

Ind-Ra Places Claris Lifesciences on RWP

Ind-Ra-Mumbai-2 April 2013: India Ratings & Research (Ind-Ra) has placed Claris Lifesciences Ltd's (Claris) Long-Term Issuer Rating of 'IND A-' on Rating Watch Positive (RWP). A list of additional rating actions is provided at the end of this commentary.

Key Rating Drivers

The RWP reflects the likelihood of a significant improvement in Claris' credit profile post transfer of its infusions business in India and emerging markets, which accounted for more than half of its revenue, to a JV with Japan's Otsuka Pharmaceutical Factory and Mitsui & Co. The business is valued at INR13.13bn and Claris will receive a total cash consideration of INR10.50bn for the 80% stake sale. The deal is subject to regulatory approvals and other closing formalities and is likely to be completed by H1CY13.

Claris will use the cash proceeds from the JV transaction to prepay around INR3,000m of its outstanding debts, which will reduce its debt levels. The remaining proceeds will be used for growth capex and to reward the shareholders.

Claris' 2012 financial performance was in line with Ind-Ra's expectation. Revenue during 2012 grew 3.2% yoy to INR7.6bn, and EBITDA and EBITDA margins were higher at INR2.6bn and 34.7% versus INR2.5bn and 33.5% in 2011. Credit metrics were comfortable with financial leverage (adjusted debt net of cash) of 1.72x in 2012, up from 1.25x in 2011 due to a 32% yoy increase in debt from higher capex spends.

Post the sale of the infusion business, Claris will expand its specialty generic injectables business in all international markets, especially the regulated markets of the USA and EU via new product launches. With the reinstatement of the US Food and Drug Administration (USFDA) approval certification in August 2012, Claris will resume sales to the US market. However, contrary to the past, it seeks to directly penetrate the market versus through a partnership. Also, the company is looking at bringing more high-value products in the injectables segment and invest into new products for regulated markets. The company will also work on fast track growth opportunities via organic and inorganic routes.

Rating Sensitivities

Ind-Ra expects to resolve the RWP after the completion of the business transaction. The RWP indicates that the ratings may be upgraded or affirmed upon resolution.

Rating actions on Claris' bank loan ratings are as follows:

- INR2.2bn term loans: Long-Term 'IND A-' placed on RWP
- INR1.8bn fund-based cash credit limits: Long-Term 'IND A-' placed on RWP
- INR175m fund-based limits: affirmed at Short-Term 'IND A1'
- INR705m non-fund-based limits: affirmed at Short-Term 'IND A1'

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Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Applicable criteria, 'Corporate Rating Methodology', dated 12 September 2012, are available at www.indiaratings.co.in.

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