

## Parabolic Drugs : Not healthy for investment

**IPO Note: The debt as on 31 December 2009 was Rs. 367.68 crore.**

**Ranking:\*\***

### Issue details

Price band (Rs)	Rs.75-85
IPO Opening Date	14/06/2010
IPO Closing Date	17/06/2010
Issue Size	Rs.200 Crore

### Valuations & Recommendation

In the first nine months of FY 2010, sales were at Rs 346.22 crore, and operating margin 18.3% and net profit Rs 21.41 crore.

PDL paid a high interest cost of Rs.29.57 crore for the nine months ended December 2009 and Rs.28.34 crore for the year ended March 2009. In fact, the interest cost paid by the company is higher than its profit in corresponding periods. The debt as on 31 December 2009 was Rs.367.68 crore. PDL is planning to repay Rs.38.84 crore from funds raised through the IPO. Still, the company will be left with debt of Rs.328.84 crore. At an issue price of Rs.75-85, the EPS for year ended March 2009 is Rs.3.4-4.8 and PE works out to be 22.1-17.7 times. **The EPS for annualised nine months ended December 2009 is 4.6 and on higher price band the P/E is 18.47 times which is high compare to its peer. We advice to avoid this issue and suggest to invest in other listed better stocks which are available with attractive valuations in the same sector to yield good return in the long term.**

### Highlights:

- ◆ The margin and profit for the nine months ended December 2009 was higher than full year performance of FY 2009.
- ◆ The R & D facility at Barwala and the manufacturing facility at Panchkula were set up according to US FDA standards.
- ◆ The customers' base has improved from 244 end March 2007 to 487 end December 2009.
- ◆ Sales from top customer decreased to 15.25% in the nine months ended December 2009 compared to 39.33% in the year ended March 2007.
- ◆ The company manufactures niche penicillin APIs like Bacampicillin, Sultamycillin, and Pivampicillin.

### Company Introduction

#### Promoters

Incorporated in 1996, Parabolic Drugs (PDL) was promoted by Pranav Gupta and Vineet Gupta. The company is into manufacturing APIs (active pharma ingredients) and API intermediates of Semi Synthetic Penicillin's (SSPs) and Cephalosporins for both domestic and international markets, including regulated markets. Currently, PDL has a portfolio of 44 APIs and 7 API intermediates, which are marketed over 45 countries. The company has two manufacturing facilities at Derabassi, Punjab, and Panchkula, Haryana, and two R & D facilities at Derabassi, Punjab, and Barwala, Haryana.

#### Capacity Expansion

To meet the increasing demand of existing products, it is building two manufacturing facilities (one for oral Cephalosporins and one for Sterile Cephalosporin) in its Derabassi plant. It is also planning to set up an US FDA compliant API manufacturing facility at Chachrauli,

## Financial Summary

Particulars	0912 (9)	0903 (12)	0803 (12)	0703 (12)
Sales	346.10	394.37	273.29	149.34
OPM (%)	18.3	15.5	17.6	15.0
Net Profit	21.41	21.09	29.67	13.59
EPS* (Rs)	4.6	3.4	4.8	2.2

\*Annulised

## RANKING METHODOLOGY

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

Derabassi. This facility will be used to manufacture non-antibiotics APIs as well as contract manufacturing for innovator companies. Besides all these facilities, the company through its subsidiary Parabolic Research Labs is setting up a new manufacturing facility including a custom synthesis with two kilo laboratories and 10 laboratories, an in-house documentation center, and intellectual property rights and regulatory affairs set-ups.

## R & D center and Products

The R & D center at Derabassi will be used to develop new molecules and improve existing process. From this center, the company has filed 10 applications for process patents, of which nine patent process applications are with the Indian patent office and one patent process application with PCT, Switzerland. PDL has filed 17 Drug Master Files (DMFs) with various regulatory authorities of regulated markets. This includes 7 DMFs field with the US FDA, 1 DMF with the Bureau of Pharmaceutical Sciences, Canada, and 9 DMFs with European Directorate for the Quality of Medicines & Healthcare (EDQM). Till date, it received approval for two DMFs from EDQM and one DMF from US FDA.

## IPO & Proceed

To fund all these expansion plans and to retire part of debt, the company is coming out with IPO of Rs 200 crore. The public offer includes fresh issue and offer for sale. The selling shareholders are mainly BTS India Private Equity Fund and Alden Global (Mauritius). Of Rs 200 crore, the company will get around Rs 182.78-184.81 crore and BTS and Alden will receive remaining Rs 15.19-17.22 crore.

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