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DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

VALUE PICK
CHASING VALUE, NOT PRICES

May 2016

Company Name	:	**Caplin Point Laboratories**
BSE Code	:	**524742**
Time Duration	:	**1 year**
CMP	:	**₹931 (as on 11 May, 2016)**
Target Price	:	**₹1350**

The value pick for the month of May is **Caplin Point Laboratories**, a company which has consistently grown revenues and PAT at the CAGR of 25.5% and 45.5%, respectively, from 2011-15. The company has an edge over other indian counterparts due to its unique end to end delivery model in pharma space and its focus on semi-regulated markets of LatAm and Africa. Company expects to grow at the rate of 20-25% in the future too.

Strong hold on end markets: The company has a strong hold on the Central America, Caribbean, Francophone and Southern African markets. The strategy is to focus on the unregulated markets and tap the market early, and to set up a distribution chain. The major competitors in these markets are Chinese pharma players. The company has more than 1000 product registrations and plans to grow further in territories with semi-regulated markets.

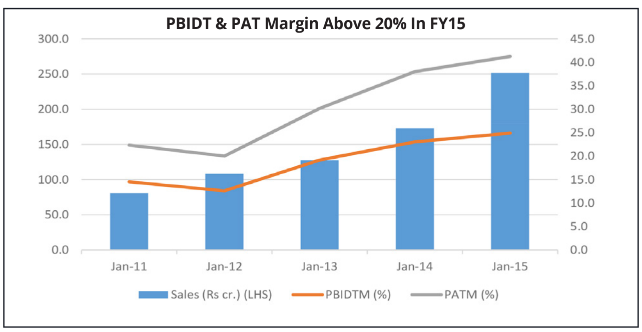
Unique business model: The company has an end to end business model, starting with manufacturing, exporting, distributing and retailing in over-the counter drugs including tablets, capsules, liquid orals, soft gelatin capsules, penem injections and suppositories. The one of its kind distribution model adds to the top-line growth by gaining trust across the chain and improves margins. The revenue growth in December 15 on TTM basis has been 40% and margins have almost doubled from 11.67% in June 2011 to 21.6% in June 2015 and have been pegged at 28% on TTM basis.

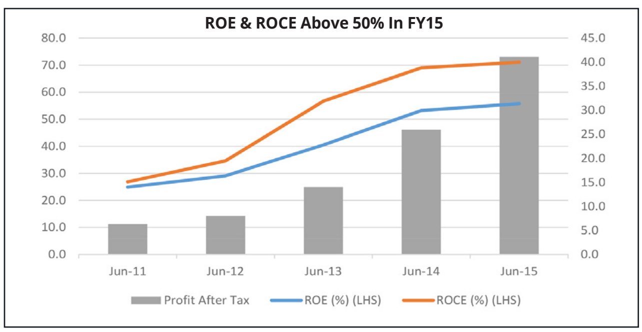
Manufacturing facilities: Company has constantly endeavoured to work around its product mix to cater to these markets. The company has manufacturing facilities in Puducherry and Himachal Pradesh (for dosages form); and a R&D centre in Gummidipoondi, Chennai. Company also utilises the spare capacity of Chinese manufactures to produce the drugs. It has entered into a contract with Chinese manufacturers for cephalosporin and penicillin, which it then sells in Latin America.

Strategy ahead: The company sells ointments, injections and generic pills across 3,500 pharmacies in Central America. It gets 90% of its revenues from this region. It's looking to grow from 7 Latin American countries to 12 in the next two years with focus on semi-regulated markets of Colombia, Costa Rica, Ecuador and Chile. Product registrations are expected to jump from 1,700 to 2,200. The company eventually wants to extend its product offerings portfolio with soft gels, penems, dermo-cosmetics and suppositories; and also further expand its retail network. Company has recently ventured into premium Sterile injectables for which the injectable plant has received approvals from Brazil and the European Union. It has also tied up with major western pharma companies. It is in the process of getting USFDA approval for the same. Company plans to meet supply short fall of Sterile injectables in the regulated markets of US, Europe and Russia.

Financials: Company derives approximately 60% of revenue from sale of Anti-biotics and anti-inflammatory/ analgesics. Company wants to expand in cardiovascular segment which contributes currently around 5% of the revenue. Company has witnessed a 45% growth in revenues to Rs 251.7 crore in Jun15; and 40% growth on TTM basis, reaching a sales figure of Rs 290.5 crore by Dec15. The company is a debt free company and has excellent working capital cycle with 100 payable days; and receivable and inventory days of 8 and 37, respectively, which is lowest in the industry.

Valuation: The company is currently trading at P/E ratio of 26.3x on the TTM EPS of 35.3 as of December15 and P/B of 15x on the book value of Rs 93.19 crores. The share price of Rs 931.6 has recently undergone correction and with the growth story intact, we expect it to provide returns of 45% over the next year.





DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 I **For Customer Service : 020-49072626 OR service@dsij.in**