

**India**

August 12, 2021 - 11:30 PM

**ADD** (no change)

Consensus ratings\*: Buy 7 Hold 5 Sell 3

Current price:	Rs1,041
Target price:	Rs1,290
Previous target:	Rs1,290
Up/downside:	23.9%
InCred Research / Consensus:	14.3%
Reuters:	NATP.NS
Bloomberg:	NTCPH IN
Market cap:	US\$2,557m Rs189,896m
Average daily turnover:	US\$9.0m Rs666.6m
Current shares o/s:	182.5m
Free float:	51.1%

\*Source: Bloomberg

**Key financial forecast**

	Mar-21A	Mar-22F	Mar-23F
Net Profit (Rsm)	4,409	6,978	16,632
Core EPS (Rs)	24.16	38.23	91.13
Core EPS Growth	(4.50%)	58.0%	138.4%
FD Core P/E	43.05	26.00	10.91
Recurring ROE	11.20%	15.9%	31.6%
P/BV (x)	4.61	4.09	3.23
DPS (Rs)	6.25	9.56	22.78
Dividend Yield	0.60%	0.92%	2.19%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(3.6)	12.6	22.7
Relative (%)	(7.3)	0.0	(14.3)

**Major shareholders**

	% held
Promoter & Promoter Group	48.9
Mirae Asset Bluechip Fund	4.1
Life Insurance Corporation of India	2.5

**Analyst(s)**

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# Natco Pharma Ltd

## Sequential recovery

- Natco's revenue/EBITDA/PAT were in line with our estimates. Its revenue/EBITDA/PAT declined by 27%/36%/39% yoy.
- The company has secured its supply chain for the launch of Revlimid in Mar 2022 and has two approved sites at Hyderabad and Vizag for it.
- We maintain our Add rating and TP of Rs1,290.

### Natco's 1QFY22 earnings were in line with our estimates

- Total revenue stood at Rs4.1bn, declining 27.2% yoy but growing by 23.9% qoq. The yoy decline is partially attributed to the high proportion of the initial phase of pandemic exports of Chloroquine Phosphate tablets and Oseltamivir Phosphate capsules to the US in 1QFY21. Domestic formulations sales at Rs2bn grew by 59.6% yoy and 145% qoq mainly driven by drugs such as Apixaban, Baricitinib and Amphoterecin B used for COVID treatment, while export formulations declined 47% yoy and 8.4% qoq to Rs1.5bn.
- EBITDA was Rs1.1bn, declining by 35.8% yoy but growing by 44% qoq. EBITDA margin at 26.8% declined by 360bp yoy and grew by 380bp qoq. Reported PAT was Rs750m, down by 39% yoy and up by 41.5% qoq.

### Key takeaways from the results conference call

- On domestic business:** i) Management said that it had filed all data with the Drugs Controller General of India for the approval of Molnupiravir. ii) The company has launched a dedicated 'Natco Reach' division with 150-200 MRs to focus on COVID and diabetic products and is aimed at general physicians. iv) Main therapies in the domestic formulations business include cardio, oncology, and gastro.
- On exports business:** i) Doxorubicin saw some impact in 1Q due to price erosion in the US while other products were stable. ii) The company is looking to file 8-10 ANDAs in the US and 2-3 first-to-file (FTF) ANDA filings in FY22. iii) Imbruvica would be launched in 2025/26 and the company has a high profit share of 50% with the partner for this product. iv) Nexavar is a US\$300m product and the company has the sole first-to-file status with 180-day exclusivity for it. v) On the Morgantown facility shutdown, management said that Mylan has an alternative site for the testing of Copaxone.
- On agro-chem business:** i) On chlorantraniliprole, the company has appealed against the decision of the court and the next hearing is on 21 Sep. Management added that if it receives a favourable judgment and approval this year, it will contribute significantly to the company's revenue. ii) The agro-chem business would be reasonably large and has a good pipeline of products. iii) Operational cost of ~150m-200m p.a. of the agro-chem business is expensed out in the P&L. iv) Natco is deriving some revenue from the launch of Natmate, the pheromone product used to control pink bollworm in cotton crops, and expects it to contribute well in the next 2-3 years.
- Other highlights:** On strategic initiatives, management said it is looking to build a front-end business in the US for oral solids, will continue to collaborate with partners for complex generics, and diversify the branded generics business into other geographies.

