

## LINCOLN PHARMACEUTICALS

Boosting Profits

Retail Desk

27 February 2017

Rating	BUY		
CMP (₹)	196		
Target Price (₹)	277		
Upside (%)	41		
BSE Code	531633		
NSE Code	LINCOLN		
Reuters code	LINP.BO		
Bloomberg Code	LPH IN		
Sensex (23 Feb 2016)	28892		
Face Value (₹)	10		
Mcap (₹ Cr.)	392		
52 week H/L (₹)	255/128		
2 Wk Avg Qty	32000		
Share holding, December '16	Holding %		
Promoters	33.2		
FII's	0.7		
Foreign (NRIs)	4.6		
Bodies Corporate	11.7		
Public & Others	49.8		
Performance (%)	3M	6M	12M
Stock (LPL)	7.8	-9.4	26.1
BSE 200	12.5	4.5	29.2
BSE 500	13.0	4.9	30.3

## Price Chart: (One-Year)


<http://www.lincolnpharma.com>

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## Company Description:

Incorporated in 1979 and promoted by Mr. Rajani G. Patel, Lincoln Pharmaceuticals (LPL) has its own manufacturing facilities, covering all the major dosage forms, like Tablets, Capsules, Injectables, Syrups, Ointments, etc. Its present manufacturing activities are located near Ahmedabad. LPL came out with a public issue in Feb.'96 to part-finance its project. An ultramodern laboratory with state of the art equipments ensures in-house quality assurance of each of the products. The products are designed for all therapeutic segments with a special emphasis on Gynecological and Orthopedic specialties. LPL is one of the fastest growing players focusing on Generics & Specialty products, providing products to customers in more than 50+ countries and territories. Mr. Mahendra G. Patel is the present Managing Director of LPL.

## Products:

LPL manufactures liquid injectables like ampoules, vials, dry powder injectables, parenteral and liquid syrup. Its product categories include anti-malarial, antibiotics, anti-bacterial, analgesics, anti-inflammatory, anti-pyretic, anti-hypertensive, anti-fungal, antacids, anti-ulcers, anthelmintics, anti cold, anti-allergic, anti-asthmatics, anti-emetics, gastrointestinal-agents, anti-diarrheal, antispasmodic and probiotics as well as cardiac and diuretic products. It also provides creams, ointments, anti-infective, vitamins, minerals and iron-preparations. LPL provides contract manufacturing facilities for pharmaceuticals, food supplements, nutraceuticals and vitamins.

## Milestones:

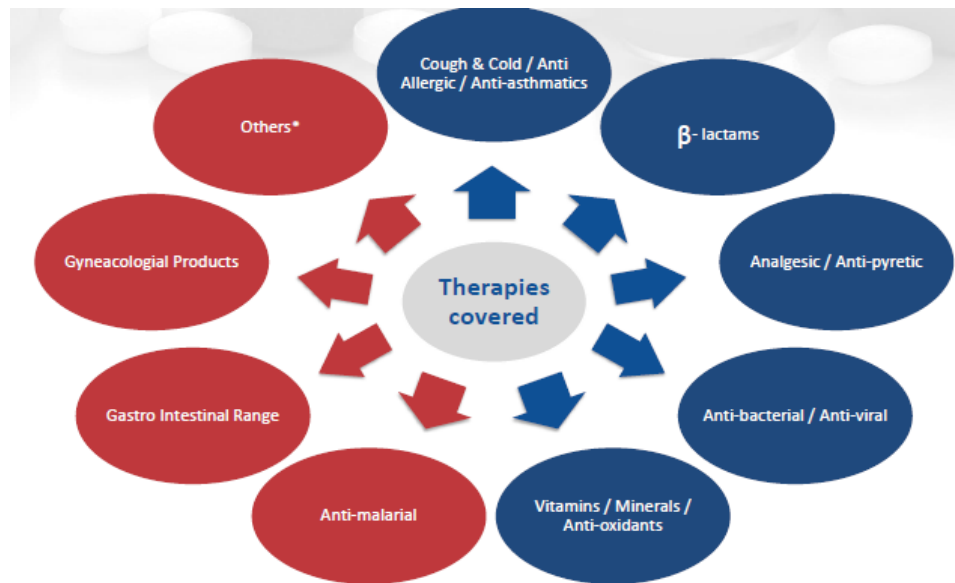
Year	Particulars
1979-80	Started operations
1984-85	Received WHO-GMP for plant/production unit
1990-91	Started export to Tanzania and Mauritius
1995-96	Becomes public limited from a partnership
1997-98	Domestic network across nation
2000-01	Covered 80% of all India market
2001-02	R&D center started, export house certificate received
2010-11	Developed and launched 3 NDDS products
2014-15	Developed and launched 2 NDDS products
2015-16	Capex of ₹33 crore in new facility

