April 29, 2025

Natco Pharma Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term/short-term – Fund-based working capital limits	930.00	930.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/short-term - non-fund based working capital limits	120.00	120.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated limits	100.00	100.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Commercial paper	400.00	400.00	[ICRA]A1+; reaffirmed
Total	**1,550.00**	**1,550.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation considers Natco Pharma Limited's (Natco/company) healthy financial profile characterised by its robust debt metrics and strong liquidity position in addition to its healthy portfolio of complex generics in the US market, complemented by its strong research and development (R&D) capabilities. Further, Natco's notable market position in the domestic oncology formulations segment, the extensive experience of its promoters along with the backward-integrated nature of its operations with strong capabilities in API also continue to support the ratings. The company witnessed a revenue growth of 47.9% in FY2024, backed by substantial profit share contribution from gRevlimid, improvement in performance of its Canadian and Brazilian subsidiaries and the crop health business. In 9M FY2025, the company witnessed YoY revenue growth of 9.5%, driven by higher gRevlimid sales in the US and healthy revenue growth in the export formulation business especially its Brazilian and Canadian subsidiaries. While the company continues to witness competition-induced pricing pressures in the domestic and US markets, it is mitigating the same through new product launches to support its revenue growth. The company is also expanding its presence in the emerging markets and witnessed healthy revenue growth in this segment in FY2025, on the back of launching its legacy products in new markets. It has started new product fillings in Latin America and going forward is looking to expand its presence in markets like Saudi Arabia, Algeria, Morocco and Egypt. The operating profit margins (OPM) improved to 43.9% in FY2024 from 34.8% in FY2023, mainly on the back of healthy profit share from gRevlimid. During 9M FY2025, the OPM further expanded to 51.4%, primarily supported by improved scale of operations in addition to continued healthy profit share from gRevlimid, despite some inflationary pressure. Going forward, Natco's revenues and margins are expected to moderate once gRevlimid patent expires in Q4 FY2026.

The ratings consider the high product concentration with a few molecules driving the company's US formulations business (particularly gRevlimid in FY2024 and 9M FY2025) and its top five products accounting for ~28% of its domestic formulations business in 9M FY2025. Disruption in any key product can lead to large volatility in performance, as seen in Q3 FY2025, where the company's performance witnessed significant deterioration due to exhaustion of its annual allocation for gRevlimid. The ratings also consider the intense competition in the domestic formulation business resulting in material price erosion. Natco's working capital intensity remains high but has moderated to some extent to 39.5% in H1 FY2025 and 42.8% in FY2024 from 53.0% in FY2023, supported by a steady decline in debtor days. The company maintains higher-than-required inventory levels to mitigate supply-chain challenges for products with long lead times. Inventory values are also elevated because the company carries some high-value products.

ICRA also notes that the company has received a warning letter from the US FDA[1] for its Kothur facility in April 2024. ICRA understands that majority of the remediation cost to address the same has been incurred and the remediation is expected to be completed in H1 FY2026, following which the company will seek re-inspection from the USFDA. However, given that approvals for new products filed from Kothur will be delayed till the warning letter is resolved, timely resolution of the warning letter remains a key monitorable. Additionally, increasing scrutiny by the US FDA, compliance costs and risks associated with the same on the company's operations, along with its exposure to potential adverse outcomes on any product litigation, will be key rating sensitivities, going forward.

In the US market, the company has tie-ups with front-end players for a profit share contribution to launch its complex generic products or Para IV filing. The company acquired Dash Pharmaceuticals LLC (now renamed as Natco Pharma USA LLC) to create its own front-end presence in the US and expects to launch simple generics under its own label. Further, the company has also incorporated its own subsidiaries in Brazil, Canada, Indonesia, Singapore, Philippines, the UK and Columbia, to set up front-end presence in those markets. While the company will be able to achieve higher profitability through the same, with increased frontend presence, it remains exposed to potential litigation risks. ICRA will continue to monitor the impact of any adverse outcome of such litigations on the credit profile of the company.

The company has been exploring inorganic expansion opportunities out of India to strengthen its front-end presence in the US and other countries. Any significant debt-funded acquisition impacting its credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

The Stable outlook on the rating reflects ICRA's opinion that Natco will continue benefiting from its strong R&D capabilities leading to a healthy portfolio of complex generics and strong financial profile.

