

Pharmaceuticals
 India
 IPO Grading Report

Claris Lifesciences Limited

Fitch IPO Grade 3(ind)

Fitch has assigned a grade of '3 (ind)' out of a maximum of '5 (ind)' to the proposed initial public offer of Claris Lifesciences Limited. The grade indicates the average fundamentals of the issue relative to other listed equity securities in India

IPO Details

Claris Lifesciences Limited proposes to raise an amount of upto INR3,000m through an issuance of equity shares.

Analysts

Ashwini Picardo
 +91 22 4000 1787
ashwini.picardo@fitchratings.com

Priyamvada Balaji
 +91 22 4000 1742
Priyamvada.balaji@fitchratings.com

Shareholding pattern

	(Pre issue)	
	No. of shares	(%)
Promoter and Promoter Group		
<i>Indian Individuals</i>	15,601,014	30.48
Mr. Arjun S. Handa	7,800,507	15.24
Mr. Aditya S. Handa	7,800,507	15.24
<i>Indian Bodies Corporate</i>	28,433,292	55.55
Total Promoter and Promoter Group	44,034,306	86.03
Public Shareholding		
<i>Institutions</i>		
Foreign Venture Capital Investor	7,111,095	13.89
<i>Non Institutions</i>		
Individual shareholders holding nominal share capital up to INR100,000	39,887	0.08
Total Public Shareholding	7,150,982	13.97
Grand Total	51,185,288	100.00

Source: Company, Fitch

Grading Rationale

- The grading factors in Claris Lifesciences Ltd's (Claris) focus on the high-margin injectable pharmaceutical business, which has translated into a strong growth in business and profitability. During 2005-2009, revenues grew at a compound annual growth rate (CAGR) of 26.3%, whilst EBITDA and EBITDA margins improved to INR2.3bn and 31% from INR390m and 14%, respectively. The net profit has also increased to INR1.3bn from INR168m during this period. In 2009, Claris shifted its focus away from lower margin products and changed its emerging markets business model. However, the growth in sales to regulated markets during the year offset the consequent decline in sales to the emerging and domestic markets, resulting in largely flat revenues.
- Fitch Ratings expects Claris' future business growth from sales to regulated markets through its business arrangement with Pfizer Inc. ('AA-/Stable/'F1+') and from its own sales efforts. The licensing income which accrued to Claris as a result of this arrangement helped support the company's liquidity in 2009. Future revenue growth will be driven by new product approvals and sales, as well as entry into new markets.
- The grading also considers the benefits that accrue to Claris in the form of limited price competition in the injectable industry due to high barriers to entry – a result of the capital-intensive nature of the business, stringent regulations and a expertise in managing formulation and production activities. Although margins could moderate due to competition going forward, the long gestation period of new capacities in this segment would delay this impact.
- The agency notes that any less than expected sales from its business agreement could impact revenue growth. Delays or difficulty in obtaining regulatory approval for new products could moderate revenue growth. The company is increasingly focused on regulated markets to drive future growth. The agency also notes its relatively short track record in these regulated markets.

Company Background

Incorporated in 1999 as a pharmaceutical trading company, Claris is today a sterile injectable manufacturing company, with five manufacturing facilities all located in Ahmedabad to produce complex aqueous and emulsion-based products in glass/PE containers and bags.

Fitch notes that certain facilities have been approved by foreign regulatory authorities – including the USFDA, MHRA (UK), TGA (Australia), NAM (Finland), GCC FDCA (Gulf Cooperation Council, including Saudi Arabia, UAE and other countries in the Middle East) and INVIMA (Colombia). One of its facilities, Clarion V, is currently (August 2010) under construction, and is expected to be operational by the third quarter of 2011.

Management and Promoters

Mr Arjun Handa and Sarjan Financial Pvt. Ltd are the current promoters of the company. Mr. Arjun Handa, who is currently the Managing Director/CEO, holds a majority stake directly and indirectly in Claris through Sarjan Financial.

