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Natco Pharma Ltd. is one of the major Indian pharmaceutical companies with a focus on niche therapeutic areas and complex products in Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (APIs). Natco has six manufacturing facilities spread across India with dedicated modern research laboratories and capabilities in new drug development. The Company is a prominent player in India's generic oncology space.

Key Developments

Performance of the International Formulations business:

International formulations business accounted for 21% of Natco's total revenues in FY15. In the international market, the products span across several therapeutic segments namely oncology, gastrointestinal, central nervous system, etc.

The company has filed a total of 37 ANDAs, of which 24 (including 15 para-IVs) are awaiting approval from the USFDA. Majority of these drugs are high value complex generics like Copaxone, Fosrenol, Vidaza, Gleevec, etc.

Oncology and gSovaldi: major drugs in the domestic segment

Natco also operates in the domestic oncology segment with the segment contributing 51% to domestic formulations revenues in FY15. The oncology product range of the company has increased from 6 in 2004 to 24 in 2015.

In-house API development:

The Company manufactures API for sales in the domestic and international markets, apart from captive consumption. APIs contributed 30% to total revenues in FY15. Natco has a portfolio of 31 USDMFs (Drug Master Files) and a pipeline of over 15 products under various stages of development with focus on complex molecules in oncology and CNS segments.

R&D capabilities:

The Company annually spends 6-7% of revenues on R&D. Natco has expanded its R&D team from a modest 50 in 2000 to over 200 in 2014-15.

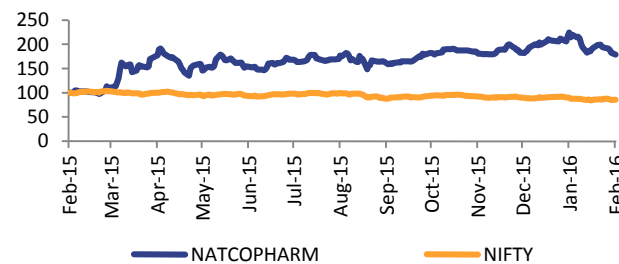
Market Data

CMP (Rs.)	477
Face Value	2
52 week H/L (Rs.)	624/296
Adj. all time High (Rs.)	624
Decline from 52WH (%)	23.5
Rise from 52WL (%)	61.2
Beta	0.9
Mkt. Cap (Rs. Cr)	8,312
Enterprise Value(Rs. Cr)	8,265

Fiscal Year Ended

	FY13	FY14	FY15
Total revenue (Rs. cr)	661	739	825
Adj. Net Profit (Rs. cr)	83	103	150
Share Capital (Rs. Cr)	31	33	33
EPS (Rs.)	26.6	31.0	45.1
P/E (x)	16.1	25.7	46.8
P/BV (x)	2.5	3.6	8.2
ROE (%)	16.6	16.3	19.1

One year Price Chart



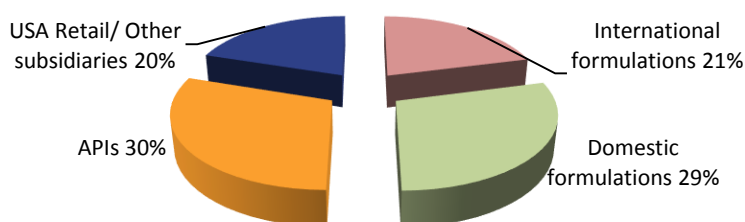
Shareholding	Dec15	Sep15	Diff.
Promoters	51.3	51.3	0.0
DII	20.6	10.9	9.7
FII	5.8	5.9	(0.1)
Others	22.3	32.0	(9.6)

Natco operates in the domestic oncology segment and it also has presence in Gastroenterology and Orthopedics.

