

## Retail Equity Research (South India Focus)

### Natco Pharma Ltd

#### Fertilizers

BSE CODE : 524816 NSE CODE: NATCOPHARM  
BLOOMBERG CODE: NTCPH:IN SENSEX : 43,953

**Reduce**

12M Investment Period

Rating as per Mid Cap

CMP Rs.904 TARGET Rs. 827

RETURN -9%



(Closing: 17-11-20)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

#### One-offs expand numbers...

**NATCO** Pharma (**NATCO**) is a R&D focussed, vertically integrated pharmaceutical company with an experienced management team, and having presence across multiple speciality therapeutic segments.

- Natco's total revenues grew by 65% on a YoY basis to Rs.802cr during Q2FY21 on the back of growth in exports of formulations, APIs as well as one-offs like the Revlimid settlement income.
- India business continued its de-growth during the quarter with a YoY decline of 11% on account of lower oncology and Hep-C sales.
- The company has stated that it would look to launch the highly anticipated Revlimid in the U.S during FY22.
- Natco expects the launch of its agrochemical molecules by the end of the year, pending regulatory approval.
- At a current 1 year forward PE of 29x, we feel the current valuations are expensive, given uncertainties regarding the domestic business and sustainability of the export performance.
- Hence, we downgrade our rating from "Hold" to "Reduce" with a target price of Rs.827 based on 24x FY22E EPS.

#### Tamiflu demand drive exports

Natco's total revenues grew by 65% on a YoY basis to Rs.802cr during Q2FY21. The revenue growth was mainly on the back of growth in exports of formulations, APIs as well as one-offs like the Revlimid settlement income. The formulation exports grew by an exceptional 114% YoY to Rs.482cr. The quarter saw increased demand for pandemic related drugs such as Tamiflu, with increased orders in Brazil, where it was recently launched. The company also received higher governmental orders for its products in Canada. The API segment also saw similar performance with revenue growing by 111% to 200cr, with Tamiflu demand helping the API sales.

#### Oncology sales impacts India business

The India business continued its de-growth during the quarter with a YoY decline of 11% to Rs.108cr. The decline was mainly attributed to the lower oncology and Hep-C sales. The oncology business has been largely impacted by lower hospitalization in the cancer segment, with many patients deferring treatment because of the Covid situation. As most of the oncology revenues come from Tier-1 cities, the recent increase in the number of Covid cases in these cities may see the domestic business see further decline in the coming quarters.

#### New launches on the horizon

The company has stated that it would look to launch the highly anticipated Revlimid in the U.S during FY22. Additionally, the company has a pipeline of around 20 products in the U.S with focus on therapeutic areas such as cancer, anti-viral, immune-suppression and so on. Natco expects the launch of its CTPR agrochemical molecules by the end of the year, pending regulatory approval. The company will hire around 80-100 people to market these molecules. Agrochem related capex is around Rs.140cr so far.

#### Outlook and valuation

Despite the higher than expected earnings seen during the quarter, we remain concerned with the outlook of the India business which has seen a continuous decline in revenues during the past year. The increased sales of Tamiflu seen in Q2FY21 is not expected to sustain in the coming year. The foray into the agrochem space is a positive as the company looks to diversify its business. However, it remains to be seen how the company segment performs in a highly competitive landscape. The current valuations seems expensive, with the stock trading at 29x 1 year forward PE, significantly above its 5 year average. Hence, we downgrade our rating from "Hold" to "Reduce" with a target price of Rs.827 based on 24x FY22E EPS.

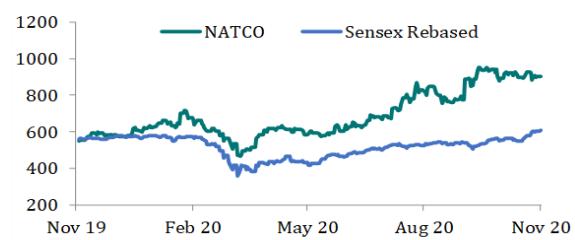
#### Company Data

Market Cap (Rs cr)	Rs.16,477
Outstanding Shares (cr)	18.1
Free Float	51%
Dividend Yield	0.8
52 week high (Rs)	Rs.995
52 week low (Rs)	Rs.450
6m average volume (cr)	0.06
Beta	0.4
Face value (Rs)	Rs.2

Shareholding (%)	Q4FY20	Q1FY21	Q2FY21
Promoters	49	49	49
FPI's	21.7	20.4	19.3
MFs/Institutions	10.4	12.7	13.7
Public	18.9	17.9	18.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 year
Absolute Return	13.1%	52.3%	62.9%
Absolute Sensex	13.8%	41.1%	9.1%
Relative Return*	(0.8)	10.2%	53.0%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	1,915	2,340	2,490
Growth (%)	(8.6)	22.2	6.4
EBITDA	582	748	821
EBITDA Margin(%)	30.4	32.0	33.0
PAT Adj.	458	576	628
Growth (%)	(28.7)	25.7	628
Adj.EPS	25.1	31.5	34.4
Growth (%)	(28.7)	25.7	9.2
P/E	36.0	28.7	26.3
P/B	4.4	3.9	3.5
EV/EBITDA	29.1	22.5	20.0
ROE (%)	12.6	14.4	14.2
D/E	0.1	0.1	0.0

