

Claris Lifesciences Ltd.

November 23, 2010

Price Band	: ₹278 - 293per share
Minimum Bid Lot Size	: 22 Equity Share
IPO open during	: November 24 - 26, 2010
Book Running Lead Managers	: Enam Securities, Edelweiss Capital, JM Financial, ICICI Securities
To list on	: NSE & BSE
IPO Grading	: 3 / 5 (Fitch)
PE	: 11.4x (based on base price)* : 12.0x (based on cap price)*
Market Cap post-listing	: ₹1799.7Cr or \$397.3mn (based on the cap price)
Market Cap of Free-Float	: ₹509.5Cr or \$112.5mn (based on the cap price)

* based on CY09 EPS.

IPO of 10.24mn equity shares of ₹10 each, aggregating to ₹300Cr or \$66.23mn (at the cap price).

Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoters Group	44,034,306	86.03%	44,034,306	71.69%
QIBs excl. Mutual Funds	-	-	17,389,889	28.31%
Mutual Funds	-	-		
Non-Institutional Investors	-	-		
Public	7,150,982	13.97%		
Total	51,185,288	100.0%	61,424,195	100.0%

assuming issue price of ₹293 per share

Executive Summary

- Claris Lifesciences Ltd. (Claris Lifescience) is one of the largest Indian sterile injectables pharmaceutical companies with a presence in 76 countries worldwide.
- The products offered by the company comprise 128 products across multiple markets and therapeutic areas and all of its 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 anaesthesia, critical care, anti-infectives, renal care, infusion therapy, enteral nutrition, parenteral nutrition and oncology. It offer injectables in various delivery systems, such as glass and plastic bottles, vials, ampoules, pre-filled syringes and non-PVC and PVC bags.
- The manufacturing facilities of Claris Lifescience are located in Ahmedabad (Clarion I-IV). One of its facilities, Clarion V, is currently under construction and the management expects it to be operational by the third quarter of 2011.
- Claris Lifescience has a differentiated business model among Indian pharmaceutical companies due to its focus on a range of complex injectable products. It has established a portfolio of injectable products across various therapeutic segments, technologies and delivery systems and is one of the largest amongst Indian pharmaceutical companies.

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- Claris Lifescience has entered into business arrangements with the Pfizer group as well as with other local companies in regulated markets to grow its distribution network and to strengthen its sales and marketing presence across 76 countries.
- Claris Lifescience has the R&D capability and experience to develop, manufacture and register products across various delivery systems to increase the efficiency of drug delivery and make its products better suited to market requirements.

Company Background

Claris Lifesciences Ltd. (Claris Lifescience) was incorporated in July 1994 as a public limited company, Oracle Laboratories Limited. The company subsequently changed the name to Core Laboratories Limited in May 1996 as it was acting as the marketing and distribution agent for Core Healthcare Limited. Further, in March 1999, the company changed its name to the present one, Claris Lifesciences Ltd. The company commissioned its first manufacturing plant, Clarion I, in 2002 in Ahmedabad. It has expanded its operations to four manufacturing facilities (Clarion I to IV) and a fifth manufacturing facility, Clarion V, is currently under construction and is expected to be operational by the third quarter of 2011.

Claris Lifescience has acquired Xcelris Labs Limited and converted it into a wholly-owned subsidiary of the company. Xcelris Labs Limited is a clinical research organization offering a wide range of services to pharmaceutical companies globally.

Promoters and Management

Mr. Arjun S. Handa is Managing Director and CEO of Claris Lifescience since September 2008. He is responsible for company's operations across various functions including sales and marketing, manufacturing and supply chain management, project execution and product development, in addition to being involved in strategy development.

Mr. Aditya S. Handa is Non-Executive and Non-Independent Director of the company.

Mr. Chetan S. Majmudar is Executive Director and oversees the technical aspects of the company.

Industry Overview

The pharmaceutical industry consists of the discovery, development, manufacturing and distribution of drugs. The growth in the pharmaceutical industry is driven by continuing need for medication for treatment of various diseases, demographic shifts that strengthen underlying demand and improved healthcare infrastructure that provide people with greater access to medication.