Natco Pharma Ltd: Business overview

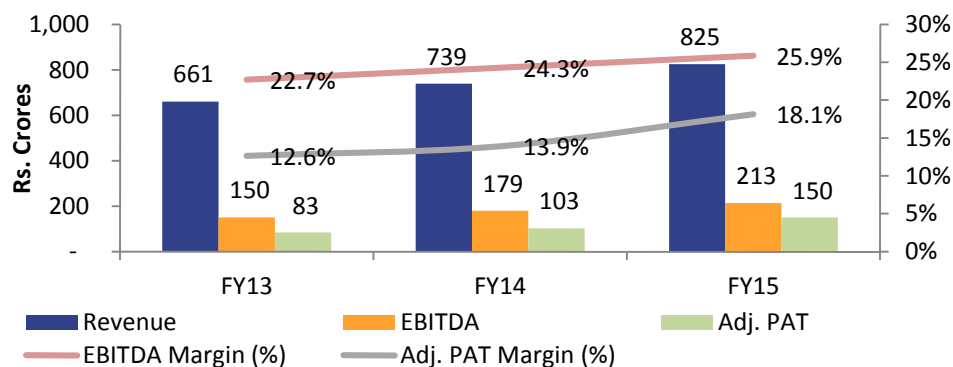
Natco Pharma Ltd. is a vertically integrated pharmaceutical company with focus on niche therapeutic areas and complex products in Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (APIs). The company has a diversified business model with presence across segments including Domestic & International formulations, API manufacturing and drug discovery products which are marketed in 40 countries. The company has a considerable presence in the domestic oncology segment along with a presence in Gastroenterology and Orthopedics. Its formulations facility at Kothur (Telangana) and API facility at Mekaguda (Telangana) have been approved by USFDA.

Segment wise revenue break-up (FY15)



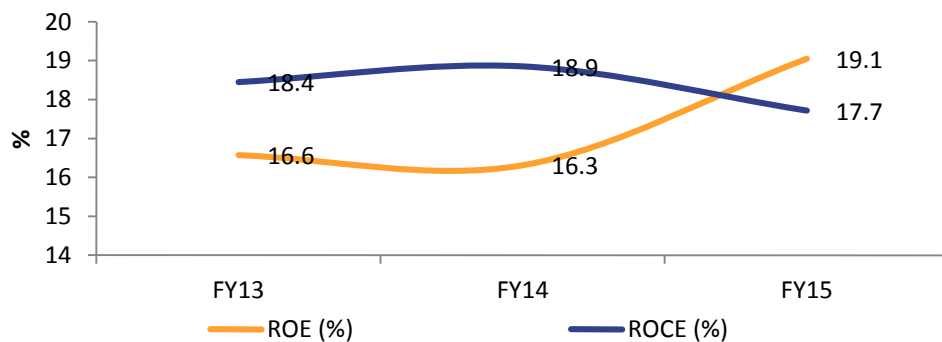
Source: Company, In-house research

Financial snapshot of Natco Pharma Ltd.



Source: Company, In-house research

Return Ratios Trend



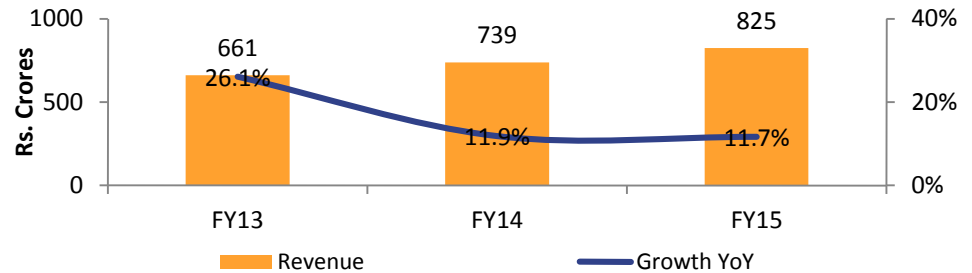
Source: Company, In-house research

Domestic business – gSovaldi the major drug in the segment

The company launched the Sofosbuvir in India and Nepal (first ever generic version of Sovaldi manufactured by Gilead Sciences Inc. and used to treat chronic Hepatitis C) in March 2015 under the brand HEPCINAT (Revenue contribution of Rs. 63 Crores during Q2FY16 with own brand contributing Rs 40 Crores). Natco signed a non-exclusive licensing agreement with Gilead Sciences to manufacture and market generic versions of chronic Hepatitis-C medicines in 101 developing countries. Recently, Natco has also launched a combination drug Harvoni (Sofosbuvir + Ledipasvir).

