

COMPANY OF THE YEAR

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Winner takes all

Sun Pharma is now India's largest drug maker and among the ten most valuable pharma companies globally

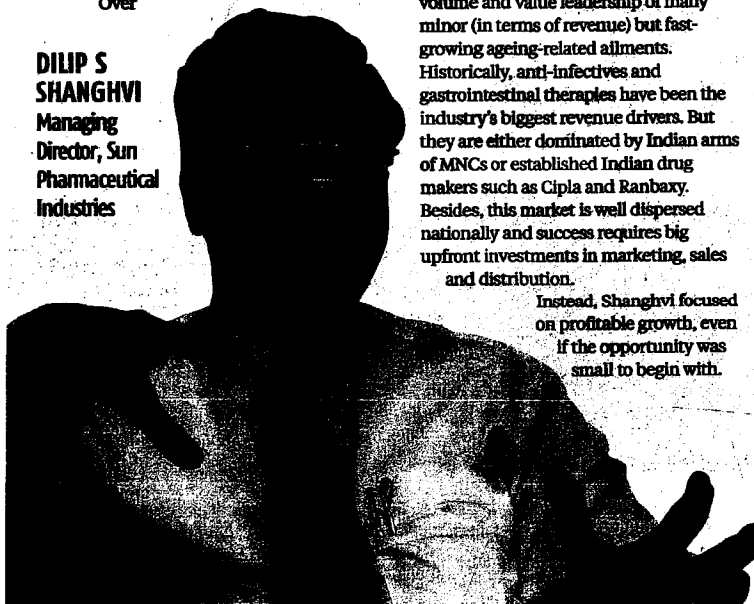
KRISHNA KANT

Sun Pharmaceutical Industries, led by its founder and managing director, Dilip S Shanghvi, has emerged as India's largest drug maker and among the ten most valuable pharma companies globally.

Sun Pharma now accounts for 11 per cent of the combined revenues of all BSE 500 pharma firms and 15.4 per cent of their combined net profit. In the last ten years, its market value has grown at a compounded annual rate (CAGR) of 42.1 per cent. At its current stock price, Sun Pharma is more valuable than the combined market capitalisation of its next three competitors.

Over

DILIP S SHANGHVI
Managing Director, Sun Pharmaceutical Industries



the last 10 years, the company's revenues have grown at a CAGR of 29 per cent, and net profits at 30 per cent, making it a preferred choice for investors.

Analysts attribute this to Shanghvi's policy of avoiding taking on incumbents in established categories — focusing instead on specialties and chronic therapies such as psychiatry, cardiovascular, neurology, oncology and dermatology — and his ability to carve out niches. "We see the pharma market as a collective of various therapies and plan our growth strategies accordingly. We are the market leader in seven therapies and among the top five in five others," says Shanghvi.

This helped the company attain volume and value leadership of many minor (in terms of revenue) but fast-growing ageing-related ailments. Historically, anti-infectives and gastrointestinal therapies have been the industry's biggest revenue drivers. But they are either dominated by Indian arms of MNCs or established Indian drug makers such as Cipla and Ranbaxy. Besides, this market is well dispersed nationally and success requires big upfront investments in marketing, sales and distribution.

Instead, Shanghvi focused on profitable growth, even if the opportunity was small to begin with.

The result: in FY13, Sun Pharma's operating margin was 42 per cent (three-year average), far superior to GSK Pharma (21 per cent), Cipla (25 per cent) and Dr Reddy's Labs (25 per cent) in the domestic market.

Shanghvi was also one of the first pharma CEOs to focus on brands, pricing strategy and sales and distribution networks, just like a consumer goods company. "Less than half the Indian population has access to modern medicines, and millions of new customers will enter the market in the coming years. Second, the average age of patients is rising, translating into a growing market for ageing-related ailments," he says.

He used mergers and acquisitions to grow quickly, first in the domestic market, and then in the US and Europe, enabling a faster scale-up. Starting with Knoll Pharma's bulk drug plant in 1996, Sun Pharma has made 17 acquisitions, in addition to a joint venture with MSD — one of the world's top pharma companies — for product marketing in emerging markets. Its Israeli subsidiary, Taro Pharmaceutical, in which it took a

Sun Pharma's M&A strategy has helped it scale up faster and plug gaps in its arsenal

majority stake in 2010, now accounts for one-third of Sun Pharma's revenues on a consolidated basis, and nearly a quarter of its profits.

Shanghvi is conscious of the price of the acquired assets. Intangibles such as goodwill and patents account for only 36 per cent of Sun Pharma's gross block, against 46 per cent for Dr Reddy's Labs, which has employed a similar growth strategy.

Shanghvi was also quick to understand the business implications of rising life expectancy, especially in North America and Europe, the world's two biggest pharma markets. With costs of medicines soaring, more patients and governments (in countries where healthcare is universal and publicly funded) are preferring generics over expensive patented drugs. Sun Pharma logged into this opportunity.

Sun Pharma's biggest challenge now will be to protect its new-found leadership without diluting its value and profit leadership. With the company having metamorphosed from a challenger to an incumbent, this won't be easy.