

Anu's Laboratories Ltd.

IPO Note

Avoid

IPO Statistics

Issue Open On	12 th May 2008
Issue Close On	15 th May 2008
Price Band	Rs 200-210 Per Share
Face Value	Rs 10 Per Share
Bid Lot	30 Equity Shares
Issue Size	38,20,000 Equity Shares
Retail Size	12,67,000 Equity Shares
Pre Issue Eq Capital	Rs 82.56 Million
Post issue Eq Capital	Rs 120.76 Million

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter & Group	74.79	51.13
Others	25.21	18.89
Public	----	29.98

Other Specifics

Lead Manager	Almondz Global Securities Ltd
Registrar	Karvy Computershare Pvt Ltd

Objects of Issue:

The company intends to use the issue proceeds for:

- ❑ Setting up a new plant for manufacturing of drug intermediates including Active Pharmaceutical Ingredients (APIs): Company, with a view to expand its activities, by way of forward integration, is proposing to set up new plant for manufacture of Intermediates including APIs at an estimated cost of Rs. 5509.08 lakhs.
- ❑ Company is planning to set up pilot plant for carrying out Contract Research and Manufacturing (CRAM) at Jawaharlal Nehru Pharma City to focus on research. Company is proposing to set up the pilot plant at the same location at which company is setting up the new plant for manufacture of intermediate for drugs.
- ❑ Presently, Company enjoys working capital credit limits. These limits and company's internal accruals are adequate to meet its existing working capital requirements. However, Company will utilise a part of the net proceeds of the Issue to meet long-term working capital requirements.

Business Profile

The company was incorporated in the year 1996 for manufacture of Bulk Active Pharma Ingredients and Intermediates for drug molecules and was promoted by Mr K Hari Babu .Mr N.S Walimbe joined as co-promoter in the year 1997. Company started its own manufacturing facilities in the year 1998 from Chilakamarri Village, Shadnagar, Mahboobnagar District, Andhra Pradesh with manufacturing of 2,4 Dichloro 5 Fluoro Acetophenone (DCFA). Company is engaged in manufacture of Basic & Advanced Intermediates and fine chemicals and are presently having manufacturing facilities for key intermediates like 2,4-Dichloro-5-Fluoro Acetophenone (DCFA) (an intermediate for synthesizing quinolone antibiotics like ciprofloxacin); Chlorohexanone (key intermediate in the manufacture of cardiovascular medicine) and Methyl-4 (4-Chloro 1 oxo butane) a, a Di-Methyl Acetate (an intermediate in the manufacture of Fexofenadine an anti allergic drug). DCFA have contributed 39.88% of company's total sales whereas Methyl-4 (4-Chloro 1 oxo butane) a, a Di-Methyl Acetate contributed 18.30% and Chlorohexanone contributed 5.39% of the total sales during 2006-07. The company had started export of their products in the year 2002 to Israel followed by exports to other countries like Italy, Japan, France, USA and Singapore. Currently the exports comprise of 19.97% of company's total turnover.

Investment Rationale

- ❑ Company's domestic clientele includes Dr. Reddy's Laboratories Limited, Nicholas Piramal Limited, Sun Pharmaceuticals Limited, Divi's Laboratories Limited. The major international clients include M/s Teva, Mitsui & Co., Sanofi Aventis, Tradecom Services PTE Limited and Tanabe.
- ❑ Company is managed by a team of experienced and professional personnel with exposure in different aspects of pharmaceutical industry including production, quality control, research & development, marketing and finance. Mr. K. Hari Babu, Managing Director is a Chartered Accountant and has 27 years of experience in various fields of management. Mr. N.S. Walimbe is a Chemical Engineer from Indian Institute of Technology, Mumbai and has around 30 years of experience in chemical / pharmaceutical industry. Mr. M. Ajaya Kumar also has over 23 years of experience in pharmaceutical industry out of his total experience of 39 years.
- ❑ Company has been granted ISO 9001:2000 Certificate of Assessment by AQA International LLC with a scope of design development, manufacture and supply of organic and inorganic intermediates which is revalidated till December 30, 2008.

Consolidated Annual Results

Rs Mn

Particulars	Mar'05	Mar'06	Mar'07	31.12.2007
Total Income	670.59	946.67	1199.41	1106.16
Growth (%)	----	41.17	26.70	----
Total Expenditure	612.19	837.50	973.03	871.89
EBIDTA	58.40	109.17	226.39	234.27
Growth (%)	----	86.93	107.38	----
EBIDTA Margin	8.71	11.53	18.87	21.18
Other Income	1.65	6.72	13.53	32.07
Depreciation	4.89	6.33	9.45	10.24
EBIT	55.16	109.55	230.47	256.10
Interest	27.23	32.26	47.79	54.90
PBT	27.93	77.28	182.67	201.20
Tax	7.01	20.17	46.75	69.95
PAT	20.91	57.11	135.92	131.24
Growth%	----	173.16	137.99	----
Extra Ordinary Items	1.47	1.38	0.00	0.00
PAT after extra Items	19.44	55.73	135.92	131.24
Adjusted NPM	2.90	5.89	11.33	11.86
Equity Capital	12.97	51.88	79.76	80.76
Share App Money	3.03	5.56	0.25	0.00
Reserves & Surplus	58.427	71.36	235.12	368.80
Net Worth	74.42	128.81	315.13	449.56
Equity Shares	1.30	5.19	7.98	8.08
EPS	16.12	11.01	17.04	16.25
ROE (%)	28.09	44.34	43.13	29.19
Book Value	57.38	24.83	39.51	55.67
ROCE (%)	30.82	35.78	39.72	31.94

Concerns

- ❑ Company's top ten customers accounted for significant percentage of its revenues and loss of any one or more of clients could adversely affect its business and financial operations. One of company's customers viz. Dr. Reddy's Laboratories Limited accounted for around 47.75% of our revenues during 2006-07. Loss of business from one or more of any of these customers may adversely affect company's operations and profitability. Further, company's business and results of operations will be adversely affected if company is unable to develop and maintain relationships with its customers.
- ❑ Company had negative cash flows for certain periods. Any negative cash flow in future could affect its operations and financial conditions.
- ❑ Nitya Laboratories Limited, Promoter Group Company, incurred losses and its networth was eroded and there is continuous defaults and delays on payment of its term liabilities including call back of advance notice received from one of its lenders on March 4, 2008. In case of any adverse affect on it, company will be affected to the extent of non-receipt of dividends from the investments made by it and will be carrying the risk of loosing part or whole of its investments in Nitya Laboratories Limited.

Valuation

Name of Company	EPS (TTM)	Book value	P/E*	P/B*	Net sales(31.03.2007)	Net profit (31.03.2007)
SMS Pharma	21.62	204.31	10.81	1.14	168.57	20.97
Neuland Laboratories	15.71	121.41	11.14	1.44	202.17	9.04

*: On the basis of data as on 09/05/2008

The company at a price band of Rs 200-210 per share will have the p/e multiple of 13.80-14.49 at post issue eps of 14.49 (Basis PAT Annualized for 9 months ending Dec'07). Though the company has posted strong financials from last few years and is continuously showing growth but looking at its peers, the valuation of the company looks stretched.

Hence we recommend the investor to avoid the issue.