Further, the company’s product pipeline consists of drugs used for curing various types of cancers - blood, lung, liver, kidney, breast, brain, ovary and prostate. It marketed 24 products in the Indian market during FY2014-15; its key products (Rs. 10 Crore brands) comprises of Gefitinat, Erlonat, Veenat, Sorafenat and Lenalid. Apart from oncology, the company has presence in neuro-psychiatry, gastroenterology, orthopaedic and anti-asthmatic spaces and it has also forayed into the hepatology/virology therapeutic space.

CAGR of 11.8% in the domestic formulations business



Source: Company, In-house research

International Formulations

International formulations business accounted for 21% of Natco’s total revenues in FY15. In the international market, the products span across several therapeutic segments namely oncology, gastrointestinal, central nervous system, etc. The company has filed a total of 37 ANDAs, of which 24 (including 15 para-IVs) are awaiting approval from USFDA. Majority of these drugs are high value complex generics (USD12bn market size) like Copaxone, Fosrenol, Vidaza, Gleevec, etc.

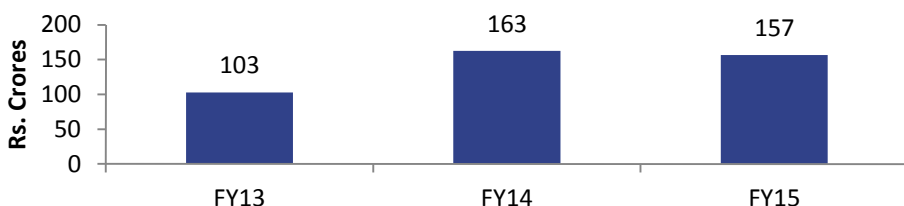
Key Brands	Molecule	Indication	Filing type
Copaxone 20	Glatiramer	Multiple Sclerosis	Para IV
Copaxone 40	Glatiramer	Multiple Sclerosis	Para IV
Gilenya	Fingolimod	Multiple Sclerosis	Para IV
Tamiflu	Oseltamivir	Influenza	Para IV
Treanda	Bendamustine	Leukemia	Para IV
Revlimid	Lenalidomid	Myeloma	Para IV
Jevtana	Cabazitaxel	Prostate Cancer	Para IV
Nuvugil	Armodafinil	Antidepressant	Para IV
Fosrenol	Lanthanum	End stage renal	Para IV
Nexavar	Tosylate	Anti-cancer	Para IV
Tykerb	Lapatinib	Anti-cancer	Para IV
Tracleer	Bosentan	Hypertension	Para III
Entocort	Budesonide	Crohn's disease	Para III
Vidaza	Azacitidine	Myelodysplastic	Para III

Source: Company, In-house research

The company has filed gSovaldi in 8-9 countries and launched the drug in Nepal and few smaller countries in Africa.

The Company has a portfolio of 31 USDMFs (Drug Master Files).

International business revenue trend

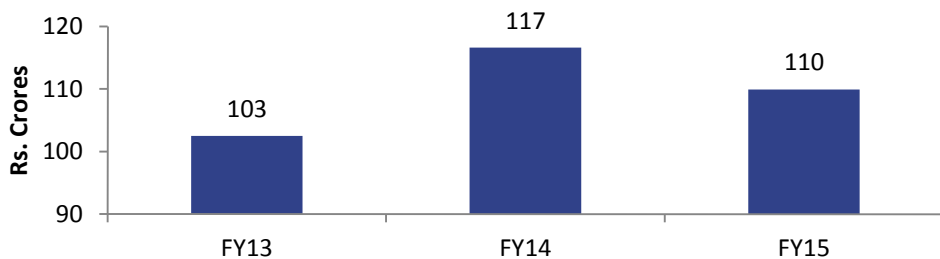


Source: Company, In-house research

RoW: New launches in EU and gSovaldi launch in EMs

Natco follows a similar strategy of partnership based model in Europe. Beyond USA and Europe, Natco has expanded its global footprint to countries like Brazil (Natco Farma Do Brazil), Canada (Natco Pharma Inc), Australia (Natco Pharma Australia Pty) and South- East Asia (Natco Asia Pte Ltd., Singapore). The company has filed gSovaldi in 8-9 countries and launched the drug in Nepal and few smaller countries in Africa. Natco also operates a retail pharmacy in the US. In FY15, revenue from the pharmacy and its subsidiaries contributed 20% to total sales and incurred a loss of 21 crores.

