Lincoln Pharmaceuticals Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Lincoln Pharmaceuticals operates as a high-margin, export-led generic manufacturer (62% of revenue) with critical EU-GMP certifications providing a competitive moat in regulated markets.**	—
2	**Top-line momentum remains healthy with 13.76% revenue growth to ₹581 Cr, driven primarily by a 23.67% surge in Rest of World (RoW) sales.**	—
3	Operating margins are structurally insulated by a 65% renewable energy mix, contributing to a healthy but treasury-influenced ROCE of 22%.	—
4	***Reported profitability is of lower quality as 17% of PBT (21.09 Cr) is derived from non-cash notional gains on investment valuations rather than core pharma operations.***	—
5	**The company maintains a fortress balance sheet, remaining net debt-free (0.0x D/E) with an exceptional interest coverage ratio of 123x.**	—
6	**Self-funding capacity is robust, with Cash Flow from Operations (₹63 Cr) comfortably exceeding the year's ₹40 Cr capital expenditure.**	—
7	**Growth visibility is anchored by the completion of the Cephalosporin plant, which is projected to contribute ₹150 Cr in incremental revenue over the next three years.**	—
8	***Earnings quality is under significant pressure following a 107% spike in credit-impaired receivables to 32.59 Cr and a 9.09 Cr discrepancy in inventory reporting to banks.***	—
9	***Governance concerns have intensified due to a regulatory fine for board non-compliance and KMP remuneration growth (30.4%) nearly tripling the rate of EBITDA growth (11.1%).***	—
10	***Capital allocation efficiency is diluted by the diversion of 104.20 Cr into non-core inter-corporate loans rather than core pharmaceutical reinvestment.***	—
11	***The primary valuation risk is a potential write-off of impaired receivables, which currently represent a substantial 35% of annual PAT.***	—
12	Investment View: Watch stance; key monitorables include the reduction of credit-impaired receivables below ₹15 Cr and the cessation of non-core lending activities.	—

1. Business overview

- **Business Segments:** Lincoln Pharmaceuticals Ltd (LPL) is a branded generic player with a 45-year legacy, structurally balanced between acute and chronic therapies. It is currently pivoting toward high-margin lifestyle and chronic segments, specifically women's healthcare and dermatology.
- **Revenue Drivers:** Growth is primarily export-led (62.44% of revenue), focusing on East & West Africa, Southeast Asia, and Latin America. Domestic sales (37.56%) provide a stable cash-flow base.
- **Cost Drivers:** Key drivers include raw material procurement (over 50% sourced locally in Gujarat) and energy costs. The company derives 65% of its energy from renewable solar and wind projects, insulating margins from power tariff volatility.
- **Industry Position:** Positioned as an "affordable innovation" player in the global generic space, utilizing EU-GMP and WHO-GMP certified facilities to transition from semi-regulated to high-value regulated markets.

- **Expansion Plans:** Under "Vision 2026," management aims to expand its global footprint from 60 to 90 countries, supported by a pipeline of 700+ products under registration.
- **Capacity Additions:** Completion of the Cephalosporin plant expansion in Mehsana is a major milestone, targeted to add ₹150 Cr in incremental sales over the next three years.
- **Geographical Presence:** Extensive footprint in 60+ countries; domestic business covers 80% of India. The UAE is being positioned as a strategic gateway to the Middle East and Africa.