## Key Financial: (Consolidated)

Year-March	9MFY17A	9MY16A	FY16A	FY17E	FY18E	FY19E
Sales/OP Income	243.9	279.0	405.7	365.0	427.0	486.0
PBIDT	44.3	36.4	47.8	62.1	76.9	88.5
Interest	5.2	5.9	10.0	7.5	7.5	6.8
PBDT	39.1	30.5	37.8	54.6	69.4	81.7
Depreciation	4.1	3.6	4.8	6.0	6.0	7.4
PBT	35.0	26.9	33.0	48.6	63.4	71.3
Tax	8.9	7.2	9.3	12.6	16.5	18.5
PAT	26.1	19.7	23.7	36.0	46.9	52.8
Equity			16.3	20.0	20.0	20.0
Reserves			115.9	178.5	225.4	278.2
Book Value (₹)			81.1	99.3	122.7	149.1
EPS (₹)	13.1	9.9	14.5	18.0	23.5	26.4
CEPS (₹)	15.1	14.3	17.5	21.0	26.5	30.1
PBIDT Margin (%)	18.1	13.0	11.8	17.0	18.0	18.2
NP Margin (%)	10.7	7.1	5.8	9.8	11.0	10.8
P/E				10.9	8.3	7.4



### Key Therapeutics



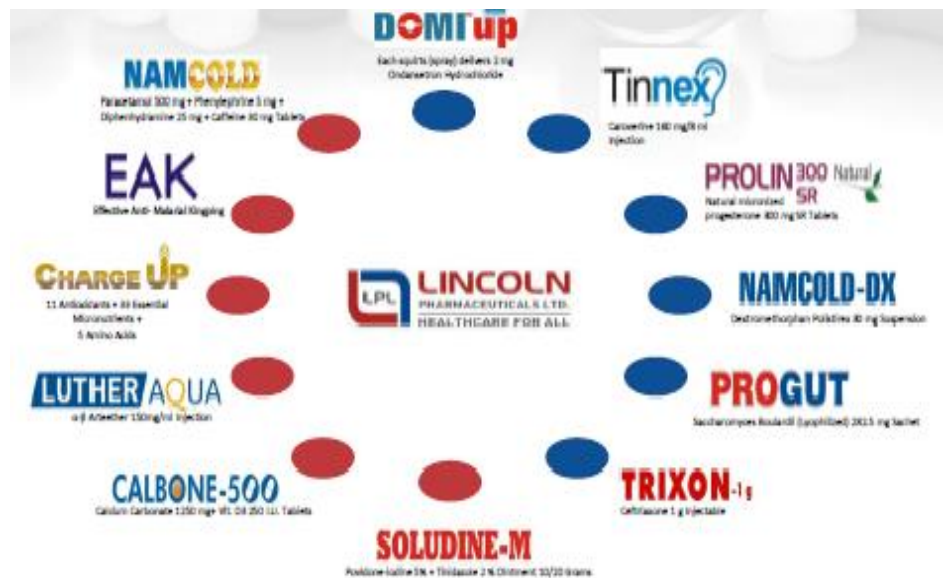
### International Presence

LPL's presence in international markets is restricted to EMs (Emerging Markets) as of now. Riding on a slew of filings/launches in the EMs and expanding in the PIIGS (Portugal, Italy, Ireland, Greece and Spain) countries, the company is targeting the WHO Global Fund anti-malarial contract.

LPL classifies its business geographically into 2 main markets- Emerging markets and India. Emerging markets includes 50 countries in Latam, Africa and Asia Pacific. LPL is focused on exports in the African, Middle East and Latam countries. It targets both the local and export markets through its own sales force (550 MRs in India, while exports are handled through individual country managers).