The global pharmaceuticals industry can be classified into two categories based on patent status of the products, patented products and generic products. Pharmaceutical companies which hold patents for their products are given the right to exclude others from using their patented products for any commercial purpose. Generic products are pharmaceutical products that are not protected by patents. These are drugs marketed by different companies but containing the same active ingredients. The costs for generics manufacturers to develop their products and obtain regulatory approval to market and sell such products are considerably lower than for patented product manufacturers. As a result, such companies can offer the same product at a greatly reduced price post the expiry of the patent.

Global Generics Market

The global generics market was valued at approximately \$106.12bn and grew at a rate of approximately 12.56% in 2008, which is five times that of patented drugs. Whereas, the global generics market has grown at a CAGR of 18.83% during the period of 2004 and 2008.

Going forward, the global generics market is expected to maintain this growth trend. Drugs worth approximately \$103bn are expected to lose patent protection globally from 2009 to 2012, highlighting the significant growth opportunity for generics going forward.

Global Injectables Industry

The injectables industry, in comparison to the orals industry, is characterised by less competitive intensity, low price erosion and higher profit margins. One of the major attractions of injectable generics is the potential for companies to compete in a relatively exclusive market. A small number of injectable drugs have received significant attention from generic companies, resulting in the approval of numerous versions following patent expiry. For more than half of the injectable generics approved since 2004, just one or two manufacturers have received ANDA approvals and 86% of molecules in the market have fewer than five injectable generic competitors. Hence injectables are considered to be a specialty segment of the pharmaceuticals market.

This is a very lucrative industry segment because there is less competition in these products which reduces scope for price reductions and enables players to obtain high profitability margins than have traditionally been available for oral generics.

Geographic Segmentation

The United States and the European Union are the largest regulated markets for injectables, accounting for approximately 90% of the regulated markets. The United States is the largest market for generic and non-biological injectables, accounting for about 51% of the global market. Emerging markets account for 20% of the global generic injectables market.

Therapeutic Segmentation

A large share of biological injectables is oncology products. However, in the non-biological products (both generic and innovator products) like anti-infectives, anaesthetics and cardio-vascular are also important product categories. Thus, therapy segments like anti-infectives and anaesthesia account for about a third of the global market, primarily SIP.

Indian Pharmaceutical Industry

The Indian pharmaceuticals market was valued at \$7.7bn in 2008 and has grown at a CAGR of 14.6% between 2003 and 2008 as against the global average of 6.6% during the same period. It has been typically growing at approximately 1.5-1.6 times the GDP growth.

The Indian pharmaceutical market is dominated by generic drugs as generic drugs accounted for approximately 88% of the market share in value terms and around 90-95% in volume terms of the market in India in 2008. In 2008, the generics market in India was valued at \$6.11bn, registering a growth of 9% compared with the previous year. The generics market in India grew at a CAGR of 10.49% from 2004 to 2008.

Business Operations

Claris Lifesciences Ltd. (Claris Lifescience) is one of the largest Indian sterile injectables pharmaceutical companies with a presence in 76 countries worldwide. The products offered by the company comprise 128 products across multiple markets and therapeutic areas and all of its 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 anaesthesia, critical care, anti-infectives, renal care, infusion therapy, enteral nutrition, parenteral nutrition and oncology. It offer injectables in various delivery systems, such as glass and plastic bottles, vials, ampoules, pre-filled syringes and non-PVC and PVC bags. The customer base of the company primarily includes government and private hospitals, aid agencies and nursing homes.

Claris Lifesciences has established presence and offer a large product portfolio in emerging markets, such as regions of Latin America, the Middle East, Africa and Central, South East and Far East Asia. It also has a presence in certain regulated markets such as the United States, Western Europe, Australia, New Zealand, Canada and South Africa. The key growth strategies of the company is to further expand its distribution network in regulated markets as potential sales and profit margins are higher in regulated markets compared with those in emerging markets. To achieve growth in regulated markets, the company has filed 280 applications for product registrations in regulated markets up to Sept 30, 2010, including 36 applications in the United States, out of which it has obtained 145 product registrations, including 25 in the United States.

