



Date	Coverage	Buy Range (₹)	Target Price (₹)
21-Jan-25	Quick Insight	1200 – 1240	1460 – 1500

### Q3FY25 Performance

The company reported a sharp 37% YoY and 65% QoQ decline in revenue, reaching ₹475 Cr. EBITDA plummeted 86% YoY and 95% QoQ to ₹39 Cr, with margins shrinking to 8% from 35% YoY. The absence of Revlimid sale in Q3FY25 significantly impacted revenue. The management said that allocated volume was sold by September end. Despite a 376% surge in other income which includes interest income on deposits and a one-time pre-tax gain of ₹90crs from the sale of land. PAT declined 38% YoY and 80% QoQ to ₹132crs, maintaining a 28% margin.

### Management concall Highlights

- Revlimid sales were absent this quarter, as all allocated volume was sold by September-end. A fresh allocation is expected in the coming year. The allocation of Revlimid sales depends on contractual agreements. The company expects to receive one-third of the allocation in Q4FY25, which will be sold in Q1FY26. The company holds a one-third market share in Revlimid and will assess price erosion impact over time.
- **Ozempic (Semaglutide) Settlement:** the company partnered with Mylan in settling a US patent dispute with Novo Nordisk. The settlement date for Semaglutide is confidential. The company has settled only one product, Ozempic. India launch of Semaglutide is expected in March 2026, subject to regulatory approval. The company is confident about the India launch but remains uncertain about exclusivity. The management said that it is focused on India but cannot disclose details about Canada.
- **Post-Revlimid, Natco Pharma's pipeline includes several key opportunities across multiple markets.**
  - The company focuses on high value launches such as Semaglutide (Wegovy and Ozempic), where it holds sole FTF in select strengths and shared FTF in others for one formulation, while the other formulation remains under litigation with sole FTF status. 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 company is focused on injectables and not oral solids.
  - Olaparib, a partnered product with Alembic, is awaiting USFDA approval and will be shared 50-50.
  - Risdiplam, a \$3 billion drug opportunity, has been filed with Sun Pharma under a profit-sharing model. Risdiplam is another good opportunity litigated in the Delhi high court.
  - Everolimus has already been launched, with benefits expected in Q4FY25. It shared exclusivity and partnered products.
  - Additionally, the company has sole FTF exclusivity for Ibrutinib and Erdafitinib.
- The FY26E growth projection depends on price erosion trends, with more clarity expected in Q4FY25. The Revlimid allocation for March is 33%, and final volume disclosures are awaited in Q4. Natco Pharma anticipates a significant earnings decline (~50-60%) in FY27E due to the absence of Revlimid sales. However, post-FY26E, growth will be driven by key launches like Semaglutide in India and Olaparib across multiple markets and other products launch.

### Important Data

Nifty	22,929.25
Sensex	75,939.21

### Key Stock Data

LTP* (₹)	880.95
Market Cap (₹ bn)	~156
52W High/Low	₹1,639 / 862
NSE Code	NATCOPHARM
BSE Code	524816
Bloomberg Code	NTCPH IN

LTP\* as on 14<sup>th</sup> February 2025

### Shareholding Pattern (%) – Dec'24

Promoter	49.62
FII	17.51
DII	06.76
Public & Others	26.12

### Financial Summary

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,707	3,999	3,724	3,830	2,836
growth %	39%	48%	-7%	3%	-26%
EBITDA	935	1,751	1,714	933	652
EBITDA margins %	35%	44%	46%	24%	23%
PAT	715	1,388	1,532	761	528
PAT margins %	26%	35%	41%	20%	19%
EPS	40	77	86	43	29
ROE %	15%	24%	17%	8%	6%
ROCE %	20%	34%	20%	10%	7%
P/E Ratio	22	12	10	21	30
EV/EBITDA (x)	16	8	8	14	20
Debt/ Equity	0.03	0.06	0.02	0.02	0.02

Source: Company, Way2Wealth Research

### Relative Performance

Return (%)	1Yr	3Yr	5Yr
<b>NATCO PHARMA</b>	-18%	33%	1%
<b>Nifty 50</b>	4%	33%	91%
<b>Nifty Pharma</b>	12%	58%	157%

Source: Company, Way2Wealth Research

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- The company is actively exploring acquisitions, focused on RoW (Rest of World) markets and strengthening its US presence in prescription pharmaceuticals.
- R&D expenses remain elevated, currently at 8-10% of sales, compared to the typical 7-8%. Despite a soft quarter, the company continues its investments in R&D.
- Cash and liquid investments stand at ₹3,264crs as of December 31, 2024, with debt at ₹241crs, resulting in a net cash position of approximately ₹3,023crs.
- The agro business is expected to break even by the end of FY26, with projected sales of ₹120-150crs during the year. Additionally, the company anticipates receiving 7-8 new approvals in the Rest of World (RoW) markets.
- The Kothur plant is currently undergoing remediation. While the company continues to supply some products from this facility, many have been relocated to the Vizag plant.

