

March 28, 2011
Mumbai

CRISIL Research assigns IPO grade '1/5' to Aanjaneya Lifecare Ltd

CRISIL has assigned a CRISIL IPO Grade "1/5" (pronounced "one on five") to the proposed initial public offer (IPO) of Aanjaneya Lifecare Ltd (Aanjaneya). This grade indicates that the fundamentals of the IPO are 'poor' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects the company's limited corporate governance practices. In Aug 2009, Aanjaneya was acquired by Finaventure Capital (FCL), a shell company listed on the Bombay Stock Exchange (BSE), through a share swap, whereby Aanjaneya's promoters parted 33.75% holding to FCL's shareholders. For the transaction, Aanjaneya was valued at Rs 280 mn and the implied valuation of FCL was Rs 143 mn. CRISIL Equities believes that the amount paid does not correspond with the business prospects of FCL. In addition, the independent directors' engagement and board practices needs to be strengthened.

Aanjaneya's focus areas – formulations for cough and cold, anti-malarial, anti-cancer and herbal medicine segments – are expected to see steady demand growth. The company, an anti-malarial API manufacturer, entered into codeine-based formulation by acquiring Prophyla Biologicals Private Ltd in March 2010. Prophyla was into formulation job-work for large Indian pharmaceutical companies and had one of the largest codeine quotas in the country. Aanjaneya's key strength is its ability to source quinine and codeine, which are the two key raw materials for anti-malarial and cough and cold formulations. As formulations for anti-malaria and cough syrup are in constant demand, Aanjaneya's unique position aids in revenue stability. All the clients are dependent on Aanjaneya for the APIs and formulations. The company has strong relationships with clients like Cipla, Wockhardt, Tablets India, Zydus Cadilla and others.

Aanjaneya has entered the branded segment with its own codeine-based formulations and lozenges for cough and cold. Post IPO, the company plans to focus on anti-cancer and own brands. The codeine business is highly regulated by the Bureau of Narcotics (BoN). BoN controls the quota of codeine and constantly monitors for misuse of codeine. As codeine can only be purchased from BoN, any production shortfall or non-import by BoN can limit the company's growth potential.

About the company and the issue

The company was incorporated in 2006, but it commenced commercial production of APIs (active pharmaceuticals ingredients) of quinine salts (a second generation anti malarial), in 2007. In 2010, the company ventured into manufacturing of finished dosage forms by acquiring the assets of Prophyla Biologicals Pvt. Ltd through an asset purchase agreement dated March 30, 2010 and deed of assignment for trademarks dated April 1, 2010.

In 2009-10, the company reported turnover of Rs 1617 mn and net profit of Rs 151 mn. Aanjaneya's RoE for the year was 48.7%.

Through the IPO, Aanjaneya plans to issue 5 mn new shares and has outlined a capex of Rs 1000 mn through the IPO proceeds. The proceeds will be utilized to set up an anti-cancer facility, an API block in Mahad, expansion of its R&D facility, setting up of quality assurance facility and product development facility and for branding and registration of its products in the international markets

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Last updated: 01 January, 2010

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