The manufacturing facilities of Claris Lifescience are located in Ahmedabad. One of its facilities, Clarion V, is currently under construction and the management expects it to be operational by the third quarter of 2011. Some of these facilities are approved by foreign regulatory authorities including the USFDA, MHRA (UK), TGA (Australia), NAM (Finland), GCC FDCA (Gulf Cooperation Council, including Saudi Arabia, U.A.E. and other countries in the Middle East) and INVIMA (Colombia). Its manufacturing facilities are ISO 9001-2000 and WHO GMP certified.

Claris Lifesciences adopts three different distribution models for the supply of its products across international markets. In certain countries, the company register, import and store products as well as market them to customers through entities owned and controlled by it. In certain other countries, it partner with local distributors who import and distribute its products and under its supervision carry out marketing activities. In the rest of the countries the distributors and marketing partners are responsible for marketing the products.

Strengths

Complex product portfolio

Claris Lifescience has a differentiated business model among Indian pharmaceutical companies due to its focus on a range of complex injectable products. It has established a portfolio of injectable products across various therapeutic segments, technologies and delivery systems and is one of the largest amongst Indian pharmaceutical companies. It has developed 98 products formulated from its portfolio of approximately 57 molecules, which includes complex molecules, such as propofol and iron sucrose.

The products span multiple technology platforms, including aqueous solutions as well as complex colloidal solutions, liposomal products and emulsions. These products are available across delivery systems, such as ampoules, vials, bottles ranging from 1 ml to 2000 ml, multi-chamber bags in PVC and non-PVC material.

Manufacturing competence across multiple drug delivery systems

The products manufactured by Claris Lifescience require an understanding of sophisticated technical processes and quality assurance methods to be able to maintain sterility. The company is one of the few manufacturers in India and in other emerging markets to have manufacturing facilities for large volume parenterals in glass bottles, emulsions manufacturing facilities and bag manufacturing facilities. The manufacturing facilities are ISO 9001-2000 and WHO GMP certified. In addition, the company has also won the Indian Drug Manufacturer Association's Quality Excellence Award in 2007 and 2008 and the Frost & Sullivan India Manufacturing Excellence Award in 2007, 2008 and 2009 in recognition of the quality of its practices.

Established sales, marketing and distribution network across 76 countries

Claris Lifescience has entered into business arrangements with the Pfizer group as well as with other local companies in regulated markets to grow its distribution network and to strengthen its sales and marketing presence across 76 countries. As of September 30, 2010, the company has a sales team of approximately 422 people, who primarily sold its products to hospitals in India. It also employed a total sales force of about 107 people for the international markets. The company has a network of approximately 43 clearing and forwarding agents, 40 distributors, 16 consignee agents and 1,120 stockists in India, enabling it to reach a significant number of hospitals, institutions and doctors.

Integrated business model

Claris Lifescience has capabilities and experience span across all business verticals in the generic injectables industry. The company has a trained workforce across business divisions, such as R&D for product development, regulatory affairs for obtaining product registrations, manufacturing, supply chain management, and sales and marketing and their understanding of the injectables business allow the company to better control variables in its business processes. The company also is also dependent on various third parties, such as distributors, consignee agents, clearing and forwarding agents, etc., for the marketing and distribution of its products. But the integrated business model of the company allows it to reduce its dependence on third parties.

R&D capabilities

Claris Lifescience has the R&D capability and experience to develop, manufacture and register products across various delivery systems to increase the efficiency of drug delivery and make its products better suited to market requirements. As of Sept. 30, 2010, the company has employed approximately 75 scientists and specialists in India for its R&D activities. The size of R&D team has grown approximately 74% since Dec. 31, 2008 in line with its regulated markets strategy.

The R&D capability of Claris Lifescience enable the company to expertise in developing complex and difficult to develop products, such as propofol, iron sucrose, hydroxyl ethyl starch and glutamine IV and complex and difficult to develop delivery systems, such as multichamber bags, provides the company with a competitive advantage.

