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	38,180	39,087	2.4	44,956	46,343	3.1
EBITDA	17,486	17,902	2.4	22,343	23,033	3.1
EBITDA Margin (%)	45.8	45.8	0bps	49.7	49.7	0bps
PAT	13,013	14,122	8.5	16,773	18,202	8.5
EPS (Rs)	72.7	78.9	8.5	93.7	101.7	8.5

Source: Company, DART

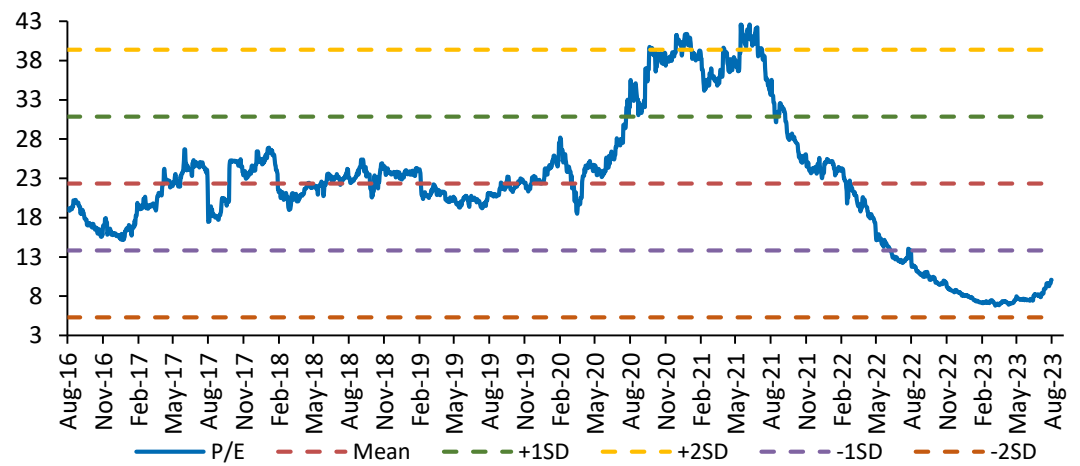
We upgrade our EPS estimates by 8.5%/8.5% in FY24E/FY25E assuming higher than expected sales including Agrochem segment.

### Exhibit 4: SOTP based valuation

Particulars	EPS Rs/share	P/E Multiple (x)	Value (Rs)
Base Business EPS- FY25E	31.5	24.4	770.0
<b>Key products opportunity</b>			<b>Value Rs</b>
gRevlimid			154
glmbruvica			44
<b>Target Price arrived</b>			<b>968</b>

Source: Company, DART

**Exhibit 5: One year forward P/E band**



Source: Company, DART

## Earnings call KTA's

### Guidance

- India business is expected to grow 10-15% ex one time opportunity in FY24. Expect to maintain similar growth trajectory for two to three years down the line.
- Management gave a conservative PAT guidance of Rs10bn in FY24.
- Filings in India would be around 10 -15 in FY24.
- Agro Chemical business sales guidance of Rs1.5-2bn in FY24. In next two to three years, expect to reach Rs4-5bn.
- In the Agro chemical business 5-10 launches of unique and differentiated products are expected in FY25.

### US

- gRevlimid sales in Q1FY24 were significant and expect Q2FY24 to be the same.
- Post gRevlimid, other big opportunities are 1) Semaglutide, where the company has good filings on one particular strength in partnership with Mylan. 1) Olaparib is the other product in joint venture with Alembic where the company has sole FTF. 3) Pacritinib, newly filed product which has brand size of US\$40mn & expect to reach US\$100mn to US\$200mn over next few years. 4) Imbruvica, the company has sole FTF.
- The company is looking for M&A in key ROW market, domestic market and multiple country operations.
- US front end is the only segment where the company is not profitable.
- The company has sole FTF on Pivasta product, market size is US\$40mn currently and is expected to be US\$1bn product if all goes well.

### India

- Natco has good organic pipeline, especially in oncology. Expect to grow at industry rate.
- India business has shown a good recovery, business was partially driven by one time order and partially by growth.
- Cardiology & gastroenterology is growing at 10-15%.

### Agro

- Agrochem sales in Q1FY24 was Rs447mn. CTPR sales during the quarter performed extremely well.
- Agro chemical business performed well in Q1FY24. Q2FY24 is expected to show similar growth, Q3FY24 will show some dip in revenue and then from Q4FY24, sales will again pickup.
- EBITDA for Agro chem is close to pharma EBITDA margin.
- Agro sales are built on CTPR & combination products, majority of the business is through Natco's channel & 10% is through third party. The combination products have less competition.
- BR2694 products' trial is pending. The product is funded through internal accruals.
- CTPR market is still evolving and currently is premature. Management expects 10% market share in CTPR eventually.

