

NATCO PHARMA

COMPANY UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	1,035
12 month price target (INR)	1,110
52 Week High/Low	1,639/660
Market cap (INR bn/USD bn)	185/2.1
Free float (%)	50.4
Avg. daily value traded (INR mn)	1,349.2

SHAREHOLDING PATTERN

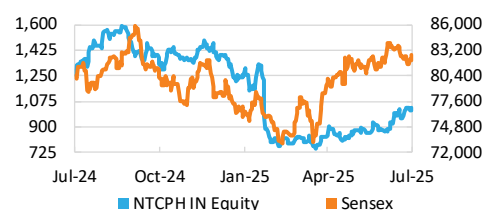
	Mar-25	Dec-24	Sep-24
Promoter	49.56%	49.62%	49.62%
FII	17.49%	17.94%	17.51%
DII	5.65%	5.57%	6.75%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	39,988	44,295	37,602	21,946
EBITDA	17,514	21,960	16,432	5,925
Adjusted profit	13,883	18,854	14,026	5,041
Diluted EPS (INR)	77.6	105.3	78.4	28.2
EPS growth (%)	97.8	35.8	(25.6)	(64.1)
RoAE (%)	25.9	28.0	16.9	5.4
P/E (x)	13.3	9.8	13.2	36.7
EV/EBITDA (x)	10.0	7.4	10.3	27.8
Dividend yield (%)	0.9	0.4	0.4	0.5

PRICE PERFORMANCE



Adcock: Gaining access to South Africa

Natco has offered to acquire a 35.75% stake in South Africa-based Adcock Ingram for ~INR20bn (1.12x revenue/7.8x EBITDA). The deal is likely to be completed in four months subject to legal approvals.

The acquisition shall provide Natco access to one of the largest EMs in-line with its efforts to diversify away from US and leverage its R&D better. The deal is likely to be 7–9% EPS accretive as revenue synergies kick in, particularly in Rx business. On call, Natco indicated further M&A action given INR15bn cash on hand (post this transaction). Incorporating Adcock's numbers, our revised SotP is INR1,110 (earlier INR990). The stock has run-up 19% in the last one month in anticipation of M&A and most existing risks stay intact; retain 'HOLD'.

Natco to acquire 35.75% stake in Adcock Ingram for ~INR20bn

Natco has offered to acquire 35.75% stake in Adcock Ingram, a South African (SA) pharma company, for a cash offer of R75/share (USD4.271/share) i.e. INR20bn. This implies Adcock's valuation of USD632mn (1.12x revenue/7.8x EBITDA). The deal is likely to be consummated within the next three–four months subject to FEMA compliance (RBI) and South Africa's TRP approval. Post-acquisition, the company will become private and Bidvest will hold ~65% stake to which Natco has the first right to refusal. 35.75% of Adcock's profits to be added to bottom-line directly.

Adcock: second largest private South African pharma company

Adcock was established in 1890 as a pharmacy and is now the second largest South African pharmaceutical company in terms of private market share. It is the only pharma company in SA that covers all market segments: Prescription (35% of revenue), OTC (26%), Hospital (21%) and Consumer (17%). It owns three facilities in SA and a 49% stake in an Indian JV that has two facilities in India. Adcock recorded USD536 revenues with 15% EBITDA margin and USD45mn PAT in FY24 (Jul-Jun24).

Natco to gain access to South Africa markets; deal EPS accretive

With this deal, Natco would gain access to African continent, bring diversity in core earnings and leverage R&D better. We note Adcock's sluggish revenue growth and sub-par margin (15%); however, Natco has plans in place to bring its portfolio (including Semaglutide) to turnaround its highly competitive Rx business and drive cost synergies through its manufacturing and sourcing. Assuming an all-cash deal with USD563mn revenues for Adcock (i.e. ~5% growth), 15% EBITDA margin in FY27 and USD55mn PAT, deal is likely to be 7-9% EPS accretive (net of interest income).

Outlook: diversifying away from US; eyeing more acquisitions

Natco indicated on call about closing one more transaction that would help diversify away from the US and solidify its core earnings. The INR15bn cash on hand (post Adcock transaction) and more to accrue in upcoming quarters M&A hopes are likely to remain alive. While we await further M&A action, headwinds in US business, uncertainty around US pipeline launch timelines, gRevlimid price erosion, muted Agrochem segment and Kothur plant remediation remain key challenges.