Committed senior management team and a well-qualified workforce

The management team of Claris Lifescience including senior executives has vast experience in injectable industry and a majority of them has worked with the company for over five years. The strength of management team in its business divisions, such as R&D for product development, regulatory affairs for obtaining product registrations, manufacturing, and sales and marketing, and their understanding of the injectables market will enable the company to grow in a focused and constructive manner.

Cost advantage

The majority of products manufactured by Claris Lifescience are manufactured in India. This, coupled with the process efficiencies which the company has developed in its Clarion facilities, contributes to cost advantage over the competitors which manufacture their products in high cost developed markets.

Objects of the Issue

The objects of the issue are:

- 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 the company's existing plant, Clarion IV
- Construction of a facility for research and development at the company's Clarion manufacturing facilities
- Prepayment of an identified term loan
- General corporate purposes

Utilisation of Net Proceeds

(₹Cr)

Expenditure Items	FY10	FY11	FY12	Total
Setting up of a new plant comprising of a small volume parenterals line, a PVC bag line, a non-PVC bag line, and a fat emulsion line	21.00	83.68	26.90	131.59
Setting up a new manufacturing line for propofol and other fat emulsion products at the company's existing plant, Clarion IV	16.51	9.96	0.00	26.47
Construction of a facility for research and development at the company's Clarion manufacturing facilities	6.64	31.77	0.00	38.41
Prepayment of an identified term loan	45.91	0.00	0.00	45.91
General corporate purposes	[•]	[•]	0.00	[•]
Total	[•]	[•]	26.90	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

Claris Lifescience is susceptible to product liability claims and associated risks of litigation that could expose the company to material liabilities, loss in revenues and increased expenses and thus may have a material adverse effect on the company's business and financial condition. Failure to obtain product liability insurance may result in the company being compelled to pay substantial sums.

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

The registration of Claris Lifescience and its products were suspended by the Drug and Food Control, Ministry of Health, State of Kuwait. Such suspension and/or any future suspensions to the company and/or its products may have an adverse effect on its business, financial condition and results of operations.

The business of Claris Lifescience is dependent on approvals from both Indian and foreign governmental authorities and health regulatory bodies. Any failure or delay in obtaining necessary permits or approvals, or if such permits or approvals are revoked or the company fail to renew them for any reason, the business, financial condition and results of operations of the company may be adversely affected.

Claris Lifescience's international business is dependent on its distribution and marketing arrangements, including one with Pfizer, for the sale and distribution of its products. If any of these arrangements is terminated for any reason, the business, financial condition and results of operations may be adversely affected.

Restated Consolidated Profit & Loss Statements

(₹Cr)

Particulars	CY05	CY06	CY07	CY08	CY09	5-Month ended May 31,2010
Sales	226.91	323.69	359.20	511.90	624.14	296.80
Less: Excise Duty	6.89	8.51	14.45	8.16	3.30	1.01
Net Sales	220.01	315.18	344.75	503.73	620.85	295.79
Sales of Traded Products	66.73	76.57	252.40	248.42	122.68	29.16
Total Sales	286.74	391.75	597.15	752.16	743.53	324.95
EXPENDITURE						
Increase in Stock	-13.00	-19.55	-13.30	-34.52	-6.24	-3.44
Material Consumed	96.87	108.71	89.75	154.47	159.05	80.94
Purchase of Finished Goods	33.22	43.99	142.17	166.48	90.84	19.57
Personnel Cost	19.01	37.97	55.58	53.21	42.56	22.98
Operating & Other Expenses	117.27	143.46	187.66	214.18	243.71	114.74
Total Expenditure	253.37	314.58	461.87	553.82	529.92	234.79
EBITDA	33.38	77.18	135.29	198.34	213.61	90.17
Other Income	5.62	10.92	26.66	11.75	15.88	12.97
Interest	5.78	5.55	15.47	32.24	40.96	14.88
Depreciation	8.50	16.38	26.81	36.60	44.81	18.92
Prior period items	-0.18	0.91	0.00	0.00	0.00	0.00
Profit on disposal of Subsidiary	0.00	0.00	0.00	1.03	0.00	0.00
EBT	24.90	65.25	119.67	142.28	143.72	69.34
Provision for Taxation						
Current tax	2.62	9.08	25.97	17.48	18.94	7.77
Fringe Benefit Tax	0.40	0.49	0.64	1.09	0.17	0.00
Deferred Tax	3.30	9.00	9.53	20.22	-0.46	-1.17
Current Tax of Earlier Periods	0.65	0.00	0.27	-4.90	-5.31	0.00
Net Profit After Tax and Before Minority						
Interest and Adjustments	17.93	46.69	83.27	108.40	130.38	62.73
Minority Interest	-0.02	0.00	0.00	0.00	0.00	0.00
Net Profit After Taxation & Before Adj.	17.91	46.69	83.27	108.40	130.38	62.73
Adjustments	0.62	4.08	6.05	-0.50	-5.49	-5.00
Net Profit After Tax	18.53	50.77	89.32	107.90	124.89	57.73
Weighted average number of Shares	46,175,939	46,378,375	46,419,019	46,419,019	47,972,953	51,185,288
EBITDA margin (%)	11.64	19.70	22.66	26.37	28.73	27.75
Basic EPS (₹)	4.01	10.95	18.94	23.15	25.8	11.28
Diluted EPS (₹)	3.68	10.03	17.73	21.08	24.4	11.28
Book Value (₹)	18.22	47.49	64.34	86.69	107.79	111.72

