

Lower core margin impacts earnings

- NTCPH's Q3FY25 results were below our estimates, on account of a significant decline in export formulation business with zero Revlimid contribution and lower core margin which was impacted due to higher R&D, higher losses from Agro business and higher fixed cost.
- FY26 sales growth will depend on Revlimid price erosion. The company expects a significant drop in FY27 earnings due to increased competition in Revlimid sales post-patent expiry.
- We downgrade our FY25E/FY26E/FY27E EPS estimates by 19.4%/12.3%/37.4%, assuming lower sales and core margin ex Revlimid. We downgrade our rating to 'SELL' from Reduce with a revised TP of Rs913 at 28x FY27E P/E.

Revlimid absence impacts export sales

Exports declined by 52.8%/76.4% YoY/QoQ in Q3FY25 on account of absence of Revlimid sales during the quarter. A good portion of the H1FY25 revenue came from gRevlimid. Base sales were also muted ex Revlimid. Q4 is expected to be better than Q3 with Revlimid contribution and partial benefit from Everolimus shared exclusivity. Semaglutide and Olaparib are some of the other large opportunities that will drive growth in the long term, upon litigation outcome and approval but no big-ticket launches in the near term. We expect lower export formulation sales in FY27 vs FY25E/FY26E.

Subdued growth in Agro and decline in domestic sales

Natco's Crop Health Sciences increased 7.1% YoY in Q3FY25, seeing a slow ramp and incurring losses at EBITDA level. We expect the segment to gradually improve to Rs1.4-1.5bn in FY26 with new launches. Natco expects this business to break even by Mar'26. Domestic business declined 3% YoY in Q3FY25. Semaglutide can be a good launch post-patent expiry in FY26 where it has the potential to achieve Rs 1bn sales. We expect Natco's domestic business revenue CAGR of 7% over FY24-27E.

Valuation

We believe Natco is facing challenges in base business growth ex Revlimid as the ramp up across the segments is not in line with expectations, which has also led to significant erosion of core margins ex Revlimid. Consequently, we downgrade our rating to 'SELL' from 'Reduce' with a revised target price of Rs913 at 28x FY27E P/E. Key upside: Higher than expected sales across segments.

Key Data

Nifty	23,031
Equity / FV	Rs 358mn / Rs 2
Market Cap	Rs 175bn
	USD 2.0bn
52-Week High/Low	Rs 1,639/ 830
Avg. Volume (no)	566,999
Bloom Code	NTCPH IN

	Current	Previous
Rating	SELL	Reduce
Target Price	913	1,458

Change in Estimates

(Rs.bn)	Current FY25E	Current FY26E	Chg (%) /bps FY25E	Chg (%) /bps FY26E
Revenue	45	51	(12.9)	(4.6)
EBITDA	23	26	(23.0)	(13.1)
EBITDA (%)	49.5	51.5	(650)	(500)
APAT	20	22	(19.4)	(12.3)
EPS (Rs)	109.6	124.6	(19.4)	(12.3)

Valuation (x)

	FY25E	FY26E	FY27E
P/E	8.9	7.8	29.9
EV/EBITDA	6.9	5.4	19.2
ROE (%)	29.5	26.8	6.2
RoACE (%)	28.2	26.0	6.1

Q3FY25 Result (Rs Mn)

Particulars	Q3FY25	YoY (%)	QoQ (%)
Revenue	4,748	(37.4)	(65.4)
Total Expense	4,360	(11.1)	(23.1)
EBITDA	388	(85.5)	(95.2)
Depreciation	470	6.3	2.6
EBIT	(82)	(103.7)	(101.1)
Other Income	1,763	376.5	176.3
Interest	44	(4.3)	7.3
EBT	1,637	(36.1)	(80.0)
Tax	313	(28.2)	(77.9)
RPAT	1,330	(37.5)	(80.4)
APAT	1,330	(37.5)	(80.4)
		(bps)	(bps)
Gross Margin	82.6	394	(449)
EBITDA (%)	8.2	(2717)	(5049)
NPM (%)	28.0	(3)	(2139)
Tax Rate (%)	19.1	211	180
EBIT (%)	(1.7)	(3124)	(5705)

Director Research: Rashmi Shetty
+9122 40969724
rashmis@dolatcapital.com

Associate: Candice Pereira
+9122 61764808
candicep@dolatcapital.com

Associate: Zain Gulam Hussain
+9122 40969790
zain@dolatcapital.com

Exhibit 1: Quarterly revenue mix

Particulars (Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ%	9MFY25	9MFY24	YoY (%)
API	666	463	43.8	496	34.3	1,554	1,992	(22.0)
Domestic formulation	961	994	(3.3)	1,023	(6.1)	3,006	3,343	(10.1)
Export formulation	2,858	6,056	(52.8)	12,113	(76.4)	27,072	22,821	18.6
Other operating income	1,875	302	520.9	576	225.5	2,887	864	234.1
Crop health science	151	141	7.1	141	7.1	448	1,146	(60.9)
Total	6,511	7,956	(18.2)	14,349	(54.6)	34,967	30,166	15.9