2. Management commentary & outlook

- Management adopts a stance of "conservative ambition," prioritizing a customer-centric approach and prudent, internal-accrual-funded investments.
- The strategic pivot from acute anti-infectives to Cardio, CNS, and Anti-diabetic treatments is intended to capture global "Pharmacy of the World" tailwinds and reduce seasonal volatility.
- The "Vision 2026" roadmap targets expansion into 30 additional countries (reaching 90 total) within 2-3 years, leveraging a robust R&D pipeline of 700+ products.
- R&D strategy focuses on "patent non-infringing products" for emerging markets to ensure speed-to-market and legal durability.
- Management expects the Indian pharmaceutical industry to reach $130 billion by 2030, providing a strong macro tailwind.
- Geopolitical risks, particularly the "localization" trend in Russia (import substitution), are being mitigated by using the UAE as a strategic trade hub.
- The Cephalosporin vertical is expected to become a major revenue pillar by FY 2027 following the completion of physical expansion and the commencement of product registrations.
- Management highlights that the EU-GMP certification for the Mehsana plant allows access to all 27 EU member nations, representing a structural shift toward regulated territories.
- **Management Tone:** The management exhibits a high degree of financial discipline, evidenced by their refusal to take on debt even during significant capacity expansion. While the tone is optimistic regarding global expansion, it is grounded in the reality of regulatory timelines. There is a slight "governance friction" regarding delayed compliance with Independent Director ratios, which management addressed as misinterpretation. Overall, the leadership appears focused on steady, internal-accrual-funded compounding rather than aggressive, high-burn growth (Pragmatic and execution-focused).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	581	510
Sales Growth %	13.76	8.09
Expenses	480	421
Material Cost %	47.94	47.30
Raw material cost	284	246
Change in inventory	-6	-4
Manufacturing Cost %	6.06	5.84
Employee Cost %	17.72	18.26
Other Cost %	11.01	11.05
Operating Profit	100	90
OPM %	17	18
Other Income	34	22
Exceptional items	1.40	0.50
Other income normal	32.73	21.64
Interest	1	2
Depreciation	11	9
Profit before tax	122	100
Tax %	24	27
Net Profit	93	73
Minority share	0	0
Exceptional items AT	1	0
Profit excl Excep	92	73
Profit for PE	92	73
Profit for EPS	93	73
Profit Growth %	27	6
EPS (□)	46.58	36.40
Dividend Payout %	4	4

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	20	20
Reserves	573	482
Borrowings	1	2
Long term Borrowings	0	0
Short term Borrowings	1.07	2
Other Borrowings	0	0
Other Liabilities	106	83
Non controlling int	0	0
Trade Payables	72	51
Advance from Customers	1	1
Other liability items	33	31
Total Liabilities	700	587
Fixed Assets	179	151
Land	20.02	18.74
Building	60.22	58.07
Plant Machinery	108.56	97.07
Equipments	1.68	1.50
Computers	3.21	2.29
Furniture n fittings	29.84	9.66
Vehicles	11.53	8.68
Intangible Assets	0.01	0.01
Other fixed assets	1.58	1.45
Gross Block	236.65	197.47
Accumulated Depreciation	57.32	46.95
CWIP	3	7
Investments	139	91
Other Assets	379	339
Inventories	77	70
Trade receivables	162	136
Receivables over 6m	12	7
Receivables under 6m	152	131
Prov for Doubtful	-2	-2
Cash Equivalents	14	34
Loans n Advances	32	26
Other asset items	94	72
Total Assets	700	587

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	63	39
Profit from operations	105	100
Receivables	-26	-20
Inventory	-7	3
Payables	22	-21
Loans Advances	0	0
Other WC items	-4	7
Working capital changes	-16	-31
Direct taxes	-26	-30
Cash from Investing Activity	-57	-37
Fixed assets purchased	-40	-14
Fixed assets sold	0	1
Investments purchased	-100	-63
Investments sold	75	74
Interest received	9	1
Dividends received	0	0
Invest in subsidiaries	0	0
Other investing items	-2	-35
Cash from Financing Activity	-5	-4
Proceeds from borrowings	20	19
Repayment of borrowings	-21	-20
Interest paid fin	-1	-1
Dividends paid	-3	-3
Other financing items	0	0
Net Cash Flow	1	-2
Free Cash Flow	24	26
CFO/OP	89	77

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	102	98
Inventory Days	101	106
Days Payable	95	77
Cash Conversion Cycle	108	126
Working Capital Days	121	121
ROCE %	22	22