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	39,988	44,295	37,602	21,946
Gross profit	32,822	37,397	30,721	17,557
Employee costs	5,250	5,945	5,640	5,267
R&D cost	2,600	3,700	4,000	3,000
Other expenses	7,458	5,792	4,648	3,364
EBITDA	17,514	21,960	16,432	5,925
Depreciation	1,868	2,352	2,470	2,227
Less: Interest expense	192	239	186	168
Add: Other income	1,281	3,545	3,757	2,771
Profit before tax	16,735	22,914	17,533	6,302
Prov for tax	2,852	4,080	3,507	1,260
Less: Exceptional item	0	0	0	0
Reported profit	13,883	18,854	14,026	5,041
Adjusted profit	13,883	18,854	14,026	5,041
Diluted shares o/s	179	179	179	179
Adjusted diluted EPS	77.6	105.3	78.4	28.2
DPS (INR)	9.5	4.5	4.5	5.0
Tax rate (%)	17.0	17.8	20.0	20.0

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin	82.1	84.4	81.7	80.0
R&D as a % of sales	6.5	8.4	10.6	13.7
Net Debt/EBITDA	(0.6)	(1.0)	(0.9)	(3.5)
EBITDA margin (%)	43.8	49.6	43.7	27.0
Net profit margin (%)	34.7	42.6	37.3	23.0
Revenue growth (% YoY)	48.3	10.9	(15.1)	(42.3)
EBITDA growth (% YoY)	87.2	25.4	(25.2)	(63.9)
Adj. profit growth (%)	94.1	35.8	(25.6)	(64.1)

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.5	85.0	86.0
India growth (%)	3.1	3.4	7.7	10.1
India onco growth (%)	(5.1)	(3.1)	7.0	9.0
US generics (USD mn)	0	0	0	0
RoW growth (%)	0	0	0	0
API growth (%)	18.5	(19.0)	0	6.0
Capex (USD mn)	43.0	49.3	41.2	29.1

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	13.3	9.8	13.2	36.7
Price/BV (x)	3.2	2.4	2.1	1.9
EV/EBITDA (x)	10.0	7.4	10.3	27.8
Dividend yield (%)	0.9	0.4	0.4	0.5

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	358	358	358	358
Reserves	58,173	75,712	89,426	95,338
Shareholders funds	58,531	76,070	89,784	95,696
Minority interest	0	53	53	53
Borrowings	3,632	2,731	2,231	2,231
Trade payables	2,355	2,749	3,299	3,959
Other liabs & prov	3,549	3,456	3,615	3,782
Total liabilities	68,869	85,807	99,730	1,06,468
Net block	22,977	24,319	25,359	25,641
Intangible assets	1,931	2,661	2,651	2,641
Capital WIP	1,373	2,254	2,254	2,254
Total fixed assets	26,281	29,234	30,264	30,536
Non current inv	959	1,528	1,528	1,528
Cash/cash equivalent	13,964	24,968	17,822	22,875
Sundry debtors	11,889	12,466	12,840	13,482
Loans & advances	90	94	94	94
Other assets	14,292	15,172	15,402	16,172
Total assets	68,869	85,807	99,730	1,06,468

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	16,735	22,914	17,533	6,302
Add: Depreciation	1,868	2,352	2,470	2,227
Interest (net of tax)	(818)	(1,633)	(3,171)	(1,704)
Others	288	(942)	0	0
Less: Changes in WC	(3,094)	(1,997)	105	(586)
Operating cash flow	12,116	16,968	13,430	4,980
Less: Capex	(3,567)	(4,166)	(3,500)	(2,500)
Free cash flow	8,549	12,802	9,930	2,480

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	25.9	28.0	16.9	5.4
RoCE (%)	30.1	32.8	20.7	6.8
Inventory days	368	388	412	672
Receivable days	93	100	123	219
Payable days	127	135	160	302
Working cap (% sales)	50.6	47.6	55.8	99.4
Gross debt/equity (x)	0.1	0	0	0
Net debt/equity (x)	(0.2)	(0.3)	(0.2)	(0.2)
Interest coverage (x)	81.5	82.0	74.9	22.1

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	97.8	35.8	(25.6)	(64.1)
RoE (%)	25.9	28.0	16.9	5.4
EBITDA growth (%)	87.2	25.4	(25.2)	(63.9)
Payout ratio (%)	12.2	4.3	5.7	17.8