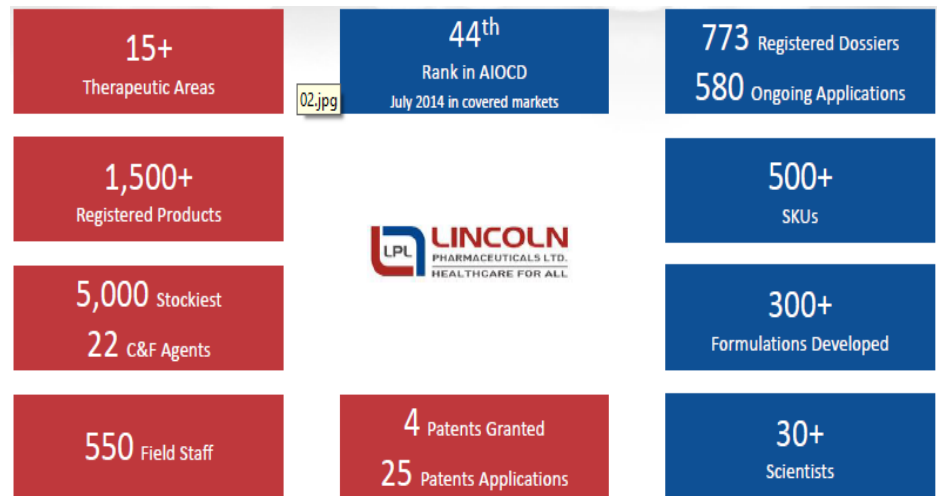
LPL has made successful achievement in overseas network for its formulations. LPL obtained drug registration for about 100 of its pharmaceuticals formulations in more than 10 African as well as in other countries too. SPL expects to strengthen its presence in international markets further, as the rate of filings and approvals pick up from Sudan, Ethiopia and Zimbabwe along with entry into new markets.

### Key Domestic Brands



### Quality Standard

Manufacturing facilities at LPL are in accordance with WHO-GMP standards. Also it is accredited with Export House, GMP and ISO 9002 certification.

**Leading Edge****Key Brands-International Market****Brand & Generic Name:**

Pa 12 1000 mg programmed release Paracetamol Proglerts  
 Start 60 Artesunate 60 mg Injectable  
 Glygen 1&2 Glimpiride 1mg/2 ml Tablets  
 ARH Artemether Injection 150mg/ 2 ml  
 Losa 50 Losartan Potassium 50 mg Tablets  
 Amlin-5 Amlodipine Besylate 5 mg Tablets  
 M-Forlin 500 Metformin HCL 500 mg Tablets  
 Vomistat Ondansetron 2 mg/ml Injection  
 KoFlame Ibuprofen 50 mg + Paracetamol 325 mg Tablets  
 Clotrilin-V Clotrimazole 2% w/w Cream  
 Flucomol Anti Cold Capsules  
 Flucan Fluconazole 150 mg Tablets

**Products Initiatives**

LPL has developed a portfolio of acute products (Namcold-DX, Tinnex, EAK, Calbone 500, etc.) and has developed capabilities in NDDS with over 1,000 products registered across geographies. LPL targets several therapy areas such as anti-infective, anti-malarial and has initiated presence in derma, diabetes and cardiac in last 2 years.

**Namcold DX**

During FY16, LPL launched 'first time in India' Namcold DX. It is the only extended release oral suspension available in the market for Dextromethorphan that works for upto 12 hours. The Dextromethorphan market is around ₹50 crore in India.

**Art-Luton Spray**

During September 2016, LPL launched Art-Luton Spray in the Indian branded market. It is a unique delivery system for accurate 25mg delivery of micronized progesterone. The formulation is dispensed in the form of mist, which provides local as well as systemic effects of progesterone. At present, the only alternatives to this are available in the form of tablets, capsules and painful intramuscular injections. We believe sprays score better over tablets and injectables in terms of accurate and effective delivery and convenience. The market opportunity is close to ₹560 crore in progesterone single molecule products in India.

**Domi-Up Spray**

LPL launched Domi-up spray in Sept 2016. It is a meter dose pump with each squirt (spray) accurately delivering 2mg Ondansetron HCL. The product has faster onset of action and provides prompt relief from nausea and vomiting. Like Art- Luton it also scores over injectables in convenience and better patient compliance. The market size for Ondansetron single molecule product is close to ₹300 crore bn in India.



### Marketing Network

LPL operates via 20 C&F agents and more than 5000 stockists. In terms of field productivity, LPL has 600 MRs, generating ₹30 lakh sales/MR. LPL has added 80 MRs in FY16 and has planned to add another 100 in FY17.