### Other highlights

- The company is doing front-end sales in India, US, Canada and Brazil. Plans to cover 8-10 markets going forward, including Columbia, UK, Indonesia and other one or two countries.

- Current capacity utilization is 60% to 65%, as the company portfolio is very niche.
- Net debt as on 31<sup>st</sup> Jul'23 is Rs1.04bn.
- Net cash as on 31<sup>st</sup> Jul'23 is Rs13.86bn.
- The company has done buy back in Apr'23-May'23 of total around 35 lakh shares, which is 1.89% of pre buy back shares.
- Natco did a buy back worth Rs2.1bn plus taxes and has given dividend of Rs1.05bn, despite that it had cash worth Rs14bn as of 31<sup>st</sup> Jul'23. It is prudently spending money on acquisition & R&D.
- The company is a cash rich entity and has utilized majority of cash in R&D for strengthening its product pipeline.

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>19,448</b>	<b>27,071</b>	<b>39,087</b>	<b>46,343</b>
<b>Total Expense</b>	<b>14,033</b>	<b>17,715</b>	<b>21,185</b>	<b>23,311</b>
COGS	2,829	6,273	6,254	7,415
Employees Cost	4,448	4,867	6,059	6,164
Other expenses	6,756	6,575	8,873	9,732
<b>EBIDTA</b>	<b>5,415</b>	<b>9,356</b>	<b>17,902</b>	<b>23,033</b>
Depreciation	1,426	1,638	1,639	1,732
<b>EBIT</b>	<b>3,989</b>	<b>7,718</b>	<b>16,263</b>	<b>21,301</b>
Interest	177	145	98	95
Other Income	990	1,046	1,151	1,266
Exc. / E.O. items	(2,780)	0	(510)	0
<b>EBT</b>	<b>2,022</b>	<b>8,619</b>	<b>16,805</b>	<b>22,472</b>
Tax	322	1,466	3,193	4,270
RPAT	1,700	7,153	13,612	18,202
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>4,037</b>	<b>7,153</b>	<b>14,122</b>	<b>18,202</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	365	365	358	358
Minority Interest	0	0	0	0
Reserves & Surplus	42,271	48,373	56,489	70,141
<b>Net Worth</b>	<b>42,636</b>	<b>48,738</b>	<b>56,847</b>	<b>70,499</b>
Total Debt	4,155	1,667	1,617	1,567
Net Deferred Tax Liability	1,280	750	793	837
<b>Total Capital Employed</b>	<b>48,071</b>	<b>51,155</b>	<b>59,257</b>	<b>72,903</b>

### Applications of Funds

Net Block	<b>23,118</b>	<b>24,269</b>	<b>24,635</b>	<b>24,908</b>
CWIP	1,295	643	643	643
Investments	1,706	1,314	1,401	1,497
<b>Current Assets, Loans &amp; Advances</b>	<b>24,972</b>	<b>30,003</b>	<b>39,049</b>	<b>53,283</b>
Inventories	7,620	7,429	10,727	12,718
Receivables	6,206	8,561	12,361	14,656
Cash and Bank Balances	2,061	5,463	7,052	16,611
Loans and Advances	104	102	102	102
Other Current Assets	6,944	5,398	5,452	5,506
<b>Less: Current Liabilities &amp; Provisions</b>	<b>3,020</b>	<b>5,074</b>	<b>6,471</b>	<b>7,429</b>
Payables	1,618	2,638	3,155	3,471
Other Current Liabilities	1,402	2,436	3,316	3,957
<i>sub total</i>				
Net Current Assets	21,952	24,929	32,578	45,855
<b>Total Assets</b>	<b>48,071</b>	<b>51,155</b>	<b>59,257</b>	<b>72,903</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	85.5	76.8	84.0	84.0
EBIDTA Margin	27.8	34.6	45.8	49.7
EBIT Margin	20.5	28.5	41.6	46.0
Tax rate	15.9	17.0	19.0	19.0
Net Profit Margin	8.7	26.4	34.8	39.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	14.5	23.2	16.0	16.0
Employee	22.9	18.0	15.5	13.3
Other	34.7	24.3	22.7	21.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	22.5	53.2	166.2	224.6
Inventory days	143	100	100	100
Debtors days	116	115	115	115
Average Cost of Debt	5.2	5.0	6.0	6.0
Payable days	30	36	29	27
Working Capital days	412	336	304	361
FA T/O	0.8	1.1	1.6	1.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	22.5	39.9	78.9	101.7
CEPS (Rs)	30.5	49.1	88.0	111.3
DPS (Rs)	4.6	5.6	19.0	25.4
Dividend Payout (%)	20.3	14.0	24.1	25.0
BVPS (Rs)	238.1	272.2	317.5	393.7
RoANW (%)	4.1	15.7	25.8	28.6
RoACE (%)	10.0	14.7	25.8	27.7
RoAIC (%)	9.0	16.8	33.2	39.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	867	867	867	867
P/E	38.5	21.7	11.0	8.5
Mcap (Rs Mn)	1,55,283	1,55,283	1,55,283	1,55,283
MCap/ Sales	8.0	5.7	4.0	3.4
EV	1,55,340	1,48,437	1,46,493	1,36,549
EV/Sales	8.0	5.5	3.7	2.9
EV/EBITDA	28.7	15.9	8.2	5.9
P/BV	3.6	3.2	2.7	2.2
Dividend Yield (%)	0.5	0.6	2.2	2.9
<b>(F) Growth Rate (%)</b>				
Revenue	(5.2)	39.2	44.4	18.6
EBITDA	(10.7)	72.8	91.3	28.7
EBIT	(18.5)	93.5	110.7	31.0
PBT	(65.1)	326.3	95.0	33.7
APAT	(8.4)	77.2	97.4	28.9
EPS	(8.4)	77.2	97.4	28.9

