

Company Details

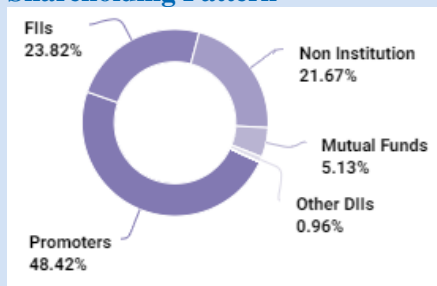
CMP:	Rs.569
Face value:	Rs.2
Market cap:	Rs.10,769.03 Crs.
TTM EPS	Rs.44.63
52 week high:	Rs.849.00
52 week low:	Rs.558.00
BSE Code:	524816
Sector	Pharmaceuticals

Consolidated 9M

Financial Highlights (YoY)

Rs. in crores			
	9M FY19	9M FY18	% Var
Net Sales	1638.80	1434.20	14.3%
Total Expendit	992.30	889.10	11.6%
PBDIT	646.50	545.10	18.6%
Op.Profit	745.70	565.40	31.9%
OPM (%)	45.5%	39.4%	15.4%
PBT	672.30	504.80	33.2%
PAT	522.00	395.50	32.0%
EPS (Rs.)	28.37	21.44	32.3%
Equity	36.80	36.90	-0.3%

Shareholding Pattern



Price Vs Sensex Chart



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Company Background

Natco Pharma Ltd., a Hyderabad based company incorporated in 1981, is engaged in developing, manufacturing and marketing finished dosage formulations (FDF) and Active Pharmaceutical Ingredients (API). The Company's product includes bulk chemicals, finished dosage formulations, retail pharmacy and job work charges. The Company's products in the oncology segment include Desifer, Veenat, Bendit, Bortenat, Lenalid and Clokeran. The Company's product offerings in the pharma segment include T-Score, PTMaX, Glatimer, Tarana and Tigi. The Company operates in India, United States of America, Europe and the rest of the world. The manufacturing plants are located in Dehradun, Guwahati, Telangana, Tamil Nadu and Visakhapatnam.

Financial Performance

The company has reported Net sales of Rs. 1638.80 crore during 9M FY19 higher by 14.3% against Rs. 1434.20 crore during 9M FY18. In Q3 FY19, the company witnessed muted sales de-growth of 1% YoY due to lower sales from US. The PBITDA margin for Q3 FY19 was down by 1200bps as a result of lower realization from Oseltamivir sales in the US (treatment for flu). **The Operating profit was at Rs.745.70 crore in 9M FY19 up by 31.9% against that of Rs.565.40 crores in 9 months of the last year. The EPS has improved from Rs. 21.44 in 9M FY18 to Rs. 28.37 in 9M FY19.**

Investment Rationale

- The management has guided for higher revenue post CY20 as new niche molecules get approved (Revlimid). The capex for FY19 will be around Rs. 400 crores which will be continued in the coming years.
- API (both domestic and international) grew by 22% YoY reflecting better sales momentum. The company will focus on 10-14 key niche molecules in the US over a period of time.
- Emerging markets like Canada, India and Brazil will be the key geographical area to focus for medium term. **The company has started working on green-field manufacturing facilities for producing niche agrichemicals which is expected to be complete by the end of 2019 (total capex of Rs. 100crs).**
- The company launched Everolimus and Letrozole in Brazil. It is targeting the launch of 4 to 5 products every year.
- Market share gains from Copaxone generic should reflect in the earnings. In FY20-21, the company expects growth to come from the product launches in rest of world and India.
- The lower regulatory entry barrier in China has given the company to explore new opportunities for its Oncology product portfolio. Successful entry in China can be highly meaningful as new product launches can be as lucrative as US.
- The Company is looking for tie-up with partner in US and will have mixed strategy for India. So, far the company has committed capex of Rs. 100 crores for Agrochemicals. A small portion of this has been spent this year towards building the facility. Major portion of this capex will be incurred next year. However, commercial operations and revenue realization is still 2 to 3 years away.
- The R&D spending for FY19 will be about 7.5% and it is expected to go to 8.5-9% of revenue in the coming years.
- As on Dec 31st, 2018, the promoters hold 48.42% and FIIs holds 23.82% equity of the company, whereas Mutual Funds and other domestic institutional investor own 5.13% and 0.96% respectively, and the balance 21.67% shares are held by the public.

Concerns

Competition from peers, tough regulatory approvals, fluctuations in Foreign Exchange rates and volatility in raw material prices are the main concerns.

Valuation

The share of the Company is trading at Rs. 569.35 at **TTM P/E of 12.7x**. Keeping in the new diversified product basket of the company, global expansion, new launch in pipeline, improvement in margins and ability to scale the top-line as well as bottom line, we expect the company to report an **EPS of about Rs. 45 for FY19 and the company being market leader in the segment deserve higher PE of 15x** and accordingly, we estimate the price of the scrip to appreciate to about Rs. 675 over the next 6-12 months.



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Satco Capital Market Ltd. is acting as a Research Analyst and is registered under SEBI (Research Analyst) Regulations, 2014. SEBI Registration No. INH000002343

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