Key rating drivers and their description

Credit strengths

Financial profile characterised by robust debt metrics and strong liquidity position – Natco's financial risk profile is characterised by healthy margins, and robust debt protection metrics, on the back of low debt availed by the company (nil gearing and TD/OPBDITA of 0.1 times as on September 30, 2024). The company continued to maintain its negative net-debt position with strong cash and cash equivalents of Rs. 2,991 crore (approx), at a consolidated level, as on March 31, 2025. The company, backed by strong accruals (despite moderation in its revenues and margins) and stable capital expenditure levels, is expected to maintain its strong debt metrics going forward.

Strong R&D capabilities lead to healthy portfolio of complex generics – Natco continues to invest a high single-digit percentage of its revenues in R&D every year thereby supporting its strong capabilities to develop limited competition and difficult-to-develop molecules for the regulated markets. Natco's strong R&D capabilities are highlighted by complex molecules in the portfolio like Glatiramer, Lanthanum, Lapatinib, Oseltamivir, Lenalidomide, etc. The company has predominantly focused on complex products with high barriers to entry in the US. The launch of gRevlimid in the US during March 2022 with the increasing sales volume after launch every year, supported the substantial ramp-up of Natco's revenues and profit margins from FY2023. In the past, the launch of gCopaxone (40 mg) and gTamiflu, supported the company's revenues and margins in the US market. Natco has 44 approved ANDAs and five tentatively approved ANDAs in the US market and has a pipeline of 20 Para IV filings as on December 31, 2025, with a few significant launches (few of which are subject to approval/litigation) in the medium term. Strong manufacturing capabilities in addition to backward integration into API manufacturing also continue to support the company's business prospects.

[1] *US FDA - U.S. Food and Drug Administration*

Notable market position in domestic oncology segment – Being an early entrant with regular product introductions and competitive pricing, Natco has managed to establish a strong presence in the domestic formulations market with a healthy market share in the domestic oncology segment. The company continues to be one of the leading players in the domestic oncology segment. It has maintained its market position despite facing intense competition that results in pricing pressures. The company is also increasing its sales force coverage in the pharma, cardiology and diabetology division (C&D) and is focusing on new product launches to aid its growth in the domestic market. The company launched more than eight products belonging to multiple therapeutic areas including oncology, heptology, gastroenterology, critical care, cardiology and diabetes in the past 18 months and has plans to add other new products over the next 2 to 3 years. The company is banking on the launch of Semaglutide in the domestic market to improve its non-oncology revenues over the next few fiscals. Further, the company witnessed healthy revenue contribution from the agrochemical segment in FY2024, supported by sale of Chlorantraniliprole (CTPR), but the revenue from this segment declined in 9M FY2025 due to increased competition for CTPR. The revenue and the profitability from this division are expected to improve going forward, supported by the company's farmer-centric programmes and initiatives, new leadership, increased sales force along with new product launches and branding.

Credit challenges

High product concentration – The company derives majority of its US formulation revenues from gRevlimid, gCopaxone, gAfinitor, gZortress, gFosrenol, gTykerb, gTamiflu, and gDoxil. Even among them, most of the the company's revenue in FY2024 and 9M FY2025 has been derived from gRevlimid. Its top five products accounted for ~28% of its domestic formulations business in 9M FY2025. Disruption in any key product can result in large volatility in performance, as seen in Q3 FY2025, where the company's performance witnessed significant deterioration due to exhaustion of its annual allocation for gRevlimid. Once the patent for gRevlimid expires in FY2026, the revenues and margins of the company are expected to significantly decline due to heavy dependence on gRevlimid in its export business. Consequently, resolution of the warning letter in Kothur and timely approval and launch of other key Para IV products will be key to the company's business prospects after FY2026. While the concentration in the domestic business has reduced over the years, the concentration towards oncology remains high. Going forward, it is expected to ease gradually with new launches in the oncology, C&D and anti-infective segments.