Post discontinuance of third party trading business, the company is looking forward to focus on aggressive marketing to strengthen its domestic branded business.

LPL also planned to introduce 10 more new products across the therapeutic areas. LPL has aggressively started the business in 13 Francophone African countries. LPL has got many new products registration.

### Domestic Focused Pharma Player

LPL has 773 registered dossiers and 580 ongoing applications. It operates through 500+ SKUs and has developed over 300 formulations. LPL boasts of 30+ scientists, 4 patents and 25 patent applications filed, till date. LPL has positioned itself as a domestic focused pharma player with increasing perspectives towards the exports markets.

LPL has developed a portfolio of acute products (Namcold-DX, Tinnex, EAK, Calbone 500, etc.) and has developed capabilities in NDDS with over 1,000 products registered across geographies. LPL targets several therapy areas such as anti-infective, anti-malarial and has initiated presence in derma, diabetes and cardiac in last 2 years.

### Q3FY17, 9MFY17 and FY16 Results

During Q3FY17, net profit remained flat at ₹6.5 crore on 32% lower sales of ₹73.5 crore. Q3FY17 EPS is ₹3.4. 9MFY17 net profit is up 30% to ₹26.1 crore on 32% lower sales of ₹279 crore. 9MFY17 EPS is ₹13.1. During FY16-17, LPL has discontinued its trading business in the India market. This has resulted in a temporary decline in the domestic sales in Q3FY17 and 9MFY17.

During FY16, net profit climbed 58% to ₹23.8 crore on 50% higher sales of ₹408 crore. Operating profit for FY16 rose 50% to ₹47.8 crore. FY16 EPS stood at ₹14.5. A dividend of 10% was paid.

The growth was broad-based across all the key therapeutic areas in which LPL operates. Improvement in profitability is driven by better capacity utilization levels coupled with ongoing cost rationalization measures.

### Financial

Consequent upon the aforesaid, conversion of warrants, the equity capital has gone up to ₹20 crore and reserves by ₹26.6 crore to ₹141.6 crore. The book value of the share works out to ₹81.

With the addition of ₹33 crore in FY16, the value of the gross block works out to ₹124 crore. Total debts are ₹94.6 crore. Cash and loans, advances stood at ₹38.8 crore. The net DER therefore is 0.33:1 at FY16. RONW on increased net worth is 14.8%. RONW will be 19% in FY17E, 18.9% in FY18E & 17.7% in FY19E.

### Allotment of Shares to Promoters

In Q2FY17, LPL allotted 36.89 lakhs shares to promoters on conversion of warrants at a price of ₹82/share. Equity capital has gone up to ₹20 crore.

### Exports

LPL exports its branded generic products to more than 50 countries, primarily in Africa. Exports constitute 30% of sales. LPL also has a paltry presence in Central America and South East Asia. Export sales have grown at 57% YoY in 9MFY17 and the management is confident of growing this business at 25% CAGR going ahead. Management expects exports to contribute 50% of total sales by FY21.

LPL's presence in international markets is restricted to EMs as of now. Riding on a slew of filings/launches in the EM (Emerging Markets) and expanding in the PIIGS (Portugal, Italy, Ireland, Greece and Spain) countries, the company is targeting the WHO Global Fund anti-malarial contract. LPL manufactures neutral label products for International Pharma Marketing companies.



### Expansion

During FY16, LPL had a Capex of ₹33 crore. Tablet capacity doubled; atomization is completed, which has resulted in lower labour cost. Sterile Ointment (Eye Ointment) manufacturing division has been started. Dusting Powder (External Preparation) manufacturing division has been started.

Plant is working on captive power consumption. 600KWA and 2.1 MW wind mill produces nearly 6.2 million unit of electricity per year. Hence there is saving in electricity cost. As GST is anticipated to be introduced soon, LPL has built up a new large central warehouse with big capacity in a Logistic Park, Changodar near Ahmedabad.

LPL is planning spend ₹30 crore on a beta-lactam facility for exports, which is likely to be commissioned in H2FY18/FY19. Maintenance Capex will be in the range of ₹5-8 crore.

### Prospects

India is the world's tenth largest economy in terms of nominal GDP with a GDP of US\$1.9 trillion and accounts for approximately 20% of the world's population with 1.2 billion inhabitants (CRISIL Report).

The population is expected to reach 1.4 billion by 2026, of which over 50% would be aged 30 years or more compared to 40% currently. India is the second most populous country in the world. The ever increasing population and changing demographics will drastically increase the demand for healthcare.