**Figure 1: Natco's quarterly sales breakdown**

YE March (Rsm)	1QFY21	1QFY22	% yoy	4QFY21	%qoq	FY20	FY21	% yoy
<b>Formulations</b>	<b>3,999</b>	<b>3,460</b>	<b>-13.5</b>	<b>2,406</b>	<b>43.8</b>	<b>13,291</b>	<b>14,873</b>	<b>11.9</b>
Domestic	1,257	2,006	59.6	818	145.2	5,404	4,102	-24.1
Exports (incl. subsidiaries)	2,742	1,454	-47.0	1,588	-8.4	7,887	10,771	36.6
<b>API</b>	<b>1,439</b>	<b>616</b>	<b>-57.2</b>	<b>708</b>	<b>-13.0</b>	<b>3,552</b>	<b>5,120</b>	<b>44.1</b>
<b>Other Operating Income</b>	<b>196</b>	<b>22</b>	<b>-88.8</b>	<b>186</b>	<b>-88.2</b>	<b>2,307</b>	<b>507</b>	<b>-78.0</b>
<b>Crop Health Sciences</b>	<b>0</b>	<b>5</b>	<b>NM</b>	<b>13</b>	<b>-61.5</b>	<b>0</b>	<b>21</b>	<b>NM</b>
<b>Total</b>	<b>5,634</b>	<b>4,103</b>	<b>-27.2</b>	<b>3,313</b>	<b>23.8</b>	<b>19,150</b>	<b>20,521</b>	<b>7.2</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Quarterly consolidated summary**

YE 31 March	1QFY21	1QFY22	% yoy	4QFY21	%qoq	FY20	FY21	% yoy
Sales (Rsm)	5,634	4,103	(27.2)	3,313	23.8	19,150	20,521	7.2
Gross Profit (Rsm)	3,845	3,312	(13.9)	2,768	19.7	15,334	15,407	0.5
Gross Margin (%)	68.2	80.7	1248bps	83.5	-283bps	80.1	75.1	-499bps
EBITDA (Rsm)	1,711	1,098	(35.8)	762	44.1	5,826	6,062	4.1
EBITDA margin (%)	30.4	26.8	-361bps	23.0	376bps	30.4	29.5	-88bps
Interest (Rsm)	37	20	(45.9)	35	(42.9)	215	133	(38.1)
Depreciation (Rsm)	280	338	20.7	304	11.2	998	1,169	17.1
Other income (Rsm)	187	170	(9.1)	284	(40.1)	1,074	1,036	(3.5)
PBT before extra-ordinary items (Rsm)	1,581	910	(42.4)	707	28.7	5,687	5,796	1.9
Extraordinary income	-	-	-	-	-	-	-	-
Extraordinary expenses	-	-	-	-	-	-	-	-
PBT after extra-ordinary items (Rsm)	1,581	910	(42.4)	707	28.7	5,687	5,796	1.9
Tax (Rsm)	425	156	(63.3)	258	(39.5)	1,311	1,478	12.7
Effective tax rate (%)	22.8	17.6	NM	25.0	NM	19.4	23.7	NM
Reported PAT (Rsm)	1,228	750	(38.9)	530	41.5	4,608	4,409	(4.3)
Adjusted PAT (Rsm)	1,228	750	(38.9)	530	41.5	4,608	4,409	(4.3)

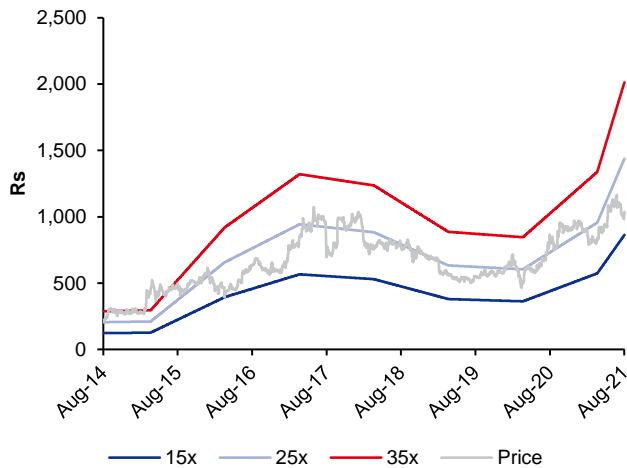
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: SOP valuation**

