

Natco Pharma Q2FY21

Financial Results & Highlights

Brief Introduction:

NATCO Pharma Ltd. is an India-based vertically integrated and R&D focused enterprise, engaged in developing, manufacturing and marketing finished dosage formulations (FDF) and active pharmaceutical ingredients (APIs) and intermediates.

The Company focuses on niche therapeutics areas and complex products, which gives it a unique positioning in the market, spread over 40 countries. It sells FDF products in the US, India, Europe and Rest of the World (RoW); with substantial clientele in Canada and Brazil as well. It holds a leading market share in the domestic oncology segment.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	506	492	2.85%	552	-8.33%	1058	977	8.29%
PBT	87	144	-39.58%	162	-46.30%	248	332	-25.30%
PAT	71	122	-41.80%	127	-44.09%	198	270	-26.67%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	828	519	59.54%	582	42.27%	1410	1032	36.63%
PBT	271	139	94.96%	158	71.52%	429	323	32.82%
PAT	204	118	72.88%	122	67.21%	326	261	24.90%

Detailed Results:

1. Consolidated revenues were up with 60% YoY growth. Profit has risen 73% YoY in Q2.
2. The segment revenue split is as follows:
 1. APIs: Rs 199.7 Cr
 2. Domestic Formulations: Rs 108.3 Cr
 3. Export Formulations: Rs 482 Cr
 4. Other Operating Income: Rs 10.7 Cr
 5. Other Income: Rs 27.2 Cr
3. The company announced a second interim dividend of Rs 3 per share for Q2FY21.

Investor Conference Call Highlights

1. Other expenses have risen due to one-time employee increment which was deferred from Q1 due to COVID-19. There were also some costs related to setting up ramps of about 3, 4 products.
2. The management insists that the Canada Remlivid settlement has been over.

3. In oncology, the company is seeing only 70% to 75% of the sale potential being realized because of lower hospitalization in cancer treatment. This is because a lot of patients are deferring treatment of cancer because of COVID fears. This is the reason behind the weakness in domestic revenues.
4. The company won some very good tenders in agrochemical supply. The company has launched Tamiflu for the first time in Brazil. And it is also getting good government orders from Canada. In the USA, the profit share from Alvogen will be recognized in Q3 & Q4.
5. Generally, Q1, Q2 tend to have lower margins because there's a lot of stocking, and Q3, Q4 is when the actual revenue gets realized.
6. The company has started off with a modest portfolio for Agrochemicals but it does have a few blockbuster ideas in this space.
7. Natco is trying to get an all-India coverage and by end of this year, it should have enough reps to launch in all the major agro states in the country.
8. Despite the revival of oncology in small cities, the sales of this segment remain subdued as most of the sale happens in Delhi, Mumbai, Chennai, Hyderabad, and Bangalore.
9. The rise in export profits has not been as high as the rise in export revenues as the company is directly recognizing setup costs as expenses and is not looking to capitalize them.
10. The management remains confident of reaching the guided target of 20-25% PAT growth for FY21.
11. The big factor for growth in 2022 will be Revlimid approval and launch.
12. The company has cash and cash equivalents of Rs 1065 Cr and a total debt of Rs 431 Cr.
13. The company has 5 REMS products which are Lenalidomide & pomalidomide in Canada and pomalidomide & Bosentan in the USA. The fifth product is yet to be announced.
14. Total Capex spends so far this year was Rs 140 Cr.
15. The pricing pressure on the oncology space has largely been resolved and the only issue here is the lack of growth.
16. A lot of the onetime costs have been done already and the company can now come back to historical gross margins going forward.
17. The company has gotten approval for generic Pomalyst and the market opportunity here is a little less than \$1 billion. Natco is one of the only 2 companies with approval for this drug currently.
18. Apixaban is selling well for Natco. Only Natco and Pfizer have brands for this drug in India currently.
19. The sales opportunity from the new agrochemical product which is pending approval is Rs 2000 Cr.
20. The company is waiting for manufacturing licenses after which it will start expensing the operational costs for the Agchem business.

21. The management believes that the opportunity from Tamiflu is better in Brazil & Canada than in the USA for Natco. The retail opportunity is not strong and thus the company is relying on govt tenders for this product.
22. The management has stated that there is always aggressive competition in India in oncology but in India, the declines are not as steep as the USA due to the branded generic nature of the products.
23. The management has admitted that Lotus Pharma has indeed gotten approval for Revlimid earlier than Natco but this is not expected to have any financial impact.
24. The company has not seen any decline in market share and demand for Copaxone from the launch of a competing oral drug in the same therapeutic space.
25. The litigation on CCP is pending in Delhi High Court.

Analyst's View:

Natco Pharma is a vertically integrated and R&D focussed pharma company with a specialization in FDFs and APIs. The revenues for Q2 has been very good especially from the export market. In the last few years, they have made some progress on expanding newer geographies, however, there is still a lot of work to be done on that front. In the domestic market, they are highly dependent on the oncology market. Demand for this sector has stayed muted as the hospitalization rate for cancer patients has remained subdued. The management expects the demand to come back slowly. The company is doing well from Tamiflu supply to Brazil and Canada through govt tenders and is also expecting big things from the emerging Agrochem segment. In the long run, meaningful expansion in newer geographies around the world and adding new segments in the domestic market is going to be the points to track about the company. Despite the challenges, Natco pharma appears to be a good stock to watch out for due to the management's focus on R&D and execution of long term plans for the company.

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