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 Industry : **Diversified**

Analyst:

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IPO Price : Rs.25-30
Avoid

Scrip Scan		Key Data		Shareholding (post issue)	
					(%)
Face Value (INR)	10.00	No of Shares to be issued (mn)	17.89	Promoters	29.74
Premium (INR)	15-20	No of fresh shares issued (mn)	17.89	Public	70.26
Equity Capital (Rs.mn) (pre issue)	53.72	Total issue size (Rs.mn)	375.70	Total	100.00
Equity Capital (Rs.mn) (post issue)	178.95	Issue Opens on	15th Jan'07		
Market Cap.*(Rs.mn)	536.86	Issue Closes on	18th Jan'07		
*(at Rs.30/-, upper band of the offer price)		Listing	BSE, NSE		

Company Profile

Pochiraju Industries Ltd. (PIL) is in production and marketing of cut flower roses since October, 1999. The revenue level has reached a significant level only during last couple of years. PIL till 2005, was cultivating various varieties of cut-roses in 7.5 acres of land. PIL increased the acreage to 23.5 acres during FY06 at Hosur Taluq in Tamilnadu, which is a noted Agri Export Zone for floriculture. PIL has 6 hectares of covered green house area under cultivation under which different varieties of duch roses are grown under controlled environment. Currently, half of the produce is exported to Europe, South-east Asia, Australia etc. Having stabilized in its present operations in floriculture, PIL is now diversifying into bio-technology and pharmaceutical sector, for which it is setting up a biotech-park in the SP Biotech Park in Secunderabad.

Present Issue and diversification projects

PIL through this IPO is planning to raise a capital of Rs345.7mn for its biotech and pharma ventures. The issue will be part-financing (89% of the project cost) the biotech and pharmaceuticals project having a total outlay of Rs475.7mn. Here, it is very pertinent to mention that, the IPO is exclusively for its said diversification plan and no part will be utilized for its existing floriculture business. Oriental Bank of Commerce will be assisting in term loan of Rs100mn. The commercial production is expected from beginning of FY08-09. In technical collaboration with ICGEB, Trieste, Italy and Biofin Labs Srl Italy, PIL is planning to manufacture the pharma generics **Erythropoetin** (indicated in anemia associated with cancer), **Interferon Alpha Pegylated** (indicated in Hepatitis A and B and for breast and colon cancer) **Hyaluronic acid** (indicated in arthritides). Besides these APIs, PIL would produce parenteral (I.V.Fluids) products.

Project work details

Particulars	Rs mn	% to total
Land	12.2	3.25
Building & Civil Works	81	21.56
Plant & Machinery	139.4	37.10
Technical Know-how	45	11.98
Pre-operative expenses	22.5	5.99
Public Issue Expenses	37.5	9.98
Market Development Expenses	12	3.19
Contingencies	13.4	3.57
Working Capital	12.7	3.38
Total Project Cost	375.7	

Key striking points

PIL has stabilized its floriculture business, where the management has not planned for expansion. Floriculture would be its only line of business that would feed the revenue stream, till FY09 when the diversified pharma business is expected to contribute to the revenue stream.

Concerns in the floriculture business

- The floriculture business, although profitable but not scalable in a single geography due high land cost in the floriculture belt of Bangalore and Pune
- Refrigerated transportation, which plays crucial logistics role in the floriculture business compels to position proximity to airports as export market is the key market.
- Development in non-floriculture belt entails huge Capex and Opex for creating and maintaining greenhouse projects

Risk associated with proposed diversification plan

PIL is diversifying into a sector totally unrelated to its current business, which will subject it to significantly greater risks.

- High gestation period of more than 2 years is a big risk factor, as dynamics in the competitive API segment is changing very fast in terms of emergence of large number of players and falling price trends thanks to supply increases in a very short period of time.
- Although the management is expecting the commercial production from April,2009 but necessary regulatory approval, pre-clinical testing and other formal procedures like mandate from several bodies like USFDA etc will delay the formal launch of products in the regulated markets.
- Any change in technology or therapeutic preferences would make PIL's proposed products obsolete, by the time the products would be launched.
- Since, pharma venture is in embryonic phase, API marketing would be a big challenge for PIL in future, for which PIL has not tied up with any international pharma player.
- Parenteral products need huge scale to survive in the market, which PIL might lack.

Valuation:

The offer price at upper band at Rs30/- discounts 6.7x, the annualised H1FY07 EPS of Rs 4.50. The annualised EPS of Rs32.38 for H1FY07 of the bigger peer Karuturi Network Ltd ,which is operating at a fairly bigger scale is currently enjoys a PE multiple of 5.39. The profitability of PIL is less than Karuturi. When we consider the floriculture business alone the offer price is fully valued. The existing equity capital would expand by 280%, without corresponding growth in earnings in the near term. Further, the uncertainties in the pharma venture would be drag in the earnings for immediate future. Hence, we recommend investors to avoid the issue from subscribing.

Pochiraju Industries Ltd					Karuturi Network Ltd	
Rs in mn	FY04	FY05	FY06	H1FY07	FY06	H1FY07
Income	24.2	35.7	95.0	138.2	437.68	348.78
YoY Growth %		47.1	166.3	191.0		59.38
Operating & SGA Expenses	13.6	17.8	55.9	87.5	287.55	204.49
EBIDTA	10.7	17.9	39.1	50.7	150.13	144.29
YoY Growth %		67.7	118.5	159.4		92.22
OPM (%)	44.0	50.2	41.2	36.7	34.3	41.4
PAT	3.2	8.6	25.7	40.1	139.12	129.51
YoY Growth %		170.0	197.4	212.2		86.18
NPM %	13.2	24.2	27.0	29.0	31.8	37.1
Area under cultivation(Acre)				23.5		148.26**

** (148.26 Acres = 60 Hectres) 10 Hectres in India and 50 Hectres in Euthopia

Post issue equity capital Rs178.95mn at offer price of Rs30 (upper band)

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