Indian pharmaceutical industry accounts for the second largest number of Abbreviated New Drug Applications (ANDAs) and is the world leader in Drug Master Files (DMFs) application with US. Indian pharmaceutical industry has many advantages in terms of efficient cost of production, good R&D technical work force for process improvements, lower healthcare costs, diversified array of products viz., over 60,000 generics brands across 60 therapeutic categories comprising of more than 500 different APIs.

The Indian pharmaceuticals market increased at a CAGR of 17.5% in 2015 from US\$6 billion in 2005 and is expected to expand at a CAGR of 15.9% to US\$55 billion by 2020. By 2020, India is likely to be among the top three pharmaceutical markets by incremental growth and sixth largest market globally in absolute size. The Indian pharmaceutical market size is expected to grow to US\$100 billion by 2025, driven by increasing consumer spending, rapid urbanisation, and raising healthcare insurance among others.

The health care economy is generally resilient and is not impacted by recessions. Even though the world economy is weak, the health care industry has remained largely insulated.

### Demand Drivers

A combination of demographic and economic factors is going to impact health care industry in India. Increase in population, shift in demographics, rise in disposable income, increase in incidence of lifestyle related diseases, rising literacy level are the few drivers that propels the growth of health care industry.

Manifold rise in public healthcare spending, rising patient awareness, expanding insurance coverage across the income pyramid and the emergence of new hospital formats illustrates this flux.

Rising income levels and enhanced medical infrastructure have underpinned the step-up in growth trajectories. This growth has been broad-based across therapy and geography segments. Several leading players are beginning to focus on new and emerging opportunities.

The pace of innovation in business models has been unprecedented. The launch of branded generics businesses and significant expansion of market coverage by multinationals illustrates this point. As a result, the expectations from the India businesses have risen and aspirations have become bolder. (McKinsey)



## Outlook

Increased patient's awareness & cutthroat competition amongst the manufacturers induces LPL to develop & introduce excellence and novelty in its products. LPL expects to increase the market share in the existing markets by increasing its portfolio through new product launches, expanding its geographical coverage in more and more region and undertaking large job contracts.

The growth was broad-based across all LPL's therapeutic areas. New launches during the year also contributed to the growth. Increased capacity utilization levels coupled with cost rationalization initiatives will boost profits further going forward. The commissioning of windmill during FY16 resulted in savings in terms of fuel cost.

LPL's strategy is centered on portfolio of acute and chronic oral solids that it seeks to commercialize globally. It has its own front end in the EMs and is backward integrated. LPL's strong product portfolio and ongoing focus on NDDS (Novel Drug Delivery System) gives it a competitive edge.

Management is cautiously optimistic of better prospects in 2017 and going forward and believes that the year will go a long way in stabilizing the growth path. LPL also concentrates on job work of various national and multinational companies and adding new products to its existing product range. The new USFDA plant to cater domestic as well as regulatory markets would also help LPL to perform strongly in coming years.

## Opportunity

India is the second most populous country in the world. The ever increasing population and changing demographics will drastically increase the demand for healthcare. LPL expects to increase the market share in the existing markets by increasing its portfolio through new product launches, expanding its geographical coverage in more and more region and undertaking large job contracts.

## Valuation & Recommendation

LPL's top 10 drugs mainly consist of drugs from its focus therapies such as Erope (meropenem), NamCold, Tinnex, Trixon, Trixon S, L Pill, Kodex, Charge Up, Vivian Plus and Cepy O CV (cefepodoxime + clavulanic acid) have recorded phenomenal growth over the years.

The going has been exciting one as LPL undertook various strategic initiatives such as expansion of its capacities and new product launches. These initiatives started yielding results, which is evident from the robust financial performance.

The demand for LPL products remains strong and has enabled LPL to build a strong order-book. Furthermore, the benefits of the ongoing initiatives to further expand its presence in the international markets are expected to drive growth going forward.

New approvals from Sudan, Ethiopia and Zimbabwe; expansion in PIIGS countries will increase international volumes. Focused on developing innovative and technology based products, LPL expects to clock healthy revenue growth in the next 3 years.

At the CMP of ₹196, the share is trading at a P/E of 8.3x on FY18E and 7.4x on FY19E. We recommend BUY with a target price of ₹277 at which, the share will trade at a P/E of 10.5x on FY19E.



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