E – Estimates

## Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
<b>Profit before tax</b>	<b>1,032</b>	<b>7,573</b>	<b>15,655</b>	<b>21,206</b>
Depreciation & w.o.	1,426	1,638	1,639	1,732
Net Interest Exp	177	145	98	95
Direct taxes paid	(478)	(1,627)	(3,193)	(4,270)
Change in Working Capital	(1,481)	1,237	(5,712)	(3,338)
Non Cash	0	0	0	0
<b>(A) CF from Operating Activities</b>	<b>676</b>	<b>8,966</b>	<b>8,487</b>	<b>15,425</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,373)	(2,137)	(2,005)	(2,005)
<b>Free Cash Flow</b>	<b>(2,697)</b>	<b>6,829</b>	<b>6,482</b>	<b>13,420</b>
(Inc.)/ Dec. in Investments	0	0	0	0
Other	990	1,046	1,151	1,266
<b>(B) CF from Investing Activities</b>	<b>(2,383)</b>	<b>(1,091)</b>	<b>(854)</b>	<b>(739)</b>
Issue of Equity/ Preference	0	0	(7)	0
Inc./(Dec.) in Debt	1,408	(2,419)	(50)	(50)
Interest exp net	(177)	(145)	(98)	(95)
Dividend Paid (Incl. Tax)	(821)	(1,004)	(3,403)	(4,551)
Other	523	(905)	(2,485)	(432)
<b>(C) CF from Financing</b>	<b>933</b>	<b>(4,473)</b>	<b>(6,043)</b>	<b>(5,127)</b>
Net Change in Cash	(774)	3,402	1,589	9,559
<b>Opening Cash balances</b>	<b>2,835</b>	<b>2,061</b>	<b>5,463</b>	<b>7,052</b>
<b>Closing Cash balances</b>	<b>2,061</b>	<b>5,463</b>	<b>7,052</b>	<b>16,611</b>

E – Estimates

## Notes

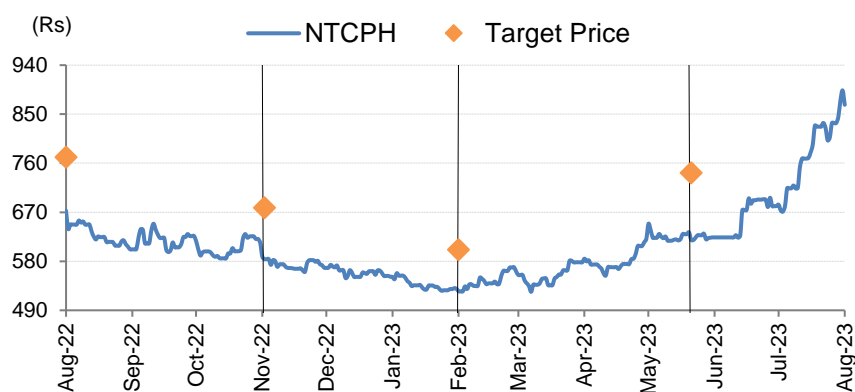


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-22	Accumulate	771	673
Nov-22	Accumulate	678	584
Feb-23	Accumulate	601	525
May-23	Accumulate	742	620

\*Price as on recommendation date

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