High working capital intensity – Natco's working capital intensity remains high but has moderated to some extent to 42.8% as on March 31, 2024 and 39.5% as on September 30, 2024 from 53.0% as on March 31, 2023, supported by a steady decline in debtor days. As Natco expands its product portfolio, it needs to maintain a certain level of inventory to optimise its production schedule and minimise switchover costs at plants which manufacture multiple APIs or formulations. The company carries relatively higher inventory to mitigate supply-chain challenges for few of the products with high lead time. The inventory values are also elevated because the company carries some high-value products. This resulted in high inventory days of ~166 as on September 30, 2024. However, with a growing product portfolio (which requires higher level of inventory to be maintained) and increasing focus on international markets like Brazil, Canada, Southeast Asia, Latin America and China (which generally have a higher receivables period than the domestic segment), Natco's working capital requirements will continue to remain high, going forward.

Increasing competition in key markets – Despite new launches, pricing pressure from high competitive intensity continues to impact the company's revenues in both the domestic market (specially, oncology segment) and its export formulation revenues. Going forward, the competitive intensity and quantum of price erosion for gRevlimid once the patent expires, and other Para IV products in general will continue to have a bearing on the company's revenues and margins.

Exposure to regulatory risks and litigations; outstanding warning letter on its Kothur facility – Natco is exposed to increasing regulatory scrutiny, compliance costs and risks associated with the same in line with other industry players. The company has received a warning letter from the US FDA for its Kothur facility. However, ICRA does not expect the same to impact the operations of the company materially, as it can continue to manufacture and sell products and majority of the manufacturing for gRevlimid and other key products is being done from the company's Vizag plant at present. However, timely resolution of the warning letter will be a key rating monitorable. Further, in view of the risks associated with product litigations, ICRA will continue to monitor the impact of any adverse outcome of such litigations on the credit profile of the company.

ESG risks

Environmental considerations: Natco does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations regarding breach of the waste and pollution norms, which can lead to an increase in operating costs and new capacity installation costs. This can also require continued capital investments to update/upgrade its effluent treatment infrastructure to reduce the carbon footprint and waste generation.

The company has been undertaking initiatives that are expected to have environmental benefits and improve the organisation's sustainability. This includes utilisation of renewable energy, which contributes 25.8% to its energy consumption, thereby reducing carbon emissions. It practices water conservation by increasing its usage of recycled water. It also ensures that the waste generated during the manufacturing process is appropriately disposed.

Social considerations: The industry faces social risks related to product safety and Government intervention related to price caps/control in line with social risks faced by other entities in the pharmaceutical industry.

Liquidity position: Strong

The company's liquidity position is strong, characterised by consolidated cash and cash equivalents of Rs 2,991 crore (approx) as on March 31, 2025. In addition, the company's working capital utilisation remained low at ~20% for a period of 12 months ending January 2025 against its sanctioned limits (secured and unsecured). Further, the company is expected to generate positive fund flow from operations, supported by healthy cash accruals over the near term. There are no long-term debt obligations as on date. Natco is expected to incur Rs. 250-300 crore per annum on maintenance capex and expansion, going forward in FY2026 and FY2027. ICRA expects Natco to meet its capital commitments through existing cash reserves and internal cash accruals.

Rating sensitivities

Positive factors – A significant improvement in the company's product diversification, given its focus on a few critical molecules, and a scale-up in its revenues with continued robust debt protection metrics and liquidity would be positive triggers for an upgrade.

Negative factors – Pressure on Natco's ratings could arise, if there is a deterioration in the margins, or if debt-funded capex or acquisitions or regulatory measures weaken the company's credit profile with Total Debt/OPBDITA> 1.5 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statement of Natco.

About the company

Natco is a medium-sized pharmaceutical company, which develops, manufactures and markets formulations and APIs. Founded in 1981, Natco has emerged as an established pharmaceutical company with a presence in formulations and APIs in both the domestic and export markets. The company owns eight manufacturing facilities and two research centres, Natco Research Centre in Hyderabad and Research Centre Kothur, (Telangana). Its manufacturing facilities have been approved by multiple authorities of regulated markets. Its formulations units in Kothur (Telangana) and Visakhapatnam (Andhra Pradesh)

and API facilities in Chennai and Mekaguda (Telangana) have been approved by the US FDA. The company had also set up an agrochemical facility for API's/technicals and formulations in Attivaram Industrial Area, Nellore (Andhra Pradesh) to diversify its portfolio. The company's API business drives in-house captive requirements for key molecules as well as direct customer sales.