Joe V Samuel  
Research Analyst

### Quarterly Financials (Consolidated)

(Rs cr)	Q2FY21	Q2FY20	YoY Growth (%)	Q1FY21	QoQ Growth (%)	H1FY21	H1FY20	YoY Growth (%)
<b>Sales</b>	<b>802</b>	<b>486</b>	<b>65.1</b>	<b>563</b>	<b>42.3</b>	<b>1365</b>	<b>978</b>	<b>39.6</b>
<b>EBITDA</b>	<b>302</b>	<b>168</b>	<b>80.4</b>	<b>190</b>	<b>59.2</b>	<b>492</b>	<b>380</b>	<b>29.5</b>
EBITDA margins %	36.5	32.3	420bps	32.6	390bps	36.0	38.8	(280)bps
Depreciation	29	22	31.0	28	2.5	57	44	29.2
<b>EBIT</b>	<b>273</b>	<b>146</b>	<b>87.8</b>	<b>162</b>	<b>69.0</b>	<b>429</b>	<b>323</b>	<b>32.7</b>
Interest	3	6	(56.5)	4	(27.0)	6	13	(49.6)
Other Income	26	33	(22.5)	19	37.4	44	54	(18.1)
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>271</b>	<b>139</b>	<b>94.2</b>	<b>158</b>	<b>71.2</b>	<b>429</b>	<b>323</b>	<b>32.7</b>
Tax	67	22	208	36	86.0	103	63	64.0
Share of profit from Associate	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>204</b>	<b>118</b>	<b>73.2</b>	<b>122</b>	<b>67.0</b>	<b>326</b>	<b>261</b>	<b>25.1</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adj PAT</b>	<b>204</b>	<b>118</b>	<b>73.2</b>	<b>122</b>	<b>67.0</b>	<b>326</b>	<b>261</b>	<b>25.1</b>
No. of Shares	18.1	18.1	-	18.1	-	18.1	18.1	-
<b>Adj EPS (Rs)</b>	<b>11.1</b>	<b>6.6</b>	<b>73.2</b>	<b>6.7</b>	<b>67.0</b>	<b>18.0</b>	<b>14.4</b>	<b>25.1</b>

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs Cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	2,139	2,371	2,340	2,490	9.4	5.0
EBITDA	652	806	748	821	14.8	1.9
Margins (%)	31.0	34.0	32.0	33.0	100bps	(100)bps
Adj. PAT	507	619	576	628	13.6	1.5
EPS	28	34	32	34	12.7	1.3

### Sector wise sales

(Rs cr)	Q2FY21	Q2FY20	YoY%
<b>API</b>	200	95	110.7
<b>Domestic formulation</b>	108	122	(11.2)
<b>Export formulation</b>	482	225	114.2

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	<b>2,185</b>	<b>2,095</b>	<b>1,915</b>	<b>2,340</b>	<b>2,490</b>
% change	5.8	-4.1	-8.6	22.2	6.4
<b>EBITDA</b>	<b>928</b>	<b>795</b>	<b>582</b>	<b>748</b>	<b>821</b>
% change	35.9	-14.4	-26.7	28.5	9.8
Depreciation	66	81	100	115	136
<b>EBIT</b>	<b>862</b>	<b>714</b>	<b>483</b>	<b>633</b>	<b>686</b>
Interest	15	19	22	28	22
Other Income	40	130	107	117	124
<b>PBT</b>	<b>887</b>	<b>825</b>	<b>569</b>	<b>722</b>	<b>788</b>
% change	42	-7	-31	27	9
Tax	192	182	111	146	160
Tax Rate (%)	22%	22%	19%	20%	21%
<b>Reported PAT</b>	<b>695</b>	<b>642</b>	<b>458</b>	<b>576</b>	<b>628</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>695</b>	<b>642</b>	<b>458</b>	<b>576</b>	<b>628</b>
% change	43.1	-7.6	-28.7	25.7	9.2
No. of shares (cr)	18	18	18	18	18
<b>Adj EPS (Rs)</b>	<b>38</b>	<b>35</b>	<b>25</b>	<b>32</b>	<b>34</b>
% change	35.2	-6.6	-28.8	25.8	9.2
DPS (Rs)	8	6	7	7	7

### BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	22	280	66	298	375
Account Receivable	638	506	551	577	614
Inventories	438	529	558	609	525
Other Cur. Assets	791	711	859	1,026	1,091
Investments	77	169	112	172	247
Gross Fixed Assets	1,393	1,676	2,133	2,476	2,776
Net Fixed Assets	1,013	1,219	1,576	1,804	1,968
CWIP	480	638	518	388	288
Intangible Assets	6	9	9	10	8
Def. Tax (Net)	-14	-12	-26	7	5
Other Assets	247	235	315	377	453
<b>Total Assets</b>	<b>3,701</b>	<b>4,292</b>	<b>4,562</b>	<b>5,271</b>	<b>5,578</b>
Current Liabilities	403	328	338	481	600
Provisions	46	80	101	115	123
Debt Funds	173	386	316	451	151
Other Liabilities	6	9	34	23	23
Equity Capital	37	37	37	37	37
Reserves & Surplus	3,035	3,453	3,737	4,165	4,645
Shareholder's Fund	3,072	3,489	3,774	4,201	4,682
<b>Total Liabilities</b>	<b>3,701</b>	<b>4,292</b>	<b>4,562</b>	<b>5,271</b>	<b>5,578</b>
BVPS	167	191	207	230	257

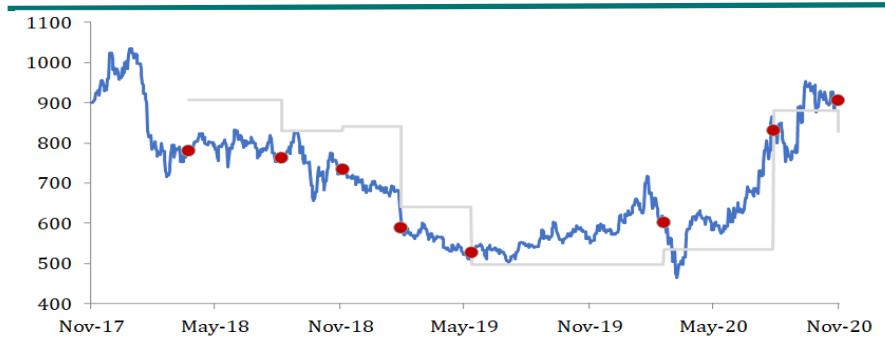
### CASH FLOW

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	95	91	67	84	92
Non-cash adj.	-156	139	-54	-26	-37
Changes in W.C	-29	1	-10	-8	10
<b>C.F. Operation</b>	<b>464</b>	<b>669</b>	<b>417</b>	<b>626</b>	<b>871</b>
Capital exp.	-423	-457	-356	-213	-200
Change in inv.	-693	-156	189	-61	-73
Other invest.CF	0	-2	0	-63	-75
<b>C.F - Investment</b>	<b>-1,116</b>	<b>-612</b>	<b>-167</b>	<b>-337</b>	<b>-348</b>
Issue of equity	896	-135	-54	0	0
Issue/repay debt	-230	102	-69	-13	-448
Dividends paid	-181	-111	-1	-148	-148
Other finance.CF	-15	-19	25	0	0
<b>C.F - Finance</b>	<b>651</b>	<b>-51</b>	<b>-251</b>	<b>-57</b>	<b>-446</b>
Chg. in cash	-1	5	-1	233	77
Closing cash	22	28	66	298	375

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	42.5	37.9	30.4	32.0	33.0
EBIT margin (%)	39.5	34.1	25.2	27.1	27.5
Net profit mgn.(%)	31.8	30.7	23.9	24.6	25.2
ROE (%)	29.4	19.6	12.6	14.4	14.2
ROCE (%)	28.1	20.5	12.8	15.1	14.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	93	100	101	88	87
Inventory (days)	66	84	104	91	83
Payables (days)	2	1	3	4	2
Current ratio (x)	4.2	5.0	4.7	4.2	3.6
Quick ratio (x)	1.6	2.4	1.8	1.8	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.7	1.4	1.0	1.0	0.9
Total asset T.O (x)	0.7	0.5	0.4	0.5	0.5
Int. covge. ratio (x)	56.0	37.0	22.4	22.5	30.7
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.0
<b>Valuation</b>					
EV/Sales (x)	6.3	4.7	4.0	3.2	2.5
EV/EBITDA (x)	38.4	27.8	19.7	12.1	9.6
P/E (x)	63.1	41.6	32	19.5	16.3
P/BV (x)	7.5	6.5	5.3	4.4	3.5

## Recommendation Summary (Last 3 years)



Dates	Rating	Target
09th April, 2018	Buy	908
24th August, 2018	Accumulate	831
21th November, 2018	Buy	842
15th February, 2019	Hold	640
30th May, 2019	Sell	487
09th March, 2020	Sell	534
14th August, 2020	Hold	881
18th November, 2020	Reduce	827

Source: Bloomberg, GeoJit Research.

### Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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