In 2006, Claris raised INR905m from the Carlyle Group's private equity growth fund with the investments made in the form of compulsorily convertible preference shares; this has been subsequently converted into equity during 2009.

Board of Directors

Name	Designation
Dr. Pravin P. Shah	Non- Executive Chairman, Independent Director
Arjun S. Handa	Managing Director
Aditya S. Handa	Non-executive and Non-Independent Director
Chetan S. Majmudar	Executive Director
T. V. Ananthanarayanan	Independent Director
Arvind Bansal	Independent Director
Surrinder Lal Kapur	Independent Director
Chandrasingh Purohit	Executive Director and President - Finance
Amish Vyas	Executive Director
Nikhil Mohta	Non-executive Director and a nominee of Carlyle

Source: Company, Fitch

Business Overview

Claris has evolved from a trading company to a fully- fledged manufacturing company. The change in sales mix – from 90% trading sales in 2002 to 17% trading sales in 2009 – reflects the shift. Claris is engaged mainly in the business of developing, manufacturing and marketing injectables which are off-patent and primarily in the segments of critical care, hospital care, renal care and nutrition.

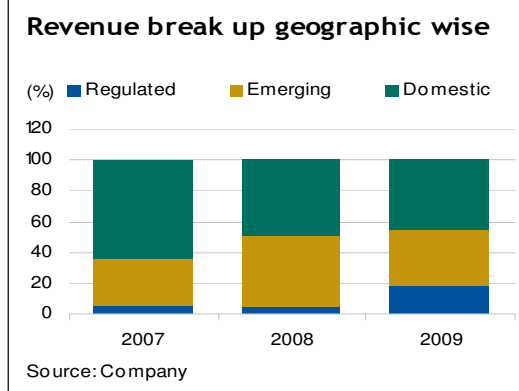
As of 31 March 2010, Claris has obtained over 1,000 registrations worldwide, and approximately 410 applications are pending approval. The company offers 113 products across multiple markets and therapeutic areas (anaesthesia, critical care, anti-infectives, renal care, infusion therapy, enteral nutrition, parenteral nutrition and oncology). In terms of delivery systems, the injectables are offered in various delivery systems, such as glass and plastic bottles, vials, ampules, pre-filled syringes and non-PVC and PVC bags.

Sales and Marketing

On inception, Claris focused largely on domestic and emerging markets, as its initial strategy was to expand into regions which are similar to Indian markets that have lower regulatory hurdles. However, after the US FDA, MHRA (UK) & TGA (Australia) approved certain of Claris' sterile injectable manufacturing facilities, the regulated markets have gained increasing importance in line with the company's strategy.

To address its sales and distribution needs, the company adopts a different marketing strategy for different regions.

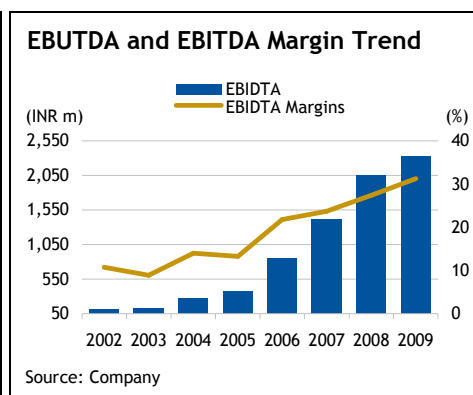
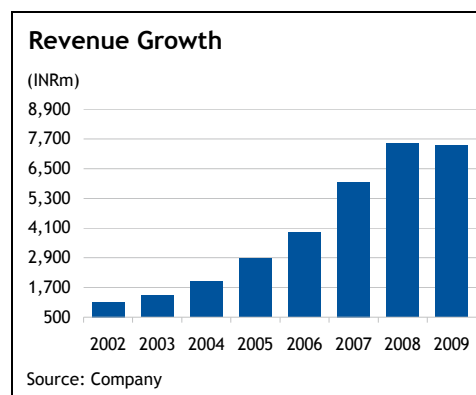
- In certain countries, its registers, imports and store products – as well as markets them to customers through entities owned and controlled by Claris.
- In certain other countries, its partners with local distributors which import and distribute the company's products, and, under its supervision, carry out marketing activities.
- In the rest of the countries in which it operates, distributors and marketing partners are responsible for marketing its products. In March 2009, Claris entered into a business arrangement with the Pfizer group of companies with a view to strengthen its presence in regulated markets.
- The domestic business is driven by its own sales and marketing network.