As an early entrant with strong R&D capabilities, Natco has established itself as a leading player in the oncology segment in India. In addition, it generates a sizeable proportion of its formulations business from exports. It is present in the generics business in the regulated markets of North America and Europe and branded generics in the rest of the world (RoW). As on March 31, 2025, 49.62% of the company's shareholding was held by the promoter group, with the rest held by various institutions and the public.

Key financial indicators (audited)

Natco (consolidated)	FY2023	FY2024	9M FY2025*
Operating income	2,707.1	4,003.1	3,208.5
PAT	715.2	1,388.3	1,477.4
OPBDIT/OI	34.8%	43.9%	51.4%
PAT/OI	26.4%	34.7%	46.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.2	0.2	-
Interest coverage (times)	64.9	91.6	-

*Source: Company, ICRA Research; *Results; All ratios as per ICRA's calculations; Amounts in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2026)				Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	April 29, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund-based working capital limits	Long-term/ Short- term	930.00	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 30, 2024	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-
Non-fund based working capital limits	Long term/ Short term	120.00	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 30, 2024	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-
Fund based working capital limits	Long term	-	-	-	-	Apr 28, 2023	[ICRA]AA (Stable)	Apr 28, 2022	[ICRA]AA (Stable)
Non-fund based working capital limits	Short term	-	-	-	-	Apr 28, 2023	[ICRA]A1+	Apr 28, 2022	[ICRA]A1+

Fund based/ non-fund based limits	Long term/ Short term	-	-	-	-	Apr 28, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 28, 2022	[ICRA]AA (Stable)/ [ICRA]A1+
Unallocated limits	Long term/ Short term	100.00	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 30, 2024	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 28, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Apr 28, 2022	[ICRA]AA (Stable)/ [ICRA]A1+
Commercial paper	Short term	400.00	[ICRA]A1+	Apr 30, 2024	[ICRA]A1+	Apr 28, 2023	[ICRA]A1+	Apr 28, 2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term/Short Term - Fund Based Working Capital Limits	Simple
Long Term/Short Term - Non-Fund Based Working Capital Limits	Very Simple
Long Term/Short Term – Unallocated Limits	Not Applicable
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long Term/Short Term - Fund Based Working Capital Limits	NA	NA	NA	930.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long Term/Short Term - Non-Fund Based Working Capital Limits	NA	NA	NA	120.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long Term/Short Term – Unallocated Limits	NA	NA	NA	100.00	[ICRA]AA (Stable)/[ICRA]A1+
Not Placed	Commercial Paper	NA	NA	NA	400.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

NPL (Consolidated)	Natco Ownership	Consolidation Approach
NATCO Pharma Limited	100.00%	Full Consolidation
NATCO Pharma Inc., United States of America ('USA')	100.00%	Full Consolidation
NATCO Pharma USA LLC, USA (Formerly known as Dash Pharmaceuticals LLC, USA - name changed w.e.f. 12 April 2023) (Subsidiary of NATCO Pharma Inc.)	100.00%	Full Consolidation
Time Cap Overseas Limited, Mauritius ('TCOL')	100.00%	Full Consolidation
NatcoFarma do Brasil Ltda., Brazil (Subsidiary of TCOL)	100.00%	Full Consolidation
NATCO Pharma (Canada) Inc., Canada	100.00%	Full Consolidation
NATCO Pharma Asia Pie. Ltd., Singapore	100.00%	Full Consolidation
NATCO Pharma Australia Pty Ltd., Australia	100.00%	Full Consolidation
NATCO Lifesciences Philippines Inc., Philippines	100.00%	Full Consolidation
NATCO Pharma UK Limited, United Kingdom (incorporated on 04 September 2023)	100.00%	Full Consolidation
PT. NATCO Lotus Farma, Indonesia (incorporated on 28 August 2023)	51.00%	Full Consolidation
NATCO Pharma Colombia S.A.S. (incorporated on 15 August 2023)	100.00%	Full Consolidation

Source: Company Annual Report FY2024, Quarterly Results Q3 FY2025

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