Source: Company, Dolat Capital

Exhibit 2: Actual vs DART estimates

Particulars (Rs mn)	Q3FY25	Q3FY25E	Variance (%)	Comment
Revenue	4,748	9,004	(47.3)	Below estimate on account of absence of Revlimid sales.
EBITDA	388	4,232	(90.8)	Below estimates due to lower sales and lower core margin
EBITDA margin (%)	8.2	47.0	(3883bps)	
PAT	1,330	3,474	(61.7)	Below estimates due to lower operating performance
EPS (Rs)	7.4	19.4	(61.7)	

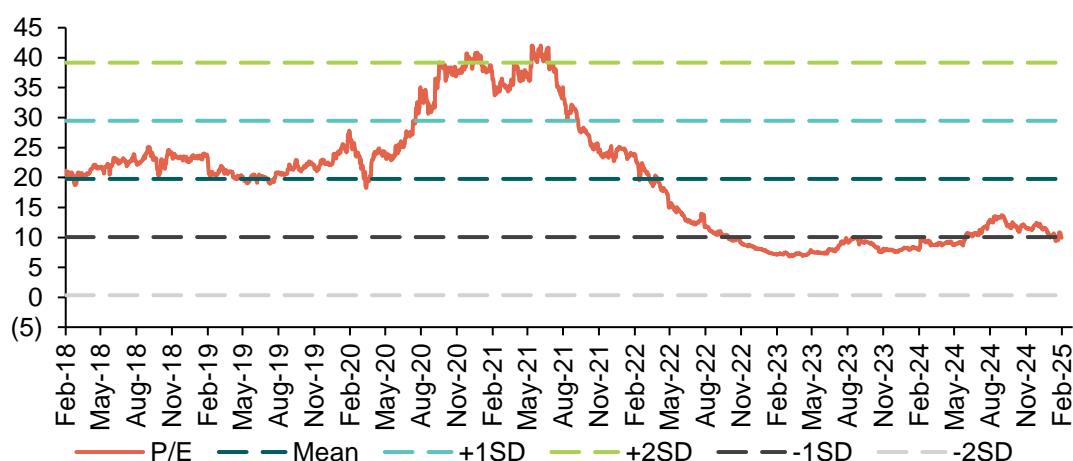
Source: Company, Dolat Capital

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Chg. (%)	Old	New	Chg. (%)	Old	New	Chg. (%)
Revenue	52,231	45,495	(12.9)	53,885	51,385	(4.6)	28,051	25,085	(10.6)
EBITDA	29,249	22,520	(23.0)	30,445	26,463	(13.1)	10,940	6,522	(40.4)
EBITDA Margin (%)	56.0	49.5	(650bps)	56.5	51.5	(500bps)	39.0	26.0	(1300bps)
PAT	24,341	19,612	(19.4)	25,430	22,295	(12.3)	9,321	5,835	(37.4)
EPS (Rs)	136.0	109.6	(19.4)	142.1	124.6	(12.3)	52.1	32.6	(37.4)

Source: Company, Dolat Capital One year FWD P/E band

Exhibit 4: One year fwd P/E band



Source: Company, Dolat Capital

Earnings call KTA's

Guidance

- Agro business is expected to break even in FY26 end.
- Agro business is anticipated to generate sales of around Rs 1.2-1.5bn in FY26.
- Seven to eight approvals in the ROW guided for FY26.

India

■ Semaglutide

- The settlement date has not been disclosed by the management.
- The company has done a settlement for Ozempic drug (Diabetes indication).
- Management has filed with DCGI and expects to be in the first wave launch, post-expiry.
- Currently no company has received approval for Ozempic.
- The biggest opportunity will be for India first, then for the US and other regulated market.
- It is a pretty good opportunity for the company.
- The company is focused on injectables and not oral solids.
- Risdiplam is another good opportunity litigated in the Delhi high court.

US

■ Revlimid

- Revlimid sales for the quarter were nil.
- The company maintained its guidance of achieving 1/3rd market share before patent expiry.
- As per the management, the company's orders have been used up in Q2FY25 and expect the next order in Q4FY25. The company anticipates higher allocation in FY26 than in FY25.

