



Company Name	: LINCOLN PHARMA
BSE Code	: 531633
Time Duration	: 1 year
CMP	: ₹227.45 (as on 13 October, 2016)
Target Price	: ₹337

The value pick for the month of October is Lincoln Pharmaceuticals. Ahmedabad based Lincoln Pharma is engaged in the manufacture and marketing of affordable formulations for therapeutic purposes. The company's three wings are Pharma (anti cold, anti-biotic, otolaryngology and pain management); Lords (anti-malarial segment) and Teresa (gynac products). The revenue of the company has shown consistent growth at five year CAGR of 16 per cent, led by general anti infectives and respiratory system segments. The company is having 70 per cent business from domestic markets and rest is from export markets. Introduction of new products and maintaining best product mix helps company to sustain margins under drug price control order (DPCO) in India. We see the key levers for company will be its export oriented expansion in African countries and introduction of new products in Indian markets. Based on the undervalued valuation and potential growth prospects, we expect an upside of 42% from current levels over a period of a year.

Boost in export markets

Lincoln Pharma exports to semi regulated markets like Latin & Central America, East & West Africa and rest to South Asia. The company has aggressively started business in 13 Francophone African Countries which led to rise in exports by 77 per cent to Rs 33.7 crore in Q1FY17 on a yearly basis. Exports contribution increased to 37.8 per cent from 25.9 per cent in Q1FY17 vs Q1FY16. The company is in process of new product registration in overseas markets with many registrations in hand.

Domestic markets driving growth

Domestic markets contribute 70 per cent to revenue pie. Sales from domestic markets were marginally up by 2 per cent to Rs 55 crore in Q1FY17 on a yearly basis. The company recently introduced new product Ondansetron Oral Spray first time in India. This formulation was available in US markets only. Ondansetron Spray (Domi Up) is having fast drug delivery as compared to tablet & syrup and used in motion sickness, after chemotherapy drug treatment and for gynac treatment. At the all India level the Anti-emetic drug market is Rs. 678 crore and Ondansetron is one of the anti-emetic drug the market of which in India is Rs.303 crore. Therefore, Ondansetron Spray (Domi Up) expects to capture sizeable chunk of this opportunity.

Strategic Outlook

The company puts major thrust on innovation and technology

which led to rise in R&D expenses at CAGR of 33 per cent to Rs 8 crore over last three years. Lincoln has successfully launched new products like ART-Luton (progesterone spary), PA12 (paracetamol), Tinnex (caroverine injection), ARH1 (malaria injection), NAMCOLD-DX and Domi-Up via backend development in R&D. Lincoln plans to introduce 10 new products supported by adding 100 headcounts in marketing team.

The company is updating its manufacturing facility by automation and introducing wind mill captive power plant which will aid EBITDA margin by ~3 per cent and can enhance end profit margin by 149 bps points. The company has started sterile ointment & dusting powder manufacturing facility and doubled tablet capacity which will help to improve market share of the company.

Financial Performance

In Q1FY17- Net sales of the company have risen up by 21.75 per cent to Rs 89.16 crore on a yearly basis. EBITDA of the company has jumped up by 57.73 per cent to Rs 18.05 crore as compared to Q1FY16. EBITDA margin has expanded by 436 bps points to 19.48 per cent in Q1FY17 vs Q1FY16. PAT of the company has surged by whopping 67.20 per cent on a YoY basis in Q1FY17. PAT margin also decreased by 316 bps points to 11.81 per cent on a YoY basis in Q1FY17.

Valuation

Lincoln's ROCE and ROE is gradually increasing since last five years to 21.2 per cent and 19.5 per cent in FY16. Lincoln has healthy leverage status with D/E and Interest coverage ratio of 0.46x and 6.43x respectively. The company looks undervalued with TTM P/E of 13.49x on TTM EPS of 17.21 and P/B of 2.65x. Considering consistent performance and good valuation numbers, we recommend to **BUY** this scrip in range of Rs 222-235 per share (CMP-227.45) with Target price of Rs.337.

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201603	201503	201403	201303	201203
Net Sales	400.15	266.07	210.49	194.70	187.58
Total Income	407.51	273.26	212.98	201.10	190.94
Total Expenditure	359.62	240.47	190.42	179.22	174.08
PBIDT	47.89	32.79	22.57	21.87	16.86
PAT	23.80	15.04	10.18	9.53	5.13
Dividend %	10.00	10.00	6.00	6.00	6.00
Adj. EPS(Rs)	14.52	9.20	6.53	5.92	3.14

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