

NATCO PHARMA– Outperform, Great Result - More to Come

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Abstracts

Natco Pharma's Q2 FY13 result was much ahead of our expectation on sales and EBITDA largely due winning an API tender for imatinib in the Brazilian market. EBITDA margin too increased by 270 bps Y-o-Y despite a one time charge of ESOPs. The net profit remained in line with our expectation as Natco wrote off `61m as payment to SMS pharma over its old litigation.

The company already launched Sunitinib in India, however, expects to ramp up by the end of this fiscal. It expects competition from 2 other generic companies. Besides these, it targets to launch Trabectedin (generic Yondelis indicated for soft tissue Sarcoma) and Azacitadine (generic Vidaza indicated for myelodysplastic syndrome (group of diseases affecting bone marrow)). The company expects limited competition (not more than 3 companies) in each of these products and thus expects to generate `80-100m from each product annually.

We continue to remain enthused about Natco's near term growth drivers such as (1) strong growth from new Onco launches in India under limited competition without increase in sales force (2) further growth from Sorafenib in FY14 as we expect Cipla to lose its patent case against Bayer (3) likely launch of Dasatinib in the next 12 months – under limited competition (4) launch of Lansoprazole DR OTC in early 2013.

We also expect a tentative approval of generic Copaxone in the next 12 months.

We expect 3 players including Mylan to launch post patent expiry in Sept - 2015.

We expect Natco to generate `3.5b annually from this launch and thus value this opportunity at `336 per share by applying a 3x multiple to Natco'd profit. We increase

our FY13 and FY14 EBITDA estimate by 14% and 13% respectively, and EPS estimate by 8% and 17% respectively. We derive our new target price of `781 by adding the value of Copaxone. We reiterate Natco as our top pick in the Indian Pharma sector.

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