■ Post Revlimid pipeline products

- Semaglutide (Wegovy and Ozempic) – Out of two formulations, one formulation litigation is settled, and another one is still under litigation. In settled one, the company has sole FTF in two strengths and a shared FTF in other strengths. In the other formulation under litigation, the company has sole FTF.
- Olaparib is also another good opportunity – awaiting USFDA approval; Olaparib is a partnered product with Alembic and will be shared 50-50.
- Risdiplam – Risdiplam is a USD 3bn drug opportunity, which the company has filed with Sun Pharma. It will be on a profit-sharing basis.
- Everolimus – Received approval, has already been launched and will see benefit in Q4FY25. It is shared exclusivity and partnered product
- Ibrutinib & Erdafitinib – The company has sole FTF
- US tariff impact – Management expects this to impact the entire industry. Stated that manufacturing in the US is the only strategy to overcome the impact. If a tariff is imposed, it is planning to move some products to the US.

Agro business

- The current sales run rate is around Rs 150-160mn per quarter but incurring losses.
- Expect to achieve Rs 1.2-1.5bn sales in FY26.

Other highlights

- The increase in other income was due to interest income from the deposits and had a one-time gain from the sale of land, which is around Rs 900mn.
- Weak business in Q3FY25 was due to no development in the business segments and higher R&D expenses from Q2FY25 spilled over in Q3FY25.
- Although the company is confident of getting 1/3rd of the market allocation for Revlimid in Q4FY25, Q3FY25 was an aberration with low profitability.
- Net cash as of Dec'24 is around Rs 32.6bn.
- The company has a net debt of Rs 2.4 bn as of Dec'24.
- Management is looking for an acquisition in the RoW market and building front end in the US market.
- Subsidiary sales in Q3FY25 were Rs 1.09bn and in 9MFY25 were Rs 4.08bn.
- The Kothur plant is under remediation. Though the company is still supplying some of the products from this facility, it has moved many products to Vizag plant.

Financial Performance

Profit and Loss Account

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
Revenue	39,988	45,495	51,385	25,085
Total Expense	22,474	22,975	24,922	18,563
COGS	7,166	5,914	6,680	5,770
Employees Cost	5,250	6,142	6,680	6,020
Other expenses	10,058	10,919	11,562	6,773
EBIDTA	17,514	22,520	26,463	6,522
Depreciation	1,868	1,912	2,016	2,161
EBIT	15,646	20,608	24,448	4,361
Interest	192	182	119	117
Other Income	1,281	3,203	2,533	2,786
Exc. / E.O. items	(510)	0	0	0
EBT	16,225	23,629	26,862	7,030
Tax	2,852	4,017	4,566	1,195
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
RPAT	13,373	19,612	22,295	5,835
Adjustments	510	0	0	0
APAT	13,883	19,612	22,295	5,835

Balance Sheet

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
Sources of Funds				
Equity Capital	358	358	358	358
Minority Interest	0	0	0	0
Reserves & Surplus	58,173	73,862	91,698	96,308
Net Worth	58,531	74,220	92,056	96,666
Total Debt	3,712	2,462	2,412	2,362
Net Deferred Tax Liability	619	654	692	731
Total Capital Employed	62,862	77,337	95,160	99,759

Applications of Funds

Net Block	24,908	26,001	26,990	27,834
CWIP	1,373	1,373	1,373	1,373
Investments	2,092	2,188	2,293	2,409
Current Assets, Loans & Advances	40,235	55,128	72,755	74,202
Current Investments	4,435	4,879	5,366	5,903
Inventories	7,005	12,485	14,102	6,884
Receivables	11,889	14,388	16,250	7,933
Cash and Bank Balances	9,529	15,927	29,513	45,884
Loans and Advances	90	90	90	90
Other Current Assets	7,287	7,360	7,433	7,508
Less: Current Liabilities & Provisions	5,746	7,353	8,252	6,060
Payables	2,355	3,421	3,711	2,764
Other Current Liabilities	3,391	3,932	4,540	3,295
<i>sub total</i>				
Net Current Assets	34,489	47,775	64,503	68,142
Total Assets	62,862	77,337	95,160	99,759

