

# Equity Research Desk

# ALPHA



## Making specialty medicines

- Incorporated in 1981, headquartered in Hyderabad.**
- Leading pharmaceutical company specializing in finished dosage formulations (FDF), active pharmaceutical ingredients (APIs), and intermediaries.**
- Operates 9 state-of-the-art manufacturing facilities and research centers across India.**
- Includes 2 API facilities, 5 FDF facilities, and 2 crop health sciences units.**
- Presence in over 50 countries as of FY24.**
- Employs over 4,800 individuals, including 450+ scientists.**
- Filed 282 Indian patents, with 111 granted.**
- Filed 288 international patents, with 204 granted.**
- Offers 80+ active FDFs in India and 182 active FDFs internationally (excluding the US).**

### Product Portfolio

- Product portfolio includes formulations specializing in oncology, specialty pharma, cardiology, and diabetology.
- Serves both domestic and international markets.
- Offers active pharmaceutical ingredients (APIs) and contract manufacturing services.
- Provides solutions in crop health sciences.

### Subsidiaries

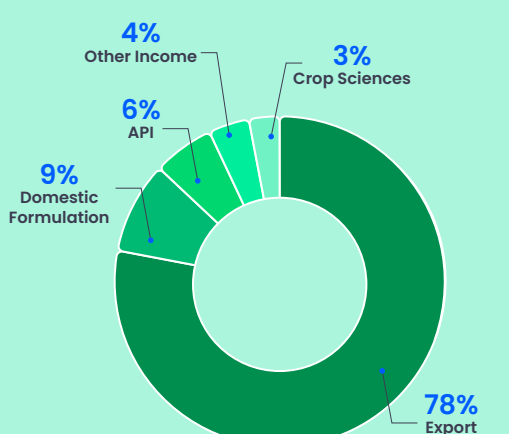
As of FY24, the company has 11 subsidiaries.

### Growth Strategies

- Focus on Specialty Medicine:** The company targets niche, complex molecules with limited competition, leveraging its R&D expertise for a first-to-market approach.
- Oncology Innovation:** Fast-tracking oncology treatments, the company invested \$2 million in CAR-T research and plans to launch 10 new oncology products in the next financial year.
- First-to-File Applications:** Sole FTF filings include Semaglutide for diabetes and weight loss, Olaparib for cancer, and Carfilzomib and Ibrutinib for multiple myeloma and leukemia.
- Agro-Chemicals Expansion:** Launched its Crop Health Sciences division in 2022, with FY24 agro-chemical revenue reaching ₹ 108 crore from the ₹40 crore of FY23.
- Growth in Agro-Business:** Focusing on building strong brand presence, expanding distribution, and exploring export opportunities for agro-chemicals.

### Revenue Breakup (FY24)

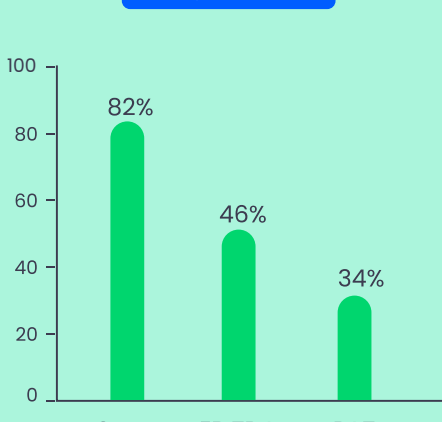
Total Revenue (FY24) - ₹ 4,127 crore



### Financial Highlights

- Q1FY25**
  - Revenue Growth:** Revenue reached ₹ 1,411 crore, up 22% from ₹ 1,160 crore in Q1FY24.
  - EBITDA Surge:** EBITDA increased by 56% YoY, rising to ₹ 853 crore from ₹ 548 crore.
  - Net Profit Growth:** Net profit jumped 59% to ₹ 669 crore, compared to ₹ 420 crore in Q1FY24.
  - Margin Expansion:** EBITDA margin improved from 47% to 61%, while net profit margin grew from 36% to 47%.
- FY24**
  - Revenue Growth:** Revenue reached ₹ 4,127 crore, marking a 47% increase compared to FY23.
  - International Business Surge:** International business grew by 57% YoY, driving overall growth.
  - EBITDA Increase:** EBITDA rose by 81% YoY to ₹ 1,880 crore.
  - Net Profit Growth:** Net profit surged by 94% to ₹ 1,388 crore.
  - Product Launches and Filings:** Over 15 new products were launched, with notable filings including Semaglutide for weight loss and three Para IVs.

