

DRUG FIRMS FIND THEIR SHARES LAGGING SALES

Too many pharma stocks have a communication issue

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Chandigarh-based Surya Pharmaceutical is regarded as a star performer in the Indian drug industry, which is growing at close to 20 per cent every year. Surya's own sales have grown from near ₹240 crore four years earlier to ₹1,130 crore in 2009-10, a consistent 30-40 per cent growth every year. Net profit also grew to ₹74 crore during the period, from just over ₹20 crore four years earlier. Despite this performance, investors are not impressed and its market capitalisation remains low, at about ₹370 crore.

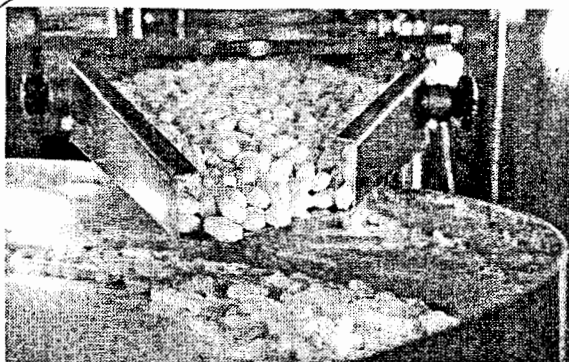
So, too, with another star performer, Ankur Drugs, which grew from a ₹136 crore sales turnover four years earlier to a little over ₹1,000 crore last year. Net profit was about ₹90 crore in 2009-10, growth of 141 per cent over the previous year. Its market capitalisation — ₹170 crore.

The theory says pharmaceutical stocks are among the most sought scrips, as they give steady returns. Safe bets, since drugs have demand irrespective of a bull or bear run, recession or crash, goes the belief.

Mostly out of sight

Not true, if one look at the market capitalisation of about 165 pharmaceutical companies listed on the Bombay Stock Exchange (BSE). That of 70 of these are less than ₹50 crore each. Only 34 companies have a market cap of over ₹1,000 crore. In many cases, turnover is much higher than the market capitalisation. Only seven — Sun Pharma, Dr Reddy's Laboratories, Cipla, Ranbaxy, Lupin, GlaxoSmithKline Pharmaceutical and Zydus Cadila have a market capitalisation of above ₹10,000 crore.

"Size of business matters



PERFORMANCE CHART

Drug makers with over ₹10,000-crore market capitalisation (₹ crore)

Sun Pharma	46,238.73
Dr Reddy's Labs	30,597.14
Cipla	28,640.20
Ranbaxy Labs	23,169.87
Lupin	20,065.59
GlaxoSmithKline	18,677.02
Cadila Health	15,561.91

(Data based on m-cap on Dec 16)

Number of listed drug companies and their m-cap

Above ₹1,000 cr	- 34
₹200 cr to ₹1,000 cr	-27
₹150 cr to ₹200 cr	-8
₹100 cr to ₹150 cr	-8
₹50 cr to ₹100 cr	-17
₹10 cr to ₹50 cr	-36
Less than ₹10 cr	-34
Total	-164

houses and foreign institutional investors are interested in investing only in large companies. Still, I think Lupin's market capitalisation should be higher to justify our consistent growth and performance in the past few years," says Ramesh Swaminathan, president, finance and planning, of Lupin.

Investors look at companies on a case to case basis and investment decisions are made on various parameters like sales and growth prospects, net profit and margins, debts and liabilities. The promoter's shareholding in most Indian drug firms is high and, thereby, free-floating shares are less, another reason for less crowd at their counters, note analysts.

"Many pharmaceutical companies are not benefited from listing, since they don't catch the

is a fragmented industry and only those with an exciting growth story to tell will catch the attention of investors," says Murlidharan Nair, partner-business advisory services, Ernst & Young. Not quite, as we have seen.

"Most small-cap and mid-cap firms are suffering from issues like availability of working capital, heavy debts and loans at higher interest rates, narrow profit growths and receivable cycles, despite their decent sales growth," says Ranjit Kapadia, vice president of institutional research at HDFC Securities.

"The radars of both sector analysts and investors are normally confined only to the top 50 companies," he concedes.

"There are some companies that are very investor-friendly and we are also confident of

we need to interact more with investors on a regular basis to convey our performance to them," says Alok Saxena, whole time director, Elder Pharma, a ₹700-crore company with a market capitalisation of ₹774 crore. Elder's turnover was only ₹354 crore four years earlier.

How to attract

"Drug stocks in demand are of companies having a proven record, with heavy investments in technology, manufacturing and other systems on a global scale. Companies having a robust pipeline of products and technology that will create value in future have always attracted the attention of long-term investors," says R B Smarta, managing director of Interlink, an exclusive drug marketing consultancy.

Me-too drug makers and those producing common formulations would get less demand, while technology-driven speciality and niche drug makers would always elicit the interest of investors, he adds.

"Pharmaceuticals is a highly complex, technology-driven, industry. The public relations' skills of many pharmaceutical firms are very low and this is another reason for their failure to convey excellent performance to the common man and retail investors," said Smarta.

It is not true in the case of Sun Pharmaceutical Industries, the largest Indian drug company in terms of market capitalisation, with ₹46,238 crore. It does not even have an external public relations agency to handle its public affairs and the management always prefers to keep a low profile.

"I think the reason for the investor confidence in us is our consistent performance and confidence of investors in future performances," says Uday Baldota, head of investor and media relations with Sun