### Change in Estimates

We have lowered our earlier estimates for Natco Pharma's financial performance in FY25E and FY26E due to the absence of Revlimid sales and pricing pressures. Revenue is expected to decline by 33% in FY25E and 36% in FY26E, with EBITDA falling by 46% and 72%, respectively. PAT and EPS are also projected to drop significantly, declining by 42% in FY25E and 73% in FY26E.

Particulars (₹ crs)	FY25E			FY26E			FY27E
	Old	New	Variance %	Old	New	Variance %	New
Revenue	5,524	3,724	-33%	6,030	3,830	-36%	2,836
EBITDA	3,171	1,714	-46%	3,377	933	-72%	652
EBITDA margins %	57%	46%		56%	24%		23%
PAT	2,641	1,532	-42%	2,796	761	-73%	528
PAT margins %	48%	41%		46%	20%		
EPS	147.6	85.6	-42%	156.2	42.5	-73%	29.5

### View & Valuation

- We have lowered our estimates for Natco Pharma's financial performance in FY25E and FY26E due to the absence of Revlimid sales. The outlook for FY26E and FY27E remains challenging, particularly with no Revlimid contribution in FY27E. We project revenue, EBITDA, and PAT to reach ₹2,836crs, ₹652crs, and ₹528crs, respectively, in FY27E, with EBITDA and PAT margins declining to 23% and 19%.
- Looking ahead, several key product launches over the next five years, including Semaglutide, Carfilzomib, Trabectedin, and Imbruvica, are expected to drive revenue growth. Among these, Semaglutide is a critical product for the US and other regulated markets. The company is also actively exploring acquisitions to strengthen its presence in RoW (Rest of World) markets and expand its US prescription pharmaceuticals segment.
- At the current price of ₹880, the stock trades at a P/E of 30x FY27E EPS of ₹29 and 20x EV/EBITDA on FY27E, compared to its five-year historical median P/E of 26x and EV/EBITDA of 16x. The financials have been negatively impacted by the absence of Revlimid sales, and this has already been factored into estimates. While we may see short-term price correction due to near-term challenges, however recent price correction post-Q3FY25 concall suggests that most negative factors are already priced in and **the valuation is now close to 5-year historical averages, and given the medium- to long-term growth prospects, we are downgrading our rating to Hold.**

**Key Risks**

- **Revlimid Sales Decline:** The absence of Revlimid sales in FY27E poses a significant risk, as it was a major revenue and profit contributor. The company's earnings could decline 50-60% in FY27E due to this impact.
- **Regulatory Uncertainty:** The India launch of Semaglutide (March 2026) remains subject to regulatory approvals. Any delays or rejections could impact on the company's growth prospects. Additionally, uncertainty around exclusivity in India and other markets remains a risk.
- **US Tariff Impact –** Management anticipates that the tariffs will affect the entire industry. It highlighted that manufacturing in the US is the only viable strategy to mitigate the impact. If tariffs are imposed, the company plans to shift production of certain products to the US.
- **Potential adverse actions from the US FDA at the Kothur facility, Telangana:** The plant is under the USFDA scanner, having received a warning letter on April 8, 2024. The management stated that they will continue supplying existing products, but new product approvals are halted. Some products, including Revlimid, are being moved to the Vizag facility, and the company is in the process of completing the transfer of the remaining products, as they don't want to lose any business. On the remediation front, the management mentioned that it will take time to resolve the issues.

**Quarterly Financials**

(₹ crs)

Particulars	Q3FY25	Q3FY24	YoY %	Q2FY25	QoQ %	9MFY25	9MFY24	YoY %
Revenue (net)	475	759	-37%	1,371	-65%	3,209	2,931	9%
<b>TOTAL INCOME</b>	475	759	-37%	1,371	-65%	3,209	2,931	9%
Total Material Cost	83	162	-49%	178	-53%	441	574	-23%
% of Revenue	17%	21%		13%		14%	20%	
Gross Profit	392	596	-34%	1,194	-67%	2,768	2,357	17%
% Margin	83%	79%		87%		86%	80%	
Employees exp	142	122	16%	152	-7%	435	383	14%
% of Revenue	30%	16%		11%		14%	13%	
other expenses	212	206	3%	238	-11%	685	720	-5%
<b>TOTAL OPER EXPENDITURE</b>	436	491	-11%	567	-23%	1,561	1,676	-7%
% of Revenue	92%	65%		41%		49%	57%	
EBITDA	39	268	-86%	804	-95%	1,648	1,254	31%
% Margin	8%	35%		59%		51%	43%	
Depreciation	47	44	6%	46	3%	137	131	4%
Operating Profit	(8)	224	-104%	759	-101%	1,511	1,123	35%
% Margin	-2%	30%		55%		47%	38%	
Other Income	176	37	376%	64	176%	288	86	235%
EBIT	168	261	-36%	822	-80%	1,799	1,209	49%
Finance Cost	4	5	-4%	4	7%	14	13	5%
EBT	164	256	-36%	818	-80%	1,786	1,196	49%
Total Tax Expense / (Credit)	31	44	-28%	142	-78%	308	194	59%
<b>PAT (Reported)</b>	132	213	-38%	677	-80%	1,477	1,002	47%
% Margin	28%	28%		49%		46%	34%	
<b>PAT (Adjusted)</b>	132	213	-38%	677	-80%	1,477	1,002	47%
% Margin	28%	28%		49%		46%	34%	
<b>EPS - Reported</b>	7.4	11.9	-38%	37.8	-80%	83	56	47%