Financial Overview

Growth & Profitability

During 2005-09, revenue grew to INR7.4bn from INR2.9bn. Growth was driven by the company's domestic and emerging market business. However, during 2007-09, Claris gained an increasing presence in its regulated market business – which Fitch expects to accelerate further on account of the company's own efforts, as well as its recent partnership with Pfizer. In line with top-line growth, Claris' operating profitability has grown on the back of the increase in margins.



Liquidity and Debt

During 2005-08, despite positive cash from operations, free cash flow (FCF) was negative on account of higher capex and debt levels. However, due to improvements in working capital, EBITDA and license income received, FCF turned positive in 2009. Claris' total credit profile consequently improved in 2009, reflected in the decline in debt/EBITDA from 1.9x to 1.3x.

Claris' credit metrics have remained comfortable, with debt/EBITDA of between 1.3x-2.0x during 2005-2009. Fitch expects the company's metrics to continue to remain comfortable despite its plans to incur capex. The agency also sees liquidity as remaining comfortable – and to further strengthen with the successful completion of its INR3,000m IPO. The proceeds would be utilised primarily for funding Claris's capex plans including expansion and R&D, and debt repayments.

Annex 1

Financial Summary

Particulars (INRm)	Dec 09	Dec 08	Dec 07	Dec 06	Dec 05
Revenues	7435.2	7521.6	5971.5	3917.5	2867.5
Revenue Growth	-1.1	26.0	52.4	36.6	46.8
EBIT	2328.9	2059.5	1413.5	855.1	380.0
Interest Expense Net of Interest Income	1878.9	1691.6	1144.5	690.7	295.0
Net Income	415.7	334.2	159.2	55.5	57.8
Balance Sheet					
Cash and Equivalents	2218.1	43.4	65.8	617.5	110.9
Total Assets	13580.5	10429.6	7986.6	5802.5	2533.5
Total Debt	3140.1	3308.3	2256.5	1714.5	755.7
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt	3140.1	3308.3	2256.5	1714.5	755.7
Preferred Stock + Minority Interests	0.0	603.4	603.4	603.4	0.0
Common Equity	5128.8	3376.6	2330.6	1563.7	885.7
Total Adjusted Capitalisation	8268.9	7288.3	5190.5	3881.6	1641.4
Cash Flow					
Operating EBITDAR ("Op. EBITDAR")	2328.9	2059.5	1413.5	855.1	380.0
Cash Interest Paid, Net of Interest Received	421.8	346.0	167.0	86.9	64.4
Cash Tax Paid	424.2	8.8	294.7	95.7	10.0
Associate Dividends	0.0	0.0	0.0	0.0	0.0
Other Changes before Funds From Operations	90.6	263.2	108.9	74.8	-13.1
Funds from Operations	1573.5	1967.9	1060.7	747.3	292.5
Working Capital	2020.1	-1164.3	-734.4	-461.0	-218.7
Cash Flow from Operations	3593.6	803.6	326.3	286.3	73.8
Non-Operational Cash Flow	0.0	0.0	0.0	0.0	0.0
Capital Expenditure	1093.8	2065.9	1400.3	1451.2	445.0
Dividends Paid	27.3	100.0	100.0	57.4	0.0
Free Cash Flow	2472.5	-1362.3	-1174.0	-1222.3	-371.2
Receipts from Asset Disposals	49.7	36.0	0.0	2.5	0.2
Business Acquisitions	0.0	0.0	0.0	0.0	0.0
Business Divestments	0.0	0.0	0.0	0.0	0.0
Exceptional & Other Cash Flow Items	0.0	0.0	0.0	0.0	0.0
Net Cash In/Outflow	2522.2	-1326.3	-1174.0	-1219.8	-371.0
Equity Issuance/(Buyback)	0.0	0.0	0.0	907.4	0.0
FX movement	0.0	55.4	0.0	3.4	-3.4
Other Items Affecting Cash Flow	-179.3	196.7	80.3	-143.2	79.0
Net Cash Flow Available for Financing	2342.9	-1074.2	-1093.7	-452.2	-295.4
Closing Net Debt	922.0	3264.9	2190.7	1097.0	644.8
Profitability					
Op. EBITDAR/Revenues (%)	31.3	27.4	23.7	21.8	13.3
EBIT/Revenues (%)	26.4	24.0	23.5	18.1	10.7
FFO Return on Adjusted Capital (%)	24.1	31.6	23.5	20.7	21.3
Credit Ratios					
Funds From Operations/Gross Interest Expense (x)	4.8	6.9	7.7	14.5	6.1
FFO Fixed Charge Cover (x)	4.8	6.9	7.7	14.5	6.1
Op. EBITDAR/Net Fixed Charges (x)	5.7	6.4	9.1	15.4	6.6
Adjusted Leverage/FFO (x)	1.6	1.7	2.3	2.9	2.2
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	0.4	1.6	1.5	1.3	1.7
Total Adjusted Debt/Total Adjusted Capitalisation (%)	38.0	45.4	43.5	44.2	46.0

