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Subscribe to Plethico Pharma IPO for long term: Keynote



Plethico Pharmaceuticals has opened for subscription through 100% book-built initial public offer. Keynote Capitals says that investors should subscribe to this issue with a medium to long term view.

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Plethico Pharmaceuticals, one of India's fastest growing pharmaceutical companies in the herbal and nutraceuticals space having global presence, has opened for subscription through 100% book-built initial public offer.

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The issue will close on April 17, 2006. The price band has been fixed at Rs 280 to Rs 300.

Plethico expects to raise Rs 110 crore (Rs

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1.10 billion) through the IPO. Of the total issue, 60% will be allocated to QIBs, 10% to non-institutional investors and the balance to the retail investors.

The shares will be listed on the Bombay Stock Exchange and the National Stock Exchange.

Plethico has chosen the path of being a multi-product company, with a large global presence and has the following product range: Herbal and Allopathic Formulations, Consumer Healthcare Products and Nutraceuticals, Food Supplements, Disposables and Hospitals Consumables, and Veterinary Products. The company has a portfolio of more than 400 formulations in more than 39 therapeutic segments.

Plethico has two fully integrated state-of-the-art manufacturing units located near Indore, which serve as the backbone of the entire operations. These facilities are being upgraded as per stringent norms of UK MHRA.

For the year ended September 2005, it had a total gross block of Rs 115.51 crore (Rs 1.15 billion). It recorded total revenues of Rs 224.48 crore (Rs 2.24 billion) in 2004-05 and Rs 64.21 crore (Rs 642 million) for the quarter ended December 2005, with PAT of Rs 56.13 crore (Rs 561.3 million) and Rs 18.54 crore (Rs 185.4 million), respectively.

Anand Rathi Securities is the sole book running lead manager and Enam Securities is the Syndicate Member, while Intime Spectrum Registry is the registrar to the issue.

Keynote Capitals on Plethico Pharmaceuticals IPO:

At the cap price, this IPO is valued at 13.7x FY 07 EPS.

Recommendation - Subscribe with a medium to long term view

- Presence in several segments including formulations, consumer healthcare products, food supplements and disposables and consumables
- Product list exceeding 400, transcending more than 39 therapeutic categories
- Thrust on exports - exports to over 45 countries accounted for 68% of sales in y.e. September 2005
- Capacity utilisation up sharply for most products, leading to an annualised topline growth of 38.8% in y.e 9/2005
- Sharp jump in EBITDA margin in y.e. 9/2005 and quarter to 12/2005 on account of control over operating and other expenses; labour efficiency improved too. Improvement in quality of earnings in y.e. 9/2005, PAT (before extraordinary income) up 57%
- Expansion plan encompasses foray into backward and forward integration, investments in R&D and F&D, setting up a greenfield facility and acquisition of strategic stake in a company or brand
- Pricing of the IPO at 13.7x FY07 EPS estimates, is attractive. In our view, investors may consider subscribing to this IPO from a medium to long term perspective.

Investment concerns



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- Travisil accounts for 14% of total revenues for FY05. On the raw material front, prices of APIs consumed are prone to volatility. The volatility in the prices of Travisil and APIs can affect its profitability.
- PPL manufactures products under various trademarks, some of which are not registered in the countries of export. Any misuse of its trademarks in those countries may result in loss of business. Also the trademarks may not be registered in the name of PPL.
- PPL is currently present in semi unregulated markets, where trade barriers by way of product registration, quality monitoring etc. are not insurmountable
- Competition from countries that offer low cost manufacturing, such as China, Korea and Taiwan.

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