3.2 Financial analysis summary

- **Revenue** grew by 13.76% to □581.00 Cr, primarily driven by a 23.67% surge in Rest of World (Exports) which now constitutes 62.44% of total sales (□362.50 Cr), while domestic India sales remained stagnant at □218.04 Cr.
- **Operating Profit** margins (OPM %) contracted from 18.00% to 17.00% as Revenue growth was partially offset by a 37.71% spike in Labour Charges (□15.92 Cr) and a doubling of Selling & Marketing Expense to □5.29 Cr to support international expansion.
- **Net Profit** (PAT) increased by 27% to □93.00 Cr, significantly aided by a 54.5% jump in Other Income to □34.00 Cr, of which □21.09 Cr (approx. 22% of PAT) is a non-cash notional gain from the fair valuation of Investments.
- **Trade Receivables** rose 18.65% to □162.00 Cr, outstripping Revenue growth and leading to a deterioration in Debtor Days from 98 to 102; a critical risk is the 107% surge in Credit Impaired Receivables to □32.59 Cr.
- **Working Capital** management saw a boost from Trade Payables, which increased 42.40% to □72.00 Cr, effectively stretching supplier payments to 95 days and helping improve the Cash Conversion Cycle from 126 to 108 days.
- **Cash from Operating Activity** (CFO) improved to □63.00 Cr from □39.00 Cr, yet the CFO/PAT ratio remains low at 0.68, indicating that a significant portion of PAT is tied up in Trade Receivables (□26.00 Cr outflow in CFO) and non-cash Other Income.
- **Fixed Assets** (Gross Block) expanded to □236.65 Cr following a □40.00 Cr Capex, primarily directed toward Plant Machinery (□108.56 Cr) and a significant addition to Furniture n fittings (□29.84 Cr).
- **Total Debt** remains negligible at □1.00 Cr, consisting entirely of unsecured Short term Borrowings from a related party (Downtown Finance Pvt Ltd), resulting in a near-zero Debt/Equity ratio and a robust Interest Coverage of 123x.
- **Investments** on the Balance Sheet grew by 52.7% to □139.00 Cr, while Other Assets include a concerning 253% increase in Non-Current Inter-Corporate Loans to □8.14 Cr, suggesting capital allocation away from core pharmaceutical operations.
- **Employee Cost %** improved slightly to 17.72% of Revenue, despite a 30.4% hike in Remuneration to KMPs (□2.40 Cr), indicating that general employee costs are being managed efficiently relative to top-line growth.
- **Depreciation** increased to □11.00 Cr in line with the □179.00 Cr Net Block, though the wide range of useful lives for Plant Machinery (5-22 years) provides management with significant accounting discretion.
- **Free Cash Flow** (FCF) remained stable at □24.00 Cr, as the increase in CFO was offset by the higher Capex of □40.00 Cr, yet it comfortably covers the modest Dividend Payout % of 4.00%.

- **ROCE %** remained steady at 22.00% while ROE % improved to 15.68%, reflecting efficient utilization of the ₹593.00 Cr Net Worth, although returns are increasingly influenced by treasury operations rather than core manufacturing.
- **Other Assets** analysis reveals a significant 253% jump in Non-Current Inter-Corporate Loans (to ₹8.14 Cr) and a 203% spike in Transportation Expense (₹3.28 Cr), indicating cash deployment outside core operations and rising freight costs for exports.
- The dominant financial theme of the year is a strong export-led growth trajectory and a debt-free balance sheet, tempered by deteriorating earnings quality due to high non-cash investment gains, a sharp rise in credit-impaired receivables, and increasing capital diversion into non-core financial loans.