Conference call: Key takeaways

About the deal and rationale

- The company will be de-listed and make into a private company. Three–four months to close the transaction. Premium is given to fairly entice the investors to make it private. Natco will have 1/3 of Board seats.
- Bidvest does not want to sell stake. But Natco has first right to refusal. For now, work with 35.75%. No line by line addition to P&L; only share of Adcoc's profits will get consolidated in net profits. Valuations are far more comfortable.
- Deal right now is buying the stake so that Natco is strongly incentivised to support the asset. Not considered of having profit share in products. Adcoc is a public company and fairly big.
- Deal will immediately be eps accretive.
- Looking to also do another transaction, which can be as large as this or other than this. Cash post this transaction – INR15bn cash plus money that will be accrued in Jun and Sep quarter.
- Natco's strength is R&D but does not have market access. That is what trying to address and bring scale. Idea is to solidify and bring diversity in core earnings. Geographical spread is the key.

Synergies and business

- Synergies – Both on revenue and margin side, which can improve a lot over the next few years. Real value will come in three years.
- Revenue synergies
 - Mainly in their prescription business where Natco's strong pipeline could be brought to South Africa (including Semaglutide) and may also provide them access to some other products from India.
 - Prescription business growth has been sluggish as seeing lot of competition particularly from Indian players. So they needed backward integration and new portfolio. OTC and consumer business have been strength of Adcoc.
 - Current revenue breakson - Prescription 35%; hospital 21%; OTC 26% and consumer 17%.
 - Can also look to go to other countries of African continent. Adcoc used to have presence in other countries, but rolled back. They are still active in neighbouring countries of South Africa. So that could be another synergy by going to other countries in Africa.
- Cost synergies
 - Leveraging Natco's R&D and gaining market access.
 - Will also do some manufacturing where there requirements and Adcoc can benefit from Natco manufacturing and sourcing.
 - Adcoc's top 10 brands are household names in South Africa. Doing revenues of excess of USD10mn+. Natco shareholders will get access to such brands.
- Bidvest – very big firm in SA. Background not just in pharma. Big conglomerate.

Exhibit 1: Adcock's historical performance and future projections

AdCock (INR mn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	34,985	38,814	42,843	42,187	43,946	46,144	48,451	51,843
YoY growth		11%	10%	-2%	4%	5%	5%	7%
EBITDA	5,255	5,563	6,260	6,131	6,099	6,460	7,268	8,295
Margin	15.0%	14.3%	14.6%	14.5%	13.9%	14.0%	15.0%	16%
PAT	3,392	3,557	4,087	4,130	4,045	4,199	4,688	5,350
PAT margin	9.7%	9.2%	9.5%	9.8%	9.2%	9.1%	9.7%	10.3%

Source: Company, Bloomberg, Nuvama Research

Note: The company follows a July to June FY; we have converted it to April to March FY. EBITDA to PAT conversion is assumed to be 65%.

Exhibit 2: Proforma financials with accretion/dilution

		FY25	FY26E	FY27E	FY28E
Total revenue	Pre	44,213	37,602	21,946	29,721
	Post		37,602	21,946	29,721
EBITDA	Pre	21,960	16,432	5,925	8,322
	Post		16,432	5,925	8,322
	Accretion/dilution		0%	0%	0%
PAT	Pre	19,456	14,026	6,279	8,025
	Post		14,520	6,717	8,769
	Accretion/dilution		4%	7%	9%
EPS	Pre	105.3	78.4	35.1	44.8
	Post		81.1	37.5	49.0
	Accretion/dilution		4%	7%	9%

Source: Company, Nuvama Research

Date of consolidation assumed to be 01-Dec-2025

Exhibit 3: SotP valuation

Particulars	INR
Core EPS FY27	38
Multiple	20
	751
NPV of key drugs	356
TP	1,110

Source: Nuvama Research

Exhibit 4: Top ten products of Adcock Ingram



Source: Company

Company Description

Natco Pharma, incorporated in September 1981 by Mr. V.C Nannapaneni, started operations as a contract manufacturer for various companies in the pharmaceutical industry. The company has the distinction of introducing the time release technology in India and manufactured formulations in conventional as well as sustained release forms. It faced difficult times in 1990s in its bid to diversify operations and had to sell off a portfolio of branded products.

