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Mumbai

CRISIL Research assigns IPO grade '1/5' to Unijules Life Sciences Ltd

CRISIL Equities has assigned a CRISIL IPO grade of '1/5' (pronounced "one on five") to the proposed IPO of Unijules Life Sciences Ltd (Unijules). This grade indicates that the fundamentals of the IPO are poor relative to 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The grade assigned to Unijules reflects its weak corporate governance practices and relatively inadequate internal processes. We have limited comfort regarding the contribution and independence of the independent directors as our interactions revealed that they were largely acting as consultants to the management and had limited understanding of Unijules' overall business. Also, for its next phase of growth, the company will need to strengthen its second line of management. The grade also factors in Unijules' relatively small size in the highly-competitive high-growth pharmaceutical and AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy) markets.

However, the grade does factor in Unijules' growth prospects in the pharmaceuticals and AYUSH markets. CRISIL Research expects the overall pharmaceuticals market to grow at a CAGR of 12.5% from Rs 417 bn in FY10 to Rs 751 bn by FY15. This bodes well for the company as its fifth manufacturing facility, to cater to this market, is expected to come on stream by June 2011. The grade also takes into account the company's growth in revenues and PAT over the past three years through its focused efforts to corner more government orders.

About the company and the issue

Unijules Life Sciences Ltd (Unijules) was incorporated on January 16, 2006 as a public limited company. It manufactures and markets allopathic and herbal pharmaceutical branded and non-branded formulations for human and veterinary consumption. The company operates through three divisions – allopathic, critical care/diagnostic and herbal & ayurvedic.

Unijules' revenues have grown at a nearly 76% CAGR between FY07 and FY10 to Rs 2,973 mn. The company also improved its EBITDA margins from 9.0% in FY07 to 15.7% in FY10. However, PAT margins fell from 9.0% to 6.8% during the same period. As on FY10, Unijules' RoE stood at 29.3%.

Through the IPO, Unijules proposes to set up a new parenterals facility at MIDC, Umred, Nagpur for Rs 945 mn, invest Rs 136 mn in promoting the RevAyur Unijules brand and spend Rs 50 mn for patent protection.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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