3.3 Contingent liabilities & commitments

- **Disputed Income Tax Demands:** ₹0.23 Cr (FY24) vs ₹0.23 Cr (FY23). These are currently under appeal.
- **Capital Commitments:** Net commitments for PPE acquisition decreased from ₹2.44 Cr to ₹0.88 Cr, signaling the nearing completion of the current major expansion phase.
- **Litigation:** No significant civil or commercial litigation is disclosed.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — cash conversion lags PAT; □16 Cr working capital drag reduces liquidity.	—	Working capital changes of -□16 Cr primarily driven by receivable build-up.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — receivables outpace sales; 107% surge in impaired assets signals collection risk.	—	Note 14; □20.94 Cr of impaired assets are aged less than 6 months.
3	Revenue timing	Neutral — revenue recognized at point-in-time; customer advances remain negligible relative to sales.	—	Note 4(ii) and Note 27; control transfers typically upon delivery or dispatch.
4	Revenue from related parties %	Neutral — no material revenue from related parties disclosed; focus remains on third-party exports.	—	Note 52; RPTs primarily involve remuneration, commissions, and small loan balances.
5	Inventory vs revenue growth	Profit ↑ — inventory growth trails revenue; efficient stock management improves cash flow conversion.	—	Note 11(c); inventory write-downs of □1.17 Cr indicate active management of obsolescence.
6	Inventory valuation method change	Profit ↑↓ — inconsistent valuation methods; stage-wise cost allocation may distort margins during volatility.	—	Note 4(vi); inconsistency in valuation across production stages can distort COGS.
7	Exceptional items in operating profit	Profit ↑ — non-recurring gains boost PBT; □1.4 Cr exceptional item inflates reported earnings.	—	P&L Statement; exceptional items are excluded from "Profit excl Excep" of □92 Cr.
8	Depreciation rate vs useful life policy	Profit ↑ — wide useful life ranges; 22-year P&M life potentially understates annual depreciation charge.	—	Note 4(iv); Plant & Machinery lives range widely from 5 to 22 years.
9	Provision reversals boosting PAT	Neutral — consistent provision patterns; sales return reserves are utilized and replenished regularly.	—	Note 4(ii)(f) and Note 27; provision reflects historical experience and channel levels.
10	Tax rate consistency	Neutral — effective tax rate remains healthy; 24% rate aligns with statutory corporate norms.	—	Note 40; effective tax rate of 23.6% suggests no aggressive tax maneuvering.
11	CWIP age and stalling projects	Profit ↑ — CWIP capitalization occurring; reduction in CWIP suggests projects are becoming operational.	—	Note 43; capital commitments decreased to □0.88 Cr, signaling project completion.
12	Deferred tax asset recognition adequacy	Profit ↓ — DTA validates credit risks; recognition confirms management expects future tax-deductible losses.	—	Note 4(xii); confirms deteriorating quality of receivables book despite tax benefit.
13	RPT quantum and trend	Profit ↓ — value leakage to promoters; inter-corporate loans of □104 Cr dilute core ROIC.	—	Note 52; commissions paid to director HUFs and loans to non-core entities.
14	Dividend paid vs FCF adequacy	Profit ↑ — dividends well-covered by FCF; low payout ratio of 4% preserves growth capital.	—	Cash Flow Statement; Dividend Payout % remains stable at 4.00%.
15	Inventory Reporting Discrepancy	Profit ↑↓ — Material difference of □9.09 Cr between bank filings and books signals weak internal controls.	—	Note 57(h); attributed to "Stock in Transit" not considered in bank statements.
16	Non-Cash Other Income Impact	Profit ↑ — Notional gains inflate PBT; 17% of PBT is driven by market-linked investment gains.	—	Forensic Flag; excluding this, PBT would be □101.15 Cr instead of □122.24 Cr.
17			—	

