

Investors' Delight: RPG Lifesciences Ltd. – "BUY"

"Sale of surplus land makes valuation attractive"

Investment Summary

RPG Life Sciences Ltd. is an integrated Pharmaceutical Company operating in the domestic and international markets in the Branded Formulations, Global Generics, Synthetic and Fermentation API's space. The Company is a research based Pharmaceutical Company, producing a wide range of quality, affordable medicines and exports to Europe, Latin America, Canada and South East Asian Countries. In Q1FY14, the Company's turnover witnessed yoy growth of 15 percent to touch Rs. 62.90 crore. It reported over 19-fold increase in net profit at Rs 54.69 crore for the first quarter ended June 30, 2013. The company had posted a net profit of Rs 2.79 crore during the same period of previous fiscal. EPS for Q1FY14 stood at Rs. 33. The Company has taken conscious steps of moving from semi regulated markets to regulated markets and the management is confident that it will see growth.

RPG recently sold the leasehold rights on its surplus land admeasuring 14,148.90 square meters, situated at TTC Industrial area, village Pawane, Navi Mumbai to Maruti Suzuki India , for the consideration of Rs. 76.91 crore which translates into an EPS of Rs. 47. The proceeds from this transaction will be utilized for reducing the debt and investing in projects to drive future growth of the company. The pharma company had acquired a land admeasuring 48,632 square meters on 95 years lease from Maharashtra Industrial Development Corporation (MIDC); out of which 14,148.90 square meters surplus land was sold. The current balance land is valued around Rs. 187 crore as against Market Capitalisation of Rs. 99 crore. The stock had recently touched a high of Rs. 76 in June 2013 after the announcement.

In the current year, the company's focus will be to leverage the strength of the legacy brands so as to build successful new products along with continued emphasis on Focus brands. The concept of Focus Brands, which was introduced in FY13 has fuelled growth. Focus brands in domestic formulation business has witnessed growth of about 25% with Impulse and Nephrology focus brands registering growth of 70% and 49% respectively. Dedicated efforts on chronic therapies like Cardiology, Anti-Diabetic, Oncology and Nephrology will be made to accelerate the growth in the chronic therapy segment. With focus on Transplant and Dialysis therapy the company will consolidate its value in Nephrology therapy. Existing brands like Aldactone, Naprosyn, Azoran and Tricane will continue to receive the necessary thrust as also other focus brands like RPO, Alfalog, Azopen and anti-diabetic products such as Cicoline, CVMET, Olrass and Glimetop. New launches Azistart-O & MinMin Tonic, Gugyl OP are showing promise. In FY13, the Biotech business achieved a yoy growth of 88% to touch Rs.24 crore in spite of intense competition from domestic as well as Chinese and Korean companies. New tenders in the traditional markets such as Latin America and new geographies such as Egypt, Indonesia, Korea and Turkey helped international business to grow by 90% over the previous year. New clients in Korea and Indonesia were developed.

We believe the stock has been hammered irrationally and considering its strong Q1FY14 performance along with the above land deal makes it undervalued at CMP. The stock is available at attractive valuation of Market Cap/Land Value: 0.52x which we feel is undervalued and deserves a premium. We recommend investors to "BUY" with a target price of Rs. 100, an upside of 67% from current levels.

Date	27 th September, 2013
Industry	Pharmaceuticals
CMP	Rs. 60
Target Price	Rs. 100
Upside	67%
BSE/NSE Code	RPGLS /RPGLIFE
Bloomberg Code	RPGL IS
52 Week High	Rs. 94.80 (4 th Dec, 2012)
52 Week Low	Rs. 48.10 (13 th Mar, 2013)
Face Value	Rs. 10
Market Capitalization	Rs. 992 mn
Book Value	Rs. 46
Shareholding Pattern (%)	As on June 2013
Promoters	56.48
FII's	0.03
DII's	2.39
Public and Others	41.1

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