Particulars	EPS Rs/share	P/E (x)	Value (Rs)
Base Business EPS- FY23F	48.5	22	1063
Product- gCopaxone EPS-FY23F	5.7	10	57
<b>Key products opportunity</b>			<b>Value (Rs)</b>
gRevlimid			135
glmbruvica			35
<b>Target Price arrived</b>			<b>1290</b>

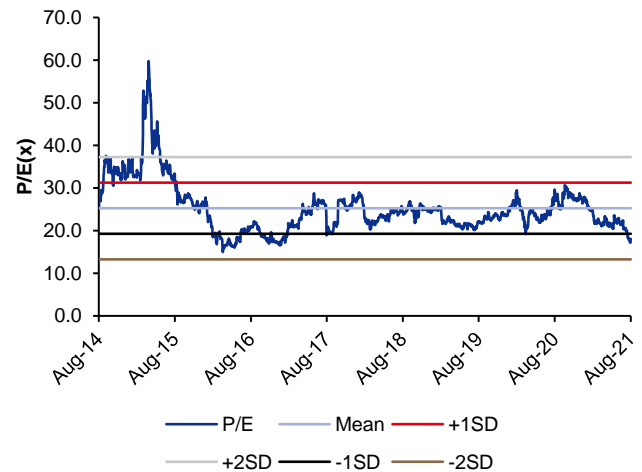
SOURCES: INCRED RESEARCH ESTIMATES

**Figure 4: P/E band: One-year forward**



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 5: P/E standard deviation: One-year forward**



SOURCES: INCRED RESEARCH, BLOOMBERG

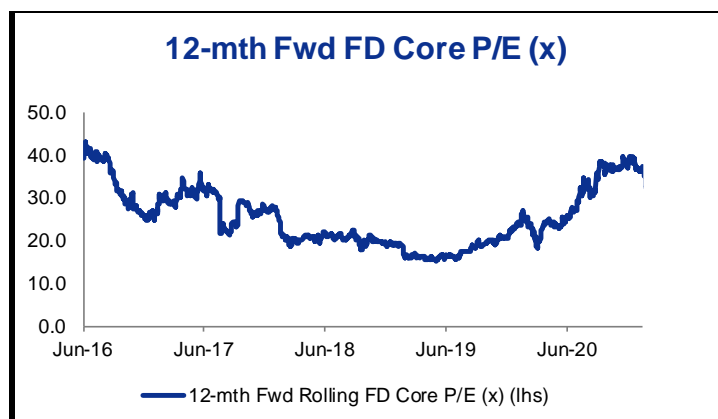
## BY THE NUMBERS

Profit & Loss				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
<b>Total Net Revenues</b>	<b>19,150</b>	<b>20,521</b>	<b>26,386</b>	<b>47,240</b>
<b>Gross Profit</b>	<b>15,334</b>	<b>15,407</b>	<b>20,054</b>	<b>39,209</b>
<b>Operating EBITDA</b>	<b>5,826</b>	<b>6,062</b>	<b>9,394</b>	<b>21,966</b>
Depreciation And Amortisation	(998)	(1,169)	(1,320)	(1,471)
<b>Operating EBIT</b>	<b>4,828</b>	<b>4,893</b>	<b>8,073</b>	<b>20,495</b>
Financial Income/(Expense)	(215)	(133)	(132)	(129)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	1,074	1,036	1,140	1,254
<b>Profit Before Tax (pre-EI)</b>	<b>5,687</b>	<b>5,796</b>	<b>9,081</b>	<b>21,620</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>5,687</b>	<b>5,796</b>	<b>9,081</b>	<b>21,620</b>
Taxation	(1,106)	(1,372)	(2,089)	(4,973)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>4,581</b>	<b>4,424</b>	<b>6,993</b>	<b>16,647</b>
Minority Interests	27	(15)	(15)	(15)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>4,608</b>	<b>4,409</b>	<b>6,978</b>	<b>16,632</b>
Recurring Net Profit	4,608	4,409	6,978	16,632
<b>Fully Diluted Recurring Net Profit</b>	<b>4,608</b>	<b>4,409</b>	<b>6,978</b>	<b>16,632</b>

