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MINT, Delhi
Saturday 4th July 2015, Page: 3
Width: 4.95 cms, Height: 16.98 cms, a4, Ref: pmin.2015-07-04.56.7

Indian pharma firms build a war chest for acquisitions

By Swaraj Singh Dhanjal & Pooja Sarkar

MUMBAI

Indian drug makers are readying a war chest to fund acquisitions that will help expand their product range, and give them access to new markets and distribution networks at home and overseas, their appetite having been whetted by a string of recent purchases.

In fact, just four companies—Lupin Ltd, Cadila Healthcare Ltd, Aurobindo Pharma Ltd and Torrent Pharmaceuticals Ltd—have lined up plans to raise a combined ₹22,600 crore through qualified institutional placements (QIPs), or sales of shares and other securities to institutional investors.

"Almost two-thirds of the fund-raising by pharma companies will go towards funding acquisitions," said Vrinda Mathur, a partner at Grant Thornton India Llp.

"These acquisitions will be a mix of domestic companies—those with a strong product portfolio or with US Food and Drug Administration (FDA)-approved facilities—and international

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firms," Mathur added.

On Thursday, Lupin acquired Russia-based **ZAO Biocom**, entering a country that will be one of the top eight markets for drug makers by 2018, it said in a statement to BSE. Lupin did not disclose financial details of the transaction.

The Mumbai-based drug maker is seeking shareholder approval to raise around ₹7,500 crore through a share sale.

Lupin has, in fact, been on an acquisition spree. Just two months ago, it announced the purchase of Brazil-based Medquimica Industria Farmaceutica SA. In March 2014, it acquired Mexican ophthalmic drug maker Laboratorios Grin SA for an undisclosed sum. Laboratorios Grin is the fourth largest pharma company in Mexico in the eyecare segment.

It isn't just Lupin. Most pharmaceutical companies in India have become aggressive when it comes to acquisitions, which provide them faster and easier access to new territories, increased balance sheet strength and new drug molecules.

Marksans Pharma Ltd, which in March raised ₹131 crore through a QIP of shares, acquired US-based generic drug maker Time-Cap Labs Inc. this week. Time-Cap manufactures over 50 products and has an FDA-approved manufacturing facility.

"Pharma firms are not debt-heavy companies and so don't need funds to retire a part of their debt. Their fund-raising is driven primarily by the focus on inorganic growth," said Vikas Khemani, president and chief executive officer of **Edelweiss Securities Ltd**.

"The valuations are favourable for M&A (merger and acquisition) transactions, and companies are keenly evaluating both domestic and outbound opportunities," said Khemani.

Valuations of pharma firms remain reasonable, making deals easier to swing, say bankers.

"Pharma companies are expanding strongly both in the domestic and export markets and they need money to fund this growth. Companies are looking at assets outside of India which have a good product portfolio and which already have a good market presence in some geographies," said Mathur of Grant Thornton.

Gaining access to products is the biggest attraction for pharma companies keen on acquisitions, whether or not they come with manufacturing facilities. Drug makers are also keen on acquiring firms that have approved facilities outside India and whose products are sold in expanding overseas markets.

Another focus area for Indian pharma firms are intermediaries and distributors with established, large distribution and marketing networks. "Companies can market their own products in international geographies if they can acquire such a distribution network," said Mathur.

Aurobindo Pharma's January 2014 acquisition of Actavis Plc.'s (now **Allergan Plc.**) Western European businesses is an example. The acquisition gave Aurobindo access to products, infrastructure and a marketing set-up in seven European countries.

In December, Aurobindo Pharma acquired another firm, US-based Natrol Inc., for $132.5 million, which provided it access to the latter's established nutraceutical brands (pharma products with health benefits) in the US. Aurobindo has shareholder approval to raise ₹2,100 crore through a sale of shares.

To be sure, not all foreign acquisitions have turned out to be successful for Indian pharma companies. An example being **Dr Reddy's Laboratories Ltd's** 2006 acquisition of German branded generics maker Betapharm for almost ₹2,500 crore. Subsequent changes in healthcare regulations and government procurement policies in Germany severely impacted the unit's performance, leading to several write-downs in its valuation over the years and shifting of production of several products to India.

Drug makers have also been pursuing acquisitions at home.

Torrent, which has shareholder approval for raising ₹3,000 crore, acquired ZYG Pharma Pvt. Ltd, a company engaged in manufacturing dermatological formulations such as creams, ointments, gels and lotions, in May.

In December 2013, it acquired Mumbai-based **Elder Pharmaceuticals Ltd** for almost ₹2,000 crore, giving it access to Elder's brands in women's healthcare, pain management and nutraceuticals.

Cadila Healthcare plans to raise as much as ₹10,000 crore through a share sale. The company is in talks to acquire the generic sterile injectables business of Ahmedabad-based **Claris Lifesciences Ltd**, *The Economic Times* reported in May.

Companies mentioned in this story did not respond to e-mailed questionnaires on their fund-raising plans and potential acquisitions.

The spate of acquisitions has drawn investors' interest in pharma firms. In the last eight months, Singapore's state-run investment firm **Temasek Holdings Pte. Ltd** has invested as much as $600 million to buy stakes in **Intas Pharmaceuticals Ltd**, **Glenmark Pharmaceuticals Ltd** and **Sun Pharmaceutical Industries Ltd**.

Private equity fund ChrysCapital has pocketed over 10x in returns from the sale of shares in Intas Pharma. It recently sold its stake in **Mankind Pharma Ltd** for a similar return.

According to VCCEdge data, the financial research unit of *VCCircle.com*, a total of seven companies raised almost $480 million from private equity and venture capital investors, since January this year. In all of 2014, 22 companies managed to raise $618 million, data shows.

"This is a good time to stock up on cash, given that the cost of raising capital right now is low. Also, globally, there is heightened activity when it comes to the pharma sector," said Sujay Shetty, leader of the pharma, life sciences and medical devices practice at Pricewaterhouse-Coopers India.

Lupin gained 1.64% to close at ₹1,900.45 per share on Friday on BSE, while the benchmark Sensex rose 0.53% to end at 28,092.79 points and the BSE Healthcare index gained 0.41% to close at 16,664.65 points. Aurobindo Pharma gained 0.27% to close at ₹1,418.95 per share. Cadila Healthcare lost 0.07% to end at ₹1,837.50 and Torrent Pharmaceuticals gained 0.39% to close at ₹1,322.35 per share.

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