US retail and subsidiaries revenue trend



Source: Company, In-house research

Europe, Brazil and Canada markets

The company sells products in UK and Germany through distribution arrangements with business partners. As regards to Brazil, the Company commenced operations in 2011 and has filed 12 products with ANVISA (Brazilian regulatory authority), which are at various stages of approval. In Canada, The Company had received Drug Establishment License in 2015 and submitted 11 applications to provincial formularies.

Research and development capabilities

The Company annually spends 6-7% of revenues on R&D. Natco has expanded its R&D team from a modest 50 in 2000 to over 200 in 2014-15.

API Development

Natco manufactures API for sales in the domestic and international markets, apart from captive consumption. APIs contributed 30% to total revenues in FY15. The Company has a portfolio of 31 USDMFs (Drug Master Files).

Balance Sheet (Consolidated)

(Rs. Cr)	FY13	FY14	FY15
Share Capital	31	33	33
Reserve and surplus	502	693	813
Net Worth	534	726	846
Minority Interest	7	5	5
Total Debt	286	194	266
Other non-current liabilities	54	55	22
Total Equity & Liabilities	880	980	1,139
Fixed Assets	689	769	839
Investments	(1)	-	2
Net current assets	133	154	238
Other non-current assets	60	57	61
Total Assets	880	980	1,139

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY13	FY14	FY15
Net profit/loss before tax & extraordinary items	102	129	134
Net cashflow from operating activities	33	110	65
Net cash used in investing activities	(111)	(109)	(117)
Net cash used from financing activities	58	(1)	59
Net inc/dec in cash and cash equivalents	(20)	(0)	7

Financial performance snapshot

Net sales of the company stood at Rs. 825 Crores in FY15, a growth of 11.7% as compared to Rs. 739 Crores in FY14. The operating expenses of the company increased by 9.4% YoY to Rs. 612 Crores from Rs. 560 Crores during the year. The company's EBITDA grew by 19.9% YoY to Rs. 213 Crores in FY15 from Rs. 179 Crores in FY14. EBITDA margins expanded by 160 bps to 25.9% in FY15 from 24.3% in FY14. Adjusted profit increased by 45.8% to Rs. 150 Crores in FY15 from Rs. 103 Crores in FY14. The NPM margins expanded by 420 bps to 18.1% from 13.9% during the above period.

Profit & Loss Account (Consolidated)

(Rs. Cr)	FY13	FY14	FY15
Net revenue	661	739	825
Expenses	511	560	612
EBITDA	150	179	213
Depreciation	22	30	47
EBIT	128	149	166
Interest cost	26	37	32
Other Income	12	17	15
Profit Before Tax	114	129	149
Tax	36	31	4
Profit After Tax	77	98	145
Minority Interest	(6)	(5)	(4)
P/L from Associates	-	-	-
Adjusted PAT	83	103	150
E/o income / (Expense)	(12)	-	(15)
Reported Profit	72	103	135

Key Ratios (Consolidated)

	FY13	FY14	FY15
EBITDA Margin (%)	22.7	24.3	25.9
EBIT Margin (%)	21.2	22.4	21.9
NPM (%)	12.6	13.9	18.1
ROCE (%)	18.4	18.9	17.7
ROE (%)	16.6	16.3	19.1
EPS (Rs.)	26.6	31.0	45.1
P/E (x)	16.1	25.7	46.8
BVPS(Rs.)	170.1	219.3	254.6
P/BVPS (x)	2.5	3.6	8.2
EV/EBITDA (x)	10.9	15.8	34.0



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