

Maintain 'buy' on Natco Pharma'

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For Q3FY17, Natco Pharma posted stellar earnings, primarily driven by exclusive sale of gTamiflu in the US. Reported earnings came in far ahead of expectations with both the base India onco business and the US business firing. The Hep C franchise has now stabilised with pricing erosion offsetting the 25-30% volume growth.

The base business will continue to improve as a number of US launches like gDoxil, gCopaxone, gFosrenol, gTracleer and gVidaza happen over medium term, in addition to ramping up of the cardiology/diabetology divisions in India. Maintain 'buy' with rolled TP of ₹770.

This quarter's exceptional growth was driven by the ₹3.25 million benefit from gTamiflu launch in the US (sales to partner at nominal margin: ₹1.3 billion + trading income: ₹170 million + profit share of ₹1.77 billion).

On the other hand, other expenses included total write-off of Venezuelan receivables worth ₹237.8 million.

The base business grew 22% y-o-y. At the current run rate, gTamiflu is likely to contribute \$80million/50million to FY17 revenue/profit, with upside possible subject to flu season and competition. The company's FY17 guidance sets a Q4FY17 hurdle rate of ₹5.2-6.2 billion sales/₹1.2-1.3 billion PAT. The firm filed five ANDAs (including four P-IV shared FTFs) during 9mFY17.