E – Estimates

Important Ratios

Particulars	FY24A	FY25E	FY26E	FY27E
(A) Margins (%)				
Gross Profit Margin	82.1	87.0	87.0	77.0
EBIDTA Margin	43.8	49.5	51.5	26.0
EBIT Margin	39.1	45.3	47.6	17.4
Tax rate	17.6	17.0	17.0	17.0
Net Profit Margin	33.4	43.1	43.4	23.3
(B) As Percentage of Net Sales (%)				
COGS	17.9	13.0	13.0	23.0
Employee	13.1	13.5	13.0	24.0
Other	25.2	24.0	22.5	27.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	81.5	113.2	205.1	37.4
Inventory days	64	100	100	100
Debtors days	109	115	115	115
Average Cost of Debt	7.1	5.9	4.9	4.9
Payable days	21	27	26	40
Working Capital days	315	383	458	992
FA T/O	1.6	1.7	1.9	0.9
(D) Measures of Investment				
AEPS (Rs)	77.6	109.6	124.6	32.6
CEPS (Rs)	88.0	120.2	135.8	44.7
DPS (Rs)	9.5	21.9	24.9	6.8
Dividend Payout (%)	12.3	20.0	20.0	21.0
BVPS (Rs)	327.0	414.6	514.3	540.0
RoANW (%)	24.9	29.5	26.8	6.2
RoACE (%)	24.7	28.2	26.0	6.1
RoAIC (%)	31.6	35.9	38.5	7.3
(E) Valuation Ratios				
CMP (Rs)	975	975	975	975
Mcap (Rs Mn)	174,525	174,525	174,525	174,525
EV	164,273	156,181	142,057	125,100
MCap/ Sales	4.4	3.8	3.4	7.0
EV/Sales	4.1	3.4	2.8	5.0
P/E	12.6	8.9	7.8	29.9
EV/EBITDA	9.4	6.9	5.4	19.2
P/BV	3.0	2.4	1.9	1.8
Dividend Yield (%)	1.0	2.2	2.6	0.7
(F) Growth Rate (%)				
Revenue	47.7	13.8	12.9	(51.2)
EBITDA	87.2	28.6	17.5	(75.4)
EBIT	102.7	31.7	18.6	(82.2)
PBT	88.2	45.6	13.7	(73.8)
APAT	94.1	41.3	13.7	(73.8)
EPS	94.1	41.3	13.7	(73.8)

E – Estimates

Cash Flow

Particulars	FY24A	FY25E	FY26E	FY27E
Profit before tax	14,944	20,426	24,329	4,244
Depreciation & w.o.	1,868	1,912	2,016	2,161
Net Interest Exp	192	182	119	117
Direct taxes paid	(3,165)	(4,017)	(4,566)	(1,195)
Change in Working Capital	(4,574)	(6,409)	(2,617)	13,308
Non Cash	0	0	0	0
(A) CF from Operating Activities	9,265	12,094	19,280	18,635
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,237)	(3,005)	(3,005)	(3,005)
Free Cash Flow	6,028	9,089	16,275	15,630
(Inc.)/ Dec. in Investments	0	0	0	0
Other	1,281	3,203	2,533	2,786
(B) CF from Investing Activities	(1,956)	198	(472)	(219)
Issue of Equity/ Preference	(7)	0	0	0
Inc./(Dec.) in Debt	2,003	(1,250)	(50)	(50)
Interest exp net	(192)	(182)	(119)	(117)
Dividend Paid (Incl. Tax)	(1,702)	(3,922)	(4,459)	(1,225)
Other	(3,345)	(539)	(593)	(653)
(C) CF from Financing	(3,243)	(5,894)	(5,222)	(2,045)
Net Change in Cash	4,066	6,398	13,586	16,371
Opening Cash balances	5,463	9,529	15,927	29,513
Closing Cash balances	9,529	15,927	29,513	45,884

E – Estimates

Notes

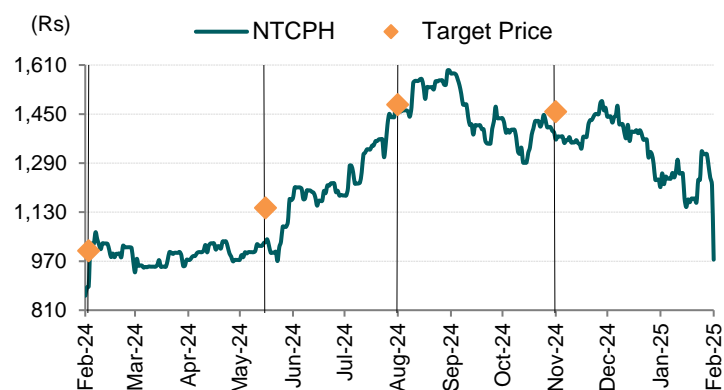
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	(20)	(29)	14
Rel to NIFTY (%)	(19)	(26)	8

Shareholding Pattern

Particulars	Jun'24	Sep'24	Dec'24
Promoters	49.7	49.6	49.6
MF/Banks/FIs	7.9	6.8	5.6
FIIIs	17.5	17.5	17.9
Public / Others	25.0	26.1	26.9



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-24	Accumulate	1,004	887
May-24	Accumulate	1,144	1,032
Aug-24	Reduce	1,481	1,475
Nov-24	Reduce	1,458	1,367

*Price as on recommendation date

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

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

Dolat Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	Director - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

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Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
