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# Good medicine

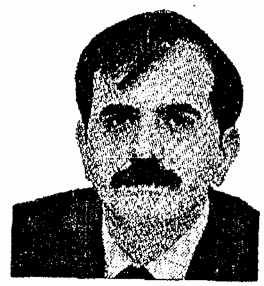
## Acquiring an Indian company may increasingly become a tall task for the global generic world

*It has been a mixed year for the Indian* pharmaceutical industry with some memorable domestic M&A deals; however, limited activity was witnessed on the outbound M&A scenario and negligible activity on the IPO front. The year would certainly be remembered for two large deals—Abbott-Nicholas and Reckitt-Paras. However, in retrospect, there are some crucial trends and events that we need to take cognisance of.

While the businesses differ vastly, the Abbott-Nicholas and the Reckitt-Paras deal had several similarities. Both were unique assets with strong domestic franchisees. Both were acquired by players who, till the deal happened, had limited presence in the domestic market and had struggled to build a dominating presence vis-à-vis their global stature. While the Nicholas deal was at an astounding EV/EBITDA of 27 (x); the Paras deal occurred at EV/EBITDA of 30(x)!

If the next deal is going to be a scalable domestic branded business, it is unlikely that multiples are going to go down drastically. Both these deals in some way have redefined the way global companies view Indian businesses and we believe this trend will continue.

The growth numbers reported in the domestic formulations market surprised even the optimistic industry players. In fact, the domestic business plan continues to be the saviour for many Indian majors whose global P&Ls continue to bleed. We believe there are several companies today wherein the domestic P&L would be generating EBITDA margins of 30%-plus; however, regulated market P&Ls would be incurring losses.



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Most promoters in 2010 continued to focus on the domestic market and we believe this enhanced focus by entrepreneurs would continue to drive a 14-16% growth in 2011.

Except for the logical closure of the Sun-Taro battle, there was limited activity in the outbound space. The restraint helped! It's highly unlikely we are going to witness a Betapharm deal in a hurry. We expect the majority of the outbound deals in 2011 to continue to be sub-$100 million.

Pharma as a sector performed incredibly with scrips of several leading players giving a 40%-plus return in 2010.

However, the expected recovery of CRAMs business in 2010 did not materialise. In fact, CRAMs has been a severe laggard with a player like Dishman almost losing 40% of its market cap this year.

### Billion dollar babies

Acquiring an Indian company may become increasingly a tall order for the global generic world (as against Teva's market cap of $46.7 bn, Sun Pharma is $10.3 bn, DRL $6.7 bn, and Cipla $6.4 bn). Except a Teva, none of the others seem to have the requisite 'market cap firepower'. Thus, like a Ranbaxy/Daiichi or a Nicholas/Abbott; in all likelihood we will see an innovator on the buy side make the next deal happen.

Be rest assured, there will be far more names on this list when we take stock next year!

**M-cap of leading companies**

| | Dec 21, 2009 | Dec 16, 2010 | % gain |
|---|---|---|---|
| Cadila Healthcare | 8,840 | 15,405 | 74 |
| IPCA Labs | 2,569 | 4,098 | 60 |
| Lupin | 13,324 | 20,242 | 52 |
| Sun Pharma | 30,970 | 46,570 | 50 |
| Dr Reddy's | 20,600 | 30,224 | 47 |
| Glenmark | 7,134 | 9,575 | 34 |
| Ranbaxy | 22,141 | 23,065 | 4 |
| Cipla | 27,644 | 28,627 | 4 |
| Avg of leading cos | | | 33 |

Figures in Rs crore

*The author is founder & managing director of Candle Partners, a boutique Investment Bank specialising in advising Indian entrepreneurial companies*