Balance Sheet				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Cash And Equivalents	660	2,835	3,341	2,758
Total Debtors	5,513	4,129	5,309	9,505
Inventories	5,580	7,982	9,398	16,825
Total Other Current Assets	11,216	6,984	7,053	7,122
<b>Total Current Assets</b>	<b>22,969</b>	<b>21,930</b>	<b>25,101</b>	<b>36,210</b>
Fixed Assets	20,936	22,372	24,552	26,581
Total Investments	1,123	3,037	3,341	3,675
Intangible Assets	88	94	99	104
Total Other Non-Current Assets	762	486	531	692
<b>Total Non-current Assets</b>	<b>22,909</b>	<b>25,989</b>	<b>28,523</b>	<b>31,051</b>
Short-term Debt	3,150	2,667	2,617	2,567
Current Portion of Long-Term Debt				
Total Creditors	2,554	1,462	1,862	2,770
Other Current Liabilities	1,149	1,127	1,198	1,453
<b>Total Current Liabilities</b>	<b>6,853</b>	<b>5,256</b>	<b>5,678</b>	<b>6,789</b>
Total Long-term Debt	8	11	11	11
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	9	9	9	9
<b>Total Non-current Liabilities</b>	<b>17</b>	<b>20</b>	<b>20</b>	<b>20</b>
Total Provisions	1,161	1,409	1,459	1,511
<b>Total Liabilities</b>	<b>8,031</b>	<b>6,685</b>	<b>7,156</b>	<b>8,320</b>
Shareholders Equity	37,735	41,216	46,449	58,923
Minority Interests	112	18	18	18
<b>Total Equity</b>	<b>37,847</b>	<b>41,234</b>	<b>46,467</b>	<b>58,941</b>

Cash Flow				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
EBITDA	5,826	6,062	9,394	21,966
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(2,689)	2,473	(2,188)	(10,639)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(215)	(133)	(132)	(129)
Tax Paid	(1,311)	(1,478)	(2,089)	(4,973)
<b>Cashflow From Operations</b>	<b>1,611</b>	<b>6,924</b>	<b>4,985</b>	<b>6,226</b>
Capex	(3,374)	(2,611)	(3,505)	(3,505)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	1,074	1,036	1,140	1,254
<b>Cash Flow From Investing</b>	<b>(2,300)</b>	<b>(1,575)</b>	<b>(2,365)</b>	<b>(2,251)</b>
Debt Raised/(repaid)	(713)	(483)	(50)	(50)
Proceeds From Issue Of Shares	(1)	1		
Shares Repurchased				
Dividends Paid	(1,536)	(1,141)	(1,744)	(4,158)
Preferred Dividends				
Other Financing Cashflow	804	(1,551)	(319)	(349)
<b>Cash Flow From Financing</b>	<b>(1,446)</b>	<b>(3,174)</b>	<b>(2,113)</b>	<b>(4,557)</b>
Total Cash Generated	(2,135)	2,175	506	(583)
<b>Free Cashflow To Equity</b>	<b>(1,402)</b>	<b>4,866</b>	<b>2,569</b>	<b>3,924</b>
<b>Free Cashflow To Firm</b>	<b>(474)</b>	<b>5,482</b>	<b>2,751</b>	<b>4,103</b>

Key Ratios				
	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue Growth	(8.6%)	7.2%	28.6%	79.0%
Operating EBITDA Growth	(26.7%)	4.1%	55.0%	133.8%
Operating EBITDA Margin	30.4%	29.5%	35.6%	46.5%
Net Cash Per Share (Rs)	(13.73)	0.86	3.91	0.99
BVPS (Rs)	207.34	225.84	254.52	322.87
Gross Interest Cover	22.46	36.79	61.28	158.56
Effective Tax Rate	19.4%	23.7%	23.0%	23.0%
Net Dividend Payout Ratio	27.8%	19.7%	19.2%	19.2%
Accounts Receivables Days	100.78	85.75	65.28	57.23
Inventory Days	519.86	483.98	500.86	595.92
Accounts Payables Days	225.93	143.32	95.80	105.26
ROIC (%)	12.0%	12.4%	18.4%	36.2%
ROCE (%)	12.0%	11.4%	17.2%	36.8%
Return On Average Assets	13.3%	12.6%	18.1%	36.0%



Key Drivers				
	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Unit sales grth (% main prod./serv.)	(8.6%)	7.2%	28.6%	79.0%
R&D Cost/sales(%)	8.6%	8.6%	8.0%	8.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020**

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<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.