Restated Consolidated Balance Sheets

(₹Cr)

	CY05	CY06	CY07	CY08	CY09	As at May 31, 2010
FIXED ASSETS						
Gross Block	138.60	258.44	356.84	584.71	628.01	651.71
Less: Accumulated Depreciation	17.21	33.51	58.90	93.64	136.08	154.44
Net Block	121.40	224.93	297.95	491.07	491.93	497.28
Net Block after Revaluation Reserve	121.40	224.93	297.95	491.07	491.93	497.28
Intangible Asset (Net of Amortization)	0.00	0.41	3.88	3.46	2.34	1.87
Capital work-in-progress (Including Capital Advances)	15.04	71.85	112.41	73.54	123.23	155.69
Total Fixed Assets	136.43	297.19	414.23	568.06	617.49	654.84
GOODWILL ON CONSOLIDATION	0.00	0.03	0.03	0.03	0.03	0.03
INVESTMENTS	0.02	0.02	0.02	0.02	0.02	0.02
CURRENT ASSETS, LOANS & ADVANCES						
Interest accrued on deposits	0.24	0.30	0.06	0.15	0.10	0.16
Inventories	49.02	75.17	86.40	119.29	135.20	145.51
Sundry Debtors	25.77	99.03	248.61	270.84	264.78	263.08
Cash & Bank Balances	11.09	77.10	15.10	16.91	236.94	156.21
Loans & Advances	24.34	31.27	35.24	67.78	103.55	119.64
Total Current Assets, Loans & Advances	110.46	282.87	385.42	474.96	740.57	684.60
LIABILITIES & PROVISIONS						
Secured Loans	47.35	143.11	203.34	312.56	296.88	370.52
Unsecured Loans	28.21	28.33	22.30	18.26	17.13	-
Deferred Tax Liability (Net)	13.80	21.96	31.48	51.69	51.10	50.21
Current Liabilities	59.84	150.67	206.70	215.69	445.66	321.36
Provisions	12.48	15.81	37.22	42.49	30.24	25.54
Total Liabilities & Provisions	161.68	359.87	501.04	640.69	841.00	767.63
Minority Interest	1.08	0.00	0.00	0.00	0.00	0.00
Net Worth	84.15	220.24	298.66	402.39	517.11	571.86
Share Capital	29.11	89.69	89.69	89.69	34.12	51.19
Reserves & Surplus	55.21	130.55	208.97	312.70	482.99	523.41
Miscellaneous Expenditure (To the extent not written off)	-0.17	0.00	0.00	0.00	0.00	-2.73
Net Worth	84.15	220.24	298.66	402.39	517.11	571.86

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