

CLARIS LIFESCIENCES LIMITED : Average Issue

IPO Note: Valuations Attractive but concern over corporate governance.

Listing gain is expected

Rating: Overall; ** Financial Valuations; ***

Issue details

Price band (Rs)	Rs.278-293
IPO Opening Date	24/11/2010
IPO Closing Date	26/11/2010
Issue Size	Rs.300 Crore

Valuations & Recommendation

Claris Life sciences, is entering the capital market and intends to mobilize Rs 300 cr through the issue.

The company operates in ever green sunrise pharma sector. At Rs 278-293, the company is demanding a valuation around 13 times on its FY10 earnings, on the post issue expanded capital of Rs 62.72cr, which is attractive. The shares in the pharma segment commands an average PE of 20. Recently Pfizer recalled three batches- about 2,000 bottles - of Albon, a bacterial infection drug for animals made by Claris, after an investigation from USFDA found the presence of Penicillium Chrysogenum in some samples. A significant majority of its products are manufactured in India, this, coupled with the process efficiencies which it has developed in its Clarion facilities, contributes to the production cost advantage over those of its competitors which manufacture their products in high cost developed markets. The corporate governance is not at the desired level. This may drag down the valuation to some extent. **If we consider only financial performance, the issue looks attractive. Listing gain is expected. Considering operations factors it is an average issue. One can subscribe in issue for listing gain as per attractive financials.**

Highlights

- One of the largest Indian sterile injectable pharmaceutical companies with a presence in 76 countries worldwide
- At current price its P/E ratio is attractive at 13 against industry P/E of 20.
- IPO grade 3 by FITCH indicates average fundamentals
- The USFDA issued a warning letter to the company pursuant to an inspection carried out at the manufacturing facilities at Ahmedabad.
- The Food Inspector, earlier, has filed a criminal complaint against the Company

Company Introduction Company Profile and Business

The company is promoted by Arjun S. Handa and Sarjan Financial Private Limited.

Claris is one of the largest Indian sterile injectables pharmaceutical companies with a presence in 76 countries worldwide. The products offering comprise 113 products across multiple markets and therapeutic areas. All the products are off-patent products. A significant majority of which are capable of being directly injected into the body and are predominantly used in the treatment of critical illnesses.

The products range across various therapeutic segments, including anesthesia, critical care, anti-infective, renal care, infusion therapy, enteral & parenteral nutrition and oncology. The company offer injectables in various delivery systems, such as glass and plastic bottles, vials, ampoules, pre-filled syringes and non-PVC/PVC bags. The customer base primarily includes government and private hospitals, aid agencies, and nursing homes.



<http://www.clarislifesciences.com/>

Financial Summary

Particulars	31-12-08	31-12-09	31-05-10
INCOME	763.9	759.4	296.8
PAT	107.89	124.89	57.72
EPS	21.08	24.1	26.30#

annualised

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

Manufacturing facilities

The company has five manufacturing facilities, located in Ahmedabad. Certain of these facilities have been approved by foreign regulatory authorities including the USFDA, MHRA (UK), TGA (Australia), NAM (Finland), GCC FDCA (Gulf Co-operation Council including Saudi Arabia, U.A.E. and other countries in the Middle East), ANVISA (Brazil) and INVIMA (Colombia).

Objects of the Issue

The company intends to utilize the Issue Proceeds for the following objects:

- Setting up of a new plant comprising a small volume parenterals line, a PVC bag line, a non-PVC bag line and a fat emulsion line.
- Setting up of a new manufacturing line for propofol and other fat emulsion products at our existing plant.
- Construction of a facility for research and development.
- Prepayment of an identified term loan.
- General corporate purposes.

Concerns

The company is involved in certain legal proceedings and claims. These legal proceedings are pending at different levels of adjudication before various courts and tribunals, amounting to Rs. 8.36 million in aggregate. All these matters are currently pending and have been outstanding for less than five years. One of the subsidiaries is involved in one tax demand amounting to approximately Rs. 54.90 million. This matter is currently pending and has been outstanding since a year.

Exchange rate fluctuations may adversely affect the business.

The USFDA issued a warning letter to the company pursuant to an inspection carried out at the manufacturing facilities at Ahmedabad. Such warnings and any future warnings, in relation to the products may have an adverse effect on the business and as well as adversely affect the reputation and the demand for the products.

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