Source: Company, Way2Wealth Research

**Financials**

(₹ crs)

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (net)	2052	1,945	2,707	3,999	3,724	3,830	2,836
<b>TOTAL INCOME</b>	<b>2,052</b>	<b>1,945</b>	<b>2,707</b>	<b>3,999</b>	<b>3,724</b>	<b>3,830</b>	<b>2,836</b>
growth %		-5%	39%	48%	-7%	3%	-26%
<b>Total Material Cost</b>	<b>511</b>	<b>561</b>	<b>627</b>	<b>717</b>	<b>528</b>	<b>599</b>	<b>482</b>
<b>Gross Profit</b>	<b>1,541</b>	<b>1,384</b>	<b>2,080</b>	<b>3,282</b>	<b>3,195</b>	<b>3,231</b>	<b>2,354</b>
% Margin	75%	71%	77%	82%	86%	84%	83%
Employees exp	415	445	487	525	590	958	709
other expenses	520	676	658	1,006	891	1,341	993
<b>TOTAL OPER EXPENDITURE</b>	<b>1,446</b>	<b>1,682</b>	<b>1,772</b>	<b>2,248</b>	<b>2,010</b>	<b>2,897</b>	<b>2,184</b>
% of Revenue	70%	86%	65%	56%	54%	76%	77%
<b>EBITDA</b>	<b>606</b>	<b>263</b>	<b>935</b>	<b>1,751</b>	<b>1,714</b>	<b>933</b>	<b>652</b>
% Margin	30%	14%	35%	44%	46%	24%	23%
Depreciation	117	143	164	187	183	200	200
<b>Operating Profit</b>	<b>489</b>	<b>121</b>	<b>772</b>	<b>1,564</b>	<b>1,531</b>	<b>733</b>	<b>452</b>
% Margin	24%	6%	29%	39%	41%	19%	16%
Other Income	104	99	105	128	338	200	200
<b>EBIT</b>	<b>593</b>	<b>220</b>	<b>876</b>	<b>1,692</b>	<b>1,869</b>	<b>933</b>	<b>652</b>
Finance Cost	13	18	15	19	18	16	16
EBT	579	202	862	1,673	1,851	917	636
Total Tax Expense / (Credit)	137	32	147	285	319	156	108
<b>PAT (Reported)</b>	<b>442</b>	<b>170</b>	<b>715</b>	<b>1,388</b>	<b>1,532</b>	<b>761</b>	<b>528</b>
% Margin	22%	9%	26%	35%	41%	20%	19%
<b>EPS - Reported</b>	<b>24.6</b>	<b>9.4</b>	<b>39.7</b>	<b>77.1</b>	<b>85.6</b>	<b>42.5</b>	<b>29.5</b>
Growth in EPS		-62%	321%	94%	11%	-50%	-31%

Key Ratio	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
P/E Ratio	36.23	94.43	22.40	11.54	10.40	20.94	30.18
EV/Net sales (x)	7.62	8.10	5.5	3.6	3.5	3.4	4.6
EV/EBITDA (x)	25.81	59.86	16.0	8.3	7.6	14.1	20.1
EV/EBIT (x)	26.39	71.75	17.1	8.6	6.9	14.1	20.1
Market cap/sales	7.78	8.21	5.9	4.0	4.3	4.2	5.6
Debt/ Equity	0.06	0.10	0.0	0.1	0.0	0.0	0.0
interest coverage	44.56	12.40	60.4	88.1	105.6	58.3	40.7
Net debt/EBITDA	(0.03)	0.77	-0.41	-0.3	-1.4	-2.4	-3.4

Source: Company, Way2Wealth Research

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**Disclosure of Interest Statement: Natco Pharma Ltd. as on 17 February 2025**

Name of the Security	Natco Pharma Ltd.
Name of the analyst	Rupali Singh
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	Yes (10 Shares bought on 12 December 2024)
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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