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DEMOCRATIZING WEALTH CREATION

TINY
TREASURE 

September 2019



The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code : **532983**

Time Duration : **1 year**

CMP : **₹209.70** (as on 26 September, 2019)

Target Price : **₹270**

RPG Life Sciences Limited

Strengthen your portfolio's life with RPG Life Sciences

Our Tiny Treasure for the month of September is RPG Life Sciences Limited. It is the smallest entity of the RPG Group. The company is exclusively engaged in pharmaceutical business and operates across segments including Domestic Formulations, International Formulations and Active Pharmaceutical Ingredients (API). The revenue mix for FY19 stood at Domestic Formulations (57 per cent), International Formulations (22 per cent) and API (21 per cent).

Domestic formulations : Brand Building

Under the domestic formulations division, the company develops and manufactures branded formulations across a wide therapeutic spectrum that includes vitamins, gastrointestinal, pain and inflammation management, relief from respiratory ailments and cardio-diabetes management. Its major brands include Min Min (vitamins and iron supplements), Tricaine (antacid), Lomotil (anti-diarrhoea) and Serenase (central nervous system). The company's nephrocare division continues to feature among the top 5 Indian companies operating in the renal care therapy segment and has been a pioneer in launching Azoran (Azathioprine) which was developed and manufactured in India. Also, its oncology and urology divisions are on the growth track and with the new product launches, these businesses are expected to get profitable in near term. In FY19, this specialty division grew by 12 per cent yoy. The new product Darba showed a growth of 27 per cent and 'Rituximab' showed a growth of 29 per cent in FY19.

The company plans to focus on chronic segment by foraying into anti-diabetic and cardiology market. In this regard, the company would be launching a brand having Teneligliptin, a drug used in treatment of Type 2 Diabetes mellitus. A new antacid using the unique molecule Almagate is being introduced for first time in India under the brand name 'Tricaine Alma'. The new products launched recently will boost the performance of this division. Also, the launch of new brands will bring in growth in revenue and gain market share.

International formulations : Geographical Expansion

The International Formulations business comprises of Global Generics (Regulated Markets) and Rest of World (RoW). Of the

revenue generated from international business division, 67 per cent accrued from regulated markets and 33 per cent from the RoW markets.

Its global generics division commercializes finished dosage forms in highly regulated markets such as North America, European Union and Australia. Azathioprine, being flagship product of RPG Life Sciences has a dominant market share worldwide in immunosuppressant therapy. Its RoW business caters to markets other than the US and Europe which includes Africa, Southeast Asia and Latin America. Investment in new product pipeline, with a focus on R&D is the key strategy adopted by the management for the international business. Aminocaproic Acid, Azathioprine and Mycophenolate Mofetil are products under development for the US market.

The company has filed its first ANDA for Amino Caproic Acid and filed dossier in UK for sodium valproate. Nephrology will be the core therapy in RoW markets. However, the business will continue to tap prospective tenders in the Anti-diabetic and Cardiovascular therapies across RoW markets. In FY20, the company plans to focus over geographical expansion and product portfolio enhancement.

Active Pharmaceutical Ingredients (API)

The API business registered a growth of 27.2 per cent yoy in FY19. Latin America, the key market for the API business contributed largely to this performance. In FY19, the flagship product sold in the Latin American market had a growth of 57 per cent yoy. Mexico and Brazil contributed 60 per cent to the API business in FY 19. API business continues to be of strategic importance in the overall growth of the company. Meanwhile, backward integration in products ensures lesser dependency on procuring APIs from external sources. This has enabled the company to move towards improvement in the key export products. The company is also working on growing its business in Russia, South Korea, China and USA which are key focus markets for API.

Part of stable group and rejig in management

RPG Life Sciences has been part of the RPG Group since 1993.

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DSJ INVESTMENT ADVISORY UNIT (CRU)

The RPG Group is a diversified conglomerate with interests in the areas of infrastructure, tyres, information technology, pharmaceuticals, energy, and plantations. The Group has several companies in diverse sectors predominantly CEAT, Zensar Technologies, KEC International etc. In 2015, the company's top management was rejigged and that led to acceleration of its growth rate. Between FY12-15, the company's revenue grew at 7 per cent CAGR, whereas, post change in management, the revenue grew at 10.8 per cent CAGR over FY16-18. The management has ambition to generate top line of Rs. 1,000 crore by 2022.

Financial Performance

The company's standalone revenue for Q1FY20 came in at Rs. 94.04 crore as against Rs. 79.89 crore in the corresponding quarter last year, registering 17.7 per cent yoy increase. The EBITDA for the quarter rose by 121.2 per cent yoy to Rs. 15.35 crore as against Rs. 6.94 crore in the corresponding quarter last year, with a corresponding margin expansion of 764 bps. EBITDA margin for the quarter stood at 16.3 per cent. The PAT for the quarter came in at Rs. 8.35 crore as against Rs. 1.83 crore in the corresponding quarter last year, yoy increase of 356.3 per cent.

Considering the FY19 numbers, the company's revenue slid by 5

per cent to Rs. 330.16 crore while EBITDA fell by 11 per cent to Rs. 33.56 crore. Further, the company reported net profit of Rs. 10.81 crore, down by 20 per cent yoy. The debt by end of FY19 stood at Rs 36.50 crore leading to debt equity ratio of 0.23x for FY19. In FY17, the company had added trademarks leading to addition in fixed assets. This led to increase in depreciation over next two years i.e. FY18 and FY19, thereby affecting the net profit. However, we expect the net profit would improve with rise in operating profits from the current years.

Valuation

The company is trading at TTM P/E of 18.8x with TTM EPS of Rs 10.48. The new management is working aggressively to accelerate the growth rate of the company. The new products and brands launch would further strengthen its product portfolio. Also, the rupee depreciation is leading to growth in international business. The expansion in new geographies and gradual rising market share in existing markets are adding to its growth story. Revenue and margins are increasing steadily and the stock is trading at attractive valuation. Considering all these factors, we see potential upside of 29 per cent with target price of Rs. 270 for a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	330.16	343.95	293.64	279.32	242.27
Total Income	330.96	346.31	303.42	281.28	248.84
Total Expenditure	295.73	306.89	265.01	257.02	233.76
PBIDT	35.23	39.42	38.41	24.26	15.08
PAT	10.81	13.45	21.01	11.62	1.00
Dividend %	30.00	30.00	35.00	20.00	10.00
Adj. EPS(Rs)	6.54	8.13	12.70	7.03	0.60

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	94.04	68.80	36.69	79.89	17.71
Total Expenditure	78.69	62.25	26.41	72.95	7.87
PBIDT (Excl OI)	15.35	6.55	134.35	6.94	121.18
PAT	8.35	1.54	442.21	1.83	356.28
PBIDTM% (Excl OI)	16.32	9.52	71.43	8.69	87.80
PBIDTM%	16.49	10.13	62.78	9.18	79.63
PATM%	8.88	2.24	296.43	2.29	287.77
Adj. EPS(Rs)	5.05	0.93	443.01	1.11	354.95

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