

## Result Snapshot

Amt. in Rs. Crs.	Q1FY21	Q4FY20	Q-o-Q(%)	Q1FY20	Y-o-Y(%)
Revenue	563.40	454.80	23.9%	492.30	14.4%
Other Income	18.70	22.40		21.00	
Total Income	582.10	477.20	22.0%	513.30	13.4%
EBITDA	171.10	128.30	33.4%	191.30	-10.6%
EBIDTA (%)	30.4%	28.21%		38.9%	
EBIT	143.10	97.80	46.3%	169.30	-15.5%
PBT	158.10	116.70	35.5%	183.80	-14.0%
PAT	122.10	93.20	31.0%	142.80	-14.5%
PAT%	21.7%	20.49%		29.0%	

## Result / Con-call Highlights:

### 1) Result Update:

Natco Pharma reported consolidated revenue of Rs. 563.40 cr up 14.4% Y-o-Y basis from Rs. 492.30 cr reported in Q1 FY20. Increase in revenue was on account of increase in exports and formulations business. EBITDA for the quarter stood at Rs. 171.10 cr down 10.6% Y-o-Y basis with EBITDA margins of 30.4% in Q1 FY21. The company reported PAT of Rs. 122.10 cr down 14.5% Y-o-Y basis. Profitability was impacted primarily due to lower oncology segment revenue during the quarter. Natco Pharma also declared an interim dividend of Rs. 1.25 per share for the quarter ended June, 2021.

Revenue Split	FY19	FY20	Growth %	Q1 FY21
Domestic	734.7	540.5	-26%	125.62
International Exports	879.1	824.9	-6%	274.23
Subsidiaries	108.6	108.5	0%	
API (Domestic & Exports)	301.9	355.2	18%	143.92
Other	70.2	85.9	22%	18.35
Revenue from Operations	2094.5	1915	-9%	563.40

### 2) Conference Call Highlight

#### Domestic Business -

Sales in domestic business are driven by Oncology segment which contributed Rs. 78 cr in Q1 FY21. Patients have been cautious in visiting hospitals especially in metro cities where Covid-19 outbreak has adversely affected resulting in lower domestic revenue. Management has guided that the Oncology business is still not back to pre-Covid levels leading to softer EBITDA margins during the quarter. Oncology segment is the most profitable segment currently and had faced price erosion in 2019. Pricing pressures are no longer seen in 2020 but lower hospitalization would lead to flattish revenue contribution in FY21.

## Result / Con-call Highlights: (Continued)

### International Export -

International formulations business has 2 pandemic products compared to traditional business with relatively high revenue and lower margin (Chloroquine and Oseltamivir) which led to growth in revenue of 23.9% Q-o-Q basis in Q1 FY21.

Revlimid in USA - The scheduled target action date was in 4QFY20, but the company had received queries from the US FDA. A response has been submitted and the company has set a new target action date in December, 2020. Revlimid is a ~USD \$8 bn market. As per the settlement, the patent expires in 2027 and Natco Pharma has volume limited launch settlement which would allow them to sell generic version of the drug from March 2022.

Revlimid in Canada - Natco Pharma has entered into a settlement agreement with Celgene (now part of Bristol-Myers Squibb) for the product Lenalidomide Capsules in Canada. Lenalidomide is used to treat various types of cancer cells. However, the company refused to comment further details due to confidentiality of the agreement.

### Agrochemical Business -

Natco Pharma has set up a plant in Andhra Pradesh in January 2019 with a total expenditure of Rs. 100 cr focusing on niche products. The company has filed for 1 product (Chlorantraniliprole – CTPR) and approval generally take 12-18 months. Natco has filed for the product in ~August 2019 and expect a positive outcome soon. The company will be adopting a similar business model to what it does in the pharma division and challenging patents will also be a part of business strategy.

CTPR is an active ingredient used in products commercialized by the crop science firm FMC under the brands Coragen and Ferterra. Natco Pharma has filed a case for freedom to use CTPR in September, 2019. Natco expects positive outcome on both fronts namely regulatory approval as well as litigation with FMC. CTPR sales in India were ~Rs. 1650 cr in 2016.

The company has also filed for another agro product but has not disclosed the name/details. Over the long term, management wants to achieve 10 – 15% of the revenue to come from agrochemical segment.

### 3) Outlook

The management is confident of achieving 25% eps growth in the current financial year based on order book and product pipeline outlook. However, sales mix in the coming quarter could impact the margins this financial year. Taking 25% eps growth values the company at 25.9x E FY21 earnings of ~Rs. 572 cr which is a premium valuation to its competitors. However, there are various green shoots such as Revlimid and other agro chemical products which put the company in better position to achieve higher profitability FY22 onwards. We opine investors to Buy based on management's ability to carve out niche in each business segment it operates with a horizon of 18 - 24 months.

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