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IPO Profile

Plethico Pharmaceuticals Ltd

07/04/2006

Issue details

Bid/Issue opens on : April 10, 2006

Bid/Issue closes on : April 17, 2006

Issue Price : Rs 280-300 per equity shares of Rs 10 each

Minimum application: 25 equity shares and in multiples of 25 equity shares thereafter.

Maximum Retail Bid Amount: 100000

Capital Structure

Authorised capital: 4,00,00,000 equity shares of Rs 10 each

Issued Capital before IPO: 3,04,00,000 equity shares of Rs 10 each

Objectives of the Issue

The company expects to raise Rs 110 crore from the public issue to part finance:

- The up-gradation of its Kalaria plant to make it UK MHRA compliant.
- Setting up a WHO GMP (World Health Organisation Good Manufacturing Practices) compliant plant in Jammu & Kashmir and land to be used for organic farming of important herbs.
- Setting up a R&D and formulation and development centre.
- Acquiring stake in domestic herbal/OTC/nutraceutical company or a brand.
- Setting up its corporate office in Mumbai.
- The working capital needs.

Background

Plethico Pharma was established in 1985. It produces a wide range of products such as anti-malarial, anti-tubercular, anti-asthmatics, antibiotics, Naiads, Nutraceutical, anti-infectives, anti-bacterial, etc. It has a diversified portfolio of over 400 formulations in over 39 therapeutic segments. The company has two fully integrated manufacturing units located near Indore, which serve as the backbone of the entire operations. These facilities are being upgraded as to meet UK MHRA requirements. It is also a major producer of herbal products, which contributes substantially to the financial numbers.

The company has a presence in over 45 countries with strategic tie-ups and a strong marketing and global distribution network in Russia/CIS region, Africa, South America, Middle East and South East Asia which account for around 70% of its exports. The company has chalked out an ambitious plan for focused marketing in East Europe, Middle East and South East Asia. It follows the "branded generic" model for marketing allopathic formulations in India. This model has been replicated in the semi-regulated markets spanning Asia, Africa, South America and Russia/CIS regions. Plethico has a 250 strong marketing team with about 150 of them employed in markets outside India.

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Investment Arguments

Industry Outlook

The company generates about 50% of its revenue from herbal products. About 21% is generated from allopathic medicines and the rest comes from the contract manufacturing business. The global market for herbal products is pegged at around US\$60 billion. The largest market (46%) for these products is Europe, while North America and Asia account for 18% share each. In Europe, Germany and France are the largest markets with a 22% share. Due to the nascent market for herbal products, growth in North America is likely to be very high. In ethical segment, the outlook looks promising. In fact, the pharma industry is in a transformation phase and the regulatory environment is likely to crystallize in 2006.

Most players are augmenting R&D capacities and exploring new avenues to face the challenges of product patent era and to encash on the low-cost advantage of India. Contract Research and Manufacturing Services (CRAMS) is the new buzzword in the Indian pharma industry. CRAMS is high-margin business with immense opportunities. The companies are in the expansion mode for achieving global scale in order to handle bulk orders from MNCs.

These expansions are likely to start yielding results from 2006 onwards. Moreover, mergers and acquisitions are likely to gather momentum with large players acquiring smaller ones. R&D-focused select companies such as Marksans Pharma, Glenmark Pharma, Dr Reddy's Lab, Orchid Chemical have new products in different phases of clinical trials. In addition, MNCs are changing their strategy and are likely to introduce new-patented products in the country in coming quarters. We believe that 2006 to witness revival of investors interest in pharma stocks.

Upgrading plant for UK MHRA approval

Looking at the market size of Europe and the growth happening there, the company plans to upgrade its plant as per the UK MHRA requirement. Approval from the UK MHRA would lead the company to enter the UK markets.

Exports to CIS nations a push

Plethico Pharma identified Commonwealth of Independent States (CIS) nations as a thrust area for exports. CIS nations have relatively easy FDA rules and have strong demand potential. Besides these, there is relatively low back up for manufacturing facilities. This generates good demand for Plethico's products. Around 68% of its total revenue is derived from exports and nearly 70% (Rs 107 crore of Rs 153 crore of total exports in 2005) of exports come from CIS nations. It has acquired a marketing and distribution chain in the CIS, which has subsidiaries in Ukraine, Kazakhstan, Moldova, Azerbaijan and Kyrgyzstan.

Targeting a big splash in the pharma segment

The company is targeting to re-enter the markets with big bang into the Indian pharma segment after its non-compete agreement with Shreya Life Sciences expires in 2007-08. It is building up portfolio of medicine in lifestyle segments such as sports medicines and over the counter products. The company intends to enter with better molecules, better distribution and stronger financials. Nutraceutical, herbal drugs, energizers and confectionery along with allopathic drugs are expected to be the growth driver for the company in years to come.

In early 2003, Plethico sold its entire drug portfolio to Shreya Life sciences for about Rs 105 crore as the tuberculosis and anti-malarial drugs were getting commoditised due to government's interference on pricing thereby eroding margins. The company utilized the proceeds from the asset sales to enter the CIS & African countries. The restructuring led the company to increase the margins from 20% in FY03 to around 26% in FY05. In FY07, the company is targeting a turnover of Rs 310 crore and a net profit of Rs 85 crore.

Setting up plant in J&K

The company is putting up a plant to manufacture tablets, capsules, ointment and liquid orals in Jammu & Kashmir. The plant can cater to both domestic & international markets as international regulatory authorities would be making inspection of the cGMP plant at Jammu. The plant would enjoy fiscal incentives of 0% excise for 10 years, 1% CST up till 2009 and 100% income tax exemption for 5 years, which would further add to the bottom line of the company. The plant is likely to go on stream by the end of 2007 and we expect

the full benefit to come from FY08 onwards. As the existing financial leverage is low, we believe that the margins would move up further from existing 26% after this plants goes on stream.

Backward integration to strengthen the backbone

As a part of the capex, the company is spending on organic farming of important herbs, which would backward integrate its operations. As the company is also setting up a plant in Jammu, the transportation cost of herbs is likely to come down as currently it source these herbs from Himachal Pradesh and Jammu & Kashmir to its plant at Indore. The development of the land and organic farming would help it to roll out new products as the company plans to tie up with the research laboratories there.

Investment Concerns

Revenue profile skewed

The company gets over 50% of its revenue from herbal products. Also the revenue of the company is highly dependent on single geography.

Financial Performance

The company closes its books every September. For the year ended September 2005, it recorded total revenue s of Rs 224.48 crore and net profit of Rs 56.13 crore. For the first quarter ended December 2005 it posted sales of Rs 64.21 crore and net profit of Rs 18.54 crore.

Valuation

Plethico Pharma is tapping the market with a public issue priced in the band of Rs 280 to Rs 300. The company would raise Rs 110 crore if it allots the shares at lower end of the price band. In this case, the number of equity shares would go up by 39 lakh shares. At the upper price band, the number of equity shares would go up by 37 lakh shares. On the diluted equity base, the EPS of the company for the FY06 works out to Rs 21.60 at the lower band and Rs 21.70 at the upper end. At the lower band, the EPS discounts the price by 13 times while at the upper band the EPS discounts the price by 13.8 times. At this price, the issue looks attractive as compared to its peers. Investors can subscribe to the issue.

(For Risk factors and other details please refer Red Herring Prospectus)

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