#	Check	Impact	Status	Notes detail
	Capital Diversion to Loans	Neutral — Company acting as a partial financing vehicle; ₹104 Cr in loans dilutes core pharma ROCE.		Note 14/Other Assets; suggests deployment of cash outside core manufacturing operations.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified.
- **Key Audit Matters (KAMs):**
  - **Revenue Recognition:** Focus on the risk of inappropriate recognition due to complex trade, quantity, and cash discounts (3.78% of gross sales). Management uses automated controls and periodic reconciliations.
  - **Impairment of Financial Assets:** High degree of judgment in the Expected Credit Loss (ECL) model, especially given the 107.18% increase in credit-impaired receivables.
- **Material Weaknesses:** A material discrepancy of ₹9.09 Cr was noted between inventory reported to banks (₹61.54 Cr) and book records (₹70.64 Cr) in June 2022, attributed to "Stock in Transit."
- **Auditor Change:** M/s. Samir M. Shah & Associates appointed for a 5-year term until the 33rd AGM.
- **Auditor Fees:** Total Professional & Consulting Fees stood at ₹12.35 Cr; specific audit fees were not explicitly itemized in the summary notes.

B. Related party transactions

Party	Relationship	Nature	Amount (₹ Cr)	Concern
KMPs	Management	Remuneration	2.40 Cr	**Growth (30.4%) outpaced employee cost growth (10.4%)**
Mahendra G Patel HUF	KMP-controlled	Commission	0.17 Cr	***Value leakage to promoter-controlled entities***
Munjal M Patel HUF	KMP-controlled	Commission	0.18 Cr	***Value leakage to promoter-controlled entities***
Downtown Finance Pvt Ltd	Promoter Entity	Short-term Loan	1.06 Cr	Unsecured borrowing from related party
Downtown Travels LLP	KMP-controlled	Travel Expenses	0.57 Cr	307% YoY increase in travel spend through this entity
Shardaben G. Patel Trust	KMP-controlled	CSR Contribution	0.21 Cr	Circularity of CSR funds to promoter-linked trust
Sunmed Corporation LLP	KMP-controlled	Current Assets	1.11 Cr	Stagnant balance; recoverability risk

- **% of Revenue:** 0.79% | **% of CFO:** 7.28%
- **Red Flag Filters:** 1.11 Cr balance with Sunmed Corporation LLP; commissions paid to HUFs (0.35 Cr) suggest non-standard value extraction.

C. Shareholding

Line item	Mar 2024	Mar 2023
Promoters	49.12%	49.12%
FIIs	1.54%	0.48%
DIIs	0.15%	0.15%
Public	49.19%	50.25%

- **Pledged Shares:** 0.00% of promoter holding.

D. Board composition + KMP compensation

- **Total Directors:** 8 | **Independent %:** 25.00% (Non-compliant with Regulation 17(1) during part of the year; fined ₹0.05 Cr).
- **Women Directors:** 1 (Ms. Seema Mehta appointed April 2024).
- **Family Concentration:** Four KMPs share the **Patel** family name.
- **Compensation Analysis:** Aggregate KMP pay grew **30.43%**, nearly 3x faster than EBITDA growth (11.11%). Management admitted this was "inconsistent with overall performance" but justified it via shareholder resolutions.

F. Capital allocation & capex

Action	FY current (₹Cr)	FY prior (₹Cr)	% of CFO	Signal
Dividends	3.00 Cr	3.00 Cr	4.76%	**Positive**
Capex	40.00 Cr	14.00 Cr	63.49%	—
Investments (Financial)	100.00 Cr	63.00 Cr	158.73%	—
Net Debt Change	-1.00 Cr	-2.00 Cr	N/M	—
Working Capital Investment	16.00 Cr	31.00 Cr	25.40%	—

- **CAPEX Analytical Notes:** CFO/Capex ratio is 1.57x, indicating comfortable self-funding. Capex is focused on the **Cephalosporin plant expansion**, targeted to add ₹150 Cr in revenue. Fixed assets grew 18.5% vs revenue growth of 13.7%, showing a slight lag in asset turnover. Non-current inter-corporate loans jumped 253% to ₹8.14 Cr, distracting from core capital efficiency.