Source: Company, Fitch

Reproduction or retransmission in whole or part is prohibited except by permission. All rights reserved. The above grading ("Grading") assigned by Fitch is largely based on Fitch's assessment of the fundamental financial strength of the issuer. The Grading does not constitute a credit rating by Fitch. Our procedures for issuing a credit rating differ from the procedures used to issue the Grading. The Grading has been arrived at based on information and documents provided to us by the issuer and other parties. Fitch relies on these parties for the accuracy of such information and documents. Fitch did not audit or verify the truth or accuracy of any such information and does not take responsibility for the appropriateness of the information provided and used in our analysis. The Grading is provided "as is" and Fitch does not represent, warrant or guarantee (i) the accuracy, correctness, integrity, completeness or timeliness of any part of the Grading, or (ii) that the Grading (or any credit rating) and the information and analyses contained in, and constituting a part thereof, will fulfill any person's particular purposes or needs. The Grading reflects the opinion of Fitch as at the date of publication and will not be monitored, and therefore will not be updated to reflect changed circumstances or information that may affect the Grading. The report providing the Grading is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of securities. The Grading does not comment on the suitability of the issue process, the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including, without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not providing any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. The Grading should not be viewed as a replacement for such advice or services. In providing the Grading, Fitch is not making any recommendation or suggestion, directly or indirectly, to any person to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security of any issuer. Any person who uses the Grading does so entirely at its own risk. Investors are advised to obtain individual financial advice based on their risk profile before taking any action based on the Grading. There is no fiduciary relationship between us and any third party, including, without limitation, any user of the Grading. Fitch is not responsible for any underwriting, credit, loan, purchase, strategic or investment decision, or damages or other losses resulting from use of the Grading. None of Fitch, its officers, employees, affiliated companies and their officers and employees shall have any liability in contract, tort, or otherwise (including, without limitation, for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits) in relation to the use of the Grading by any third party. Fitch receives fees from the issuer for performing the Grading exercise. Such fees vary from US\$5000 to US\$150000 per issue. Due to the relative efficiency of electronic publishing and distribution, the Grading may be available to electronic subscribers up to three days prior to print subscribers.