

INTERVIEW: DILIP SHANGHVI
MANAGING DIRECTOR, SUN PHARMACEUTICAL

Taro may not continue to gain from opportunistic pricing

Last week, Sun Pharmaceutical Industries' move to take full control of Israel's Taro Pharma hit a roadblock when a special committee of the latter's board rejected an offer from Sun Pharma to buy the outstanding shares of Taro for \$24.50 a share. Minority shareholders have been clamouring for a higher offer price, but Dilip Shanghvi, Sun Pharma's managing director, feels Taro is over valued at the moment, and any higher competition can impact its pricing power in the US. In an exclusive interview with FE's MG Arun, Shanghvi dwells upon Taro, plans for the US and rest of the world markets, and voices his concern on a government proposal to bring more drugs under price control. Edited excerpts:

Will Sun Pharma sweeten its bid for the remaining stake in Taro?
We had earlier indicated that we don't see value in the company significantly beyond what we have said. We have to evaluate the rejection of the special panel and then decide the next step. From our point of view, nothing has dramatically changed at Taro after we indicated that we have no plan to change our bid.

The basic contention of minority

shareholders is Taro's rising share price...

I understand. Repeatedly, both Taro and I have expressed reservations about the ability of the company to continue to show current performance, which is a short-term ability to change prices. It is a function of competition. Tomorrow, higher competition can change prices dramatically. Taro has performed much better than what we thought. There is clearly an improvement in the performance and productivity of R&D, which is a function of things done post the Sun Pharma investment. At the same time, some things are opportunistic.

What are the areas you think Taro has gone beyond your expectations?
Pricing flexibility is something we had not anticipated. This is in selective products. If two more competitors come, we would lose market share, and there would be price correction.

What are the plans in the pipeline for Taro?
Taro will continue to focus on improving the productivity of their R&D and be able to make up for last three-four years of lack of investment in R&D.



and in the next three-four years, build an interesting pipeline.

You have one of the largest ANDA pipelines in the US. What would be your strategy for that market, going forward?
We continue to leverage our R&D, and file interesting products, bring them successfully to the market, and use them for growing our business.

How concerned are you about the pricing pressures in the US?
It is a competitive market, no doubt,

but it is also a market where on some products, if there is a lot of competition, pricing is very low while in some others, with less competition, you are able to manage a sensible price.

Beyond the US, which new markets will Taro move into?

Most countries have their own regulatory pathways. Some registrations require a new study. For instance, if you register a product in Canada, a US study will not be adequate. Same is true for CIS or Europe. We are still evaluating whether we want to be very dispersed or stay focused, before we can start investing in other markets. Currently, the US market is a predominant part of our focus.

What are the possibilities for inorganic growth in some of the world markets?
We will continue to look at investment opportunities in areas of our interest. The idea would be to leverage our capabilities to run businesses efficiently. We don't look at acquisitions as a step to become bigger. Size is not as important as strength.

What growth do you see in the Indian market?

Our overall guidance is 18-20% growth for the entire company over last year.

Your margins have been over 40% last year. Is this sustainable?

Our view is that 40% is not a long-term, sustainable number. There are several factors that have contributed to these margins, and some of those factors may not occur again. Our general margins have been at 30-35%.

What are your view on the government's move to bring in more drugs under price control? How will Sun Pharma be impacted by the move?
It will impact us, based on what is used as a basis to arrive at the ceiling price. Pharmaceuticals is one business where India has done well, even internationally. We are in a major investment phase in most global markets. Anything that impacts margins in India will impact us more than MNCs. The recent initiative on distribution of essential drugs, Jan Aushadhi is great, since the problem of access can be solved by reducing price of drugs. For any disease, drug is just a small part of total cost. Only 15% drugs are under price control. But the average price increase of other drugs is less than 3%, significantly below inflation.