H. Risks

- ***Customer Concentration***: Single customer accounts for 16.33% of revenue (₹94.78 Cr). Loss would significantly hit margins. (Impact: High)
- ***Receivable Quality***: 107% surge in credit-impaired assets to ₹32.59 Cr. Potential write-offs could wipe out 35% of annual Net Profit. (Impact: High)
- **Regulatory Compliance**: Dependency on EU-GMP/WHO-GMP certifications for 62% of revenue. (Impact: Medium)
- ***Inventory Discrepancy***: ₹9.09 Cr mismatch between bank filings and books signals weak internal controls (ICFR). (Impact: Medium)
- **Forex Volatility**: 62.44% export exposure; 1% INR appreciation impacts PBT by ~₹3.6 Cr. (Impact: Medium)
- ***Non-Core Lending***: ₹104.20 Cr deployed in loans and advances dilutes ROCE and risks capital loss. (Impact: Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	62% Exports; EU-GMP certified; Cephalosporin expansion.	Strong export niche and regulatory certifications provide a solid moat.
Financial health	5	→	D/E 0.0x; Interest Coverage 123x; CFO ₹63 Cr > Capex ₹40 Cr.	Debt-free balance sheet with strong self-funding capacity for growth.
Earnings quality	2	↓	107% jump in impaired receivables; 17% of PBT from notional gains.	Significant non-cash income and deteriorating receivable quality are major red flags.
Management & governance	2	↓	Fine for board non-compliance; KMP pay growth 3x EBITDA; RPT commissions.	High family concentration and governance friction regarding board composition and pay.
Capital allocation & earnings visibility	3	→	₹104 Cr in non-core loans; ₹150 Cr revenue visibility from new plant.	Core capex is sound, but excessive diversion into financial loans dilutes visibility.

Business positives (for this company this year) * **Export Growth:** 23.67% surge in Rest of World sales, now contributing 62.44% of total revenue. * **Debt-Free Status:** Maintained a net debt-free balance sheet despite ₹40 Cr capex. * **Energy Efficiency:** 65% of energy consumption derived from renewable sources, insulating margins. * **Capacity Expansion:** Completion of Cephalosporin plant with ₹150 Cr incremental revenue potential. * **Robust ROCE:** Maintained a healthy ROCE of 22% despite heavy reinvestment.

Business negatives / concerns (for this company this year) * **Receivable Stress:** 107% surge in credit-impaired receivables to ₹32.59 Cr, with ₹20.94 Cr aged < 6 months. * **Earnings Quality:** ₹21.09 Cr (17% of PBT) consists of non-cash notional gains on investment valuations. * **Capital Diversion:** ₹104.20 Cr deployed in inter-corporate loans rather than core pharma operations. * **Governance Friction:** Fined ₹0.05 Cr for non-compliance with Independent Director ratios. * **Compensation Mismatch:** KMP remuneration grew 30.4% vs 11.1% EBITDA growth. * **Inventory Control:** ₹9.09 Cr discrepancy between bank filings and book records.

Overall scorecard summary Lincoln Pharmaceuticals presents a dual narrative: a fundamentally strong, debt-free manufacturing business with high ROCE and successful export expansion, contrasted against deteriorating earnings quality and governance concerns. While the core business is on a stable-to-improving trajectory due to the new Cephalosporin capacity, the financial posture is weakening due to aggressive non-core lending and a sharp spike in impaired receivables. The governance posture remains a concern due to high family concentration and executive pay outstripping performance.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 9/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: A debt-free, export-oriented generic pharma player with strong manufacturing credentials, currently marred by poor earnings quality and non-core capital diversion.

Overall stance: Watch

Rationale: Strong core business growth from the new Cephalosporin plant is offset by a 107% spike in impaired receivables and high non-cash income. Re-evaluate when: Credit-impaired receivables as a % of total receivables drops below 10% (currently ~20%). BULL CASE: Successful EU-GMP registration leads to □150 Cr incremental high-margin revenue from the Cephalosporin plant by FY26. BEAR CASE: Write-off of □32 Cr impaired receivables wipes out 35% of annual PAT, combined with a reversal in investment valuation gains. Key monitorable: Credit Impaired Receivables: □32.59 Cr → Watch for reduction below □15 Cr.