### Margins-FY24



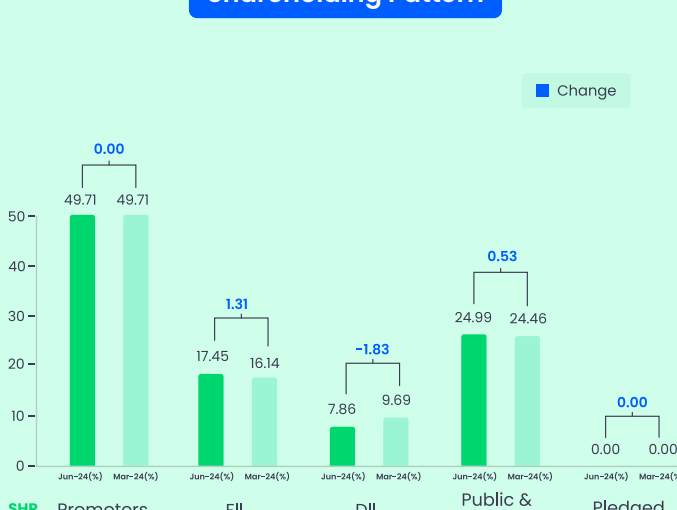
### Financial Performance

- Revenue and PAT CAGR:** The company posted a 3-year CAGR of 25% in revenue and 49% in PAT between FY21-FY24.
- Profitability Metrics:** Average ROE stands at 16% and ROCE at 17% over the past 3 years.
- Strong Capital Structure:** The company maintains a robust balance sheet with a low debt-to-equity ratio of 0.06.

### Market Data

CMP	₹ 1354
Date	04-Oct-24
Target Price	₹ 1673
Upside Potential	24%
52 Week High/Low	1639/724
NSE Code	NATCO
Market Cap	Small
Sector	Pharmaceuticals
Rating	BUY

### Shareholding Pattern



### Ratios-FY24

ROE	24%
ROCE	29%
Div. Yield	0.70%
PE Ratio (x)	14.8
Face Value	2.00
EPS	77.34

### Industry Outlook

- Cost Efficiency:** India benefits from 30%-35% lower manufacturing costs and 87% cheaper R&D compared to developed markets.
- Global Ranking:** The country ranks 3rd globally in pharmaceutical production by volume.
- Strong Growth Projections:** The industry is expected to grow at over 10% CAGR, reaching US\$ 130 billion by 2030.
- Regulatory Compliance:** India has the largest number of USFDA-compliant plants outside the US, with over 2,000 WHO-GMP approved facilities serving 150+ countries.
- Rising Medicine Spending:** Medicine spending in India is projected to grow 912% over the next five years, making the country a top 10 market for global medicine consumption.

### Growth Drivers

- PLI Scheme:** The Production Linked Incentive (PLI) scheme for pharmaceuticals has a total outlay of ₹ 15,000 crore (US\$ 2.04 billion) from 2020-21 to 2028-29, encouraging domestic production and innovation.
- FDI in Pharmaceuticals:** Up to 100% FDI is permitted via the automatic route for Greenfield projects, while Brownfield projects allow up to 74% FDI automatically, with more requiring government approval.
- Bulk Drug Parks:** The government allocated ₹ 1,000 crore (US\$ 120 million) for FY25 to promote bulk drug parks, up significantly from the previous year, supporting domestic manufacturing capacity.

### Competitive Advantage

Natco stands out as an undervalued stock compared to competitors like Laurus Labs Ltd and Alembic Pharmaceuticals Ltd, with significant potential for P/E expansion driven by its strong margin and earnings growth.

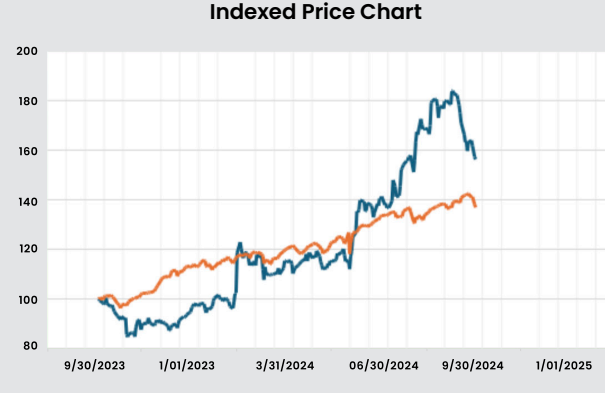
### Peer Analysis

Company	CMP	Mcap	ROCE	ROE	5 Yr Sales CAGR	P/E	EPS
Natco	1354	24251	30.00%	26.00%	14.00%	15	91.37
Laurus	445	24001	7.00%	4.00%	17.00%	162	2.75
Alembic	1243	24430	13.00%	13.00%	10.00%	39	32.05

### Outlook

- Expanding global presence in Southeast Asia, MENA, LATAM, and other markets while maintaining strong positions in the US, Canada, and Brazil.
- Focus on niche, high-potential molecules and doubling the sales team in specialty pharma in FY25.
- Enhanced cardiology portfolio with innovative anticoagulant and anti-hypertensive therapies.
- Strategic investments in sales, marketing, and development of peptides and oligonucleotides to drive growth in specialty pharma, cardiology, and diabetology.
- BUY recommendation with a target price of ₹ 1,673 based on 20x FY26E EPS.

### Indexed Price Chart



### Risks

- Regulatory Risk:** The pharmaceutical industry is highly regulated, and scrutiny by agencies like the USFDA could lead to product limitations or bans, potentially impacting revenue.
- Forex Risk:** With significant foreign operations, the company is exposed to **forex fluctuations**, which could negatively impact financial performance if there are unforeseen movements in currency markets.

Note: To read the Disclaimer and Disclosure, [click here](#)

Please note that this is not a recommendation and is intended only for educational purposes. So, kindly consult your financial advisor before investing.

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