However, by 2003, NATP was able to turn around its operations. While it now has a strong India business with focus on the niche oncology segment, it has several niche products like gCopaxone, gRevlimid and gTamiflu in the US, partnering with some of the biggest global generic players like Mylan, Actavis and Breckenbridge, among others. It is also focusing on de-risking its revenue base and growing business in several geographies like Brazil, Venezuela and Canada.

Investment Theme

Natco's US pipeline is looking robust. Natco has won FTF in strengths of olaparib, semaglutide and potentially erdafitinib. Besides this, there are opportunities in gLonsurf, Yondelis, Calquence, gKyprolis.

Agrochem remains stagnant and ramp-up in the domestic business is awaited. We welcome the R&D ramp-up (from 8% to 10% of revenue) given Natco's strength in complex generics. While this is positive, we believe it has been priced in.

Key Risks

- Higher price erosion in key products including gRevlimid
- Delay in product approvals and filings
- Currency risk

Additional Data

Management

Chairman & MD	V C Nannapaneni
Vice Chairman & CEO	Rajeev Nannapaneni
CFO	Appa Rao S V V N
Auditor	B S R & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
Vistra	2.62	Blackrock	0.94
Belgrave	2.31	Dimensional Fun	0.90
LIC	2.29	Norges Bank	0.59
Vanguard	1.96	Jupiter Fund	0.57
Tata AMC	1.27	Causeway capita	0.32

*Latest public data

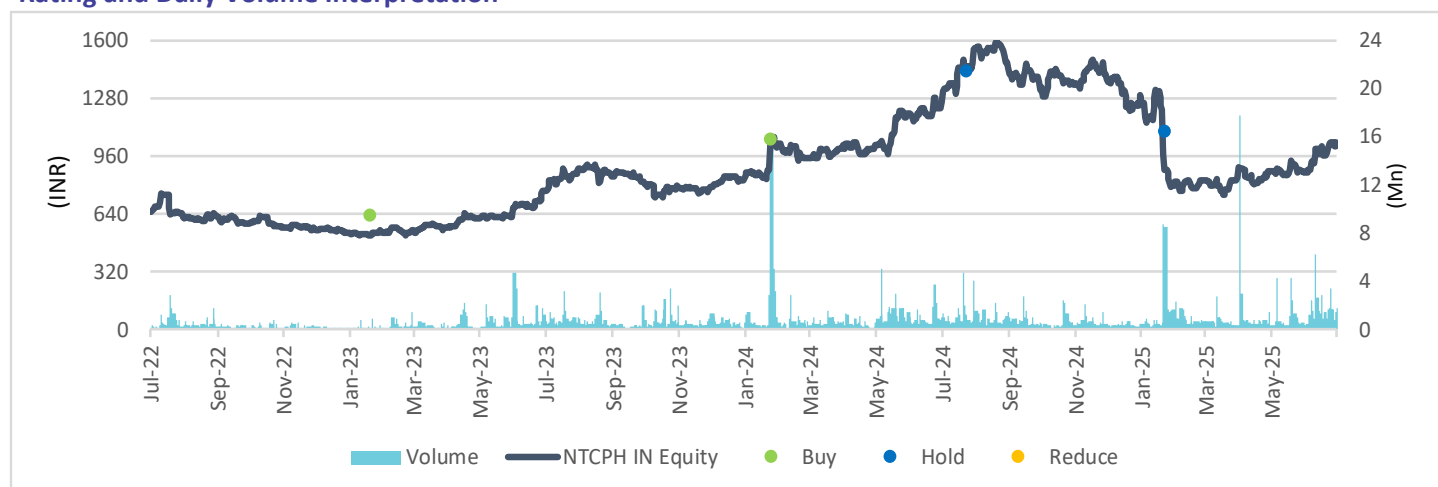
Recent Company Research

Date	Title	Price	Reco
29-May-25	Numbers sag; catalysts awaited ; <i>Result Update</i>	878	Hold
13-Feb-25	All-round miss; upside constrained; <i>Result Update</i>	1218	Hold
13-Nov-24	Natco Pharma (NTCPH IN, INR 1,391, HOLD); <i>Result Update</i>	1390	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
23-Jul-25	Dr Reddy's Labs	Misses numbers; new drivers in place ; <i>Result Update</i>
18-Jul-25	Dr Reddy's Labs	Converting gRevlimid cash to new trigger; <i>Visit Note</i>
16-Jul-25	Pharmaceuticals	Jun-25: IPM rebounds; Glenmark shining; <i>Sector Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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