PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
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The Financial Express, Delhi

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Industry

PE/VC investments ascend in pharma sector

59-13

Increased consolidation clubbed with the healthcare needs in our country is compelling investors to take the Indian pharmaceutical industry serious

Diksha Dutta

It is not just the mergers and acquisitions (M&As) followed by the Daiichi-Ranbaxy or the Abbott-Piramal deal that are seeing an uptake in the pharmaceutical industry. Fat private equity (PE) and venture capital (VC) firms are also betting big on small and midsized pharmaceutical companies to put their bucks on. The average PE deal value which was $6 million in 2009, today stands at almost $140 million, according to VCCEdge. Even the deal volume has increased from 2 to 7.

The most prominent PE investments which happened in 2010 include New Silk Route Partners $55 million investment in Nectar Life Sciences and a series of investments in Arch Pharmalabs by Emerging India Focus Funds and India Infoline Venture Capital Fund. Even this year had a kick-start with Arum Investments backing Plethico Pharmaceuticals by $17.41 million.

"Pharma has become more than a CRAMS and CRO play for PE's and VC's," says Vikram Hosangady, executive director, transaction services, KPMG. He further elaborates that in the last 2-3 years post the Daiichi-Ranbaxy deal and the Abbott-Piramal deal, there is renewed interest in the domestic formulations business which is expected to grow at a consistent rate of 12-15% per annum. Domestic formulation companies with a product basket in the niche therapeutic segments like cardio, neuro, oncology will attract interest from the PE community. "We also see PE funds focused on pharma and healthcare working towards building a portfolio of API companies that they could either sell piece meal or as a basket to a global player," he says.

Darius Pandole, partner, New Silk Route Advisors notes, "As the mergers and acquisitions in the industry are increasing, external funding by PE firms is also gaining importance. The strong trend of M&As is going to continue at the same pace and PE investors will stimulate this practice in the industry."

The PE investment trend is undoubtedly backed by increasing number of M&A activity especially from global players who are keen to increase their footprint in the Indian market. Baring Private Equity Partners India too invested in Shilpa Medicare last year. Amit Chander, head of investments says, "We started focusing on the healthcare investments in 2004 which was then 12% of our total funds. But today it stands at 20% of our investments. We today have a fund of $574 million. However for the industry, the majority deal sizes in future would stick to $15-25 million which is mid sized. Large companies usi
not have the need for capital."

Chander stresses that there
mense opportunity for investmer
Indian pharma sector. When co
to the global markets, India has a
spend on the pharma segment—
20% of total healthcare spend. H
globally the number is 14%.

There are two sets of pharma r
in the globe. One is the emergi
ment which includes Latin A
South East Asia—here India ca
products and medicines with a
pricing as compared to what it o
home country. Second is the re
markets of Japan and US. These n
create opportunity for generics
trick has to be low pricing by
pharma companies. "Thus, the
opportunity lies in both domest
sumption and the export side," he

It should also be noted that valu
of pharma companies have inc
significantly in the last two years
could reduce the attractiveness
deal and could result in slower d
sures. "Deal sizes will be between
million as regards PE investmen
with respect to strategic buys, giv
they will be 100% acquisitions, c
between $500 million upwards d
ing on the size of the assets," con
Hosangady from KPMG.

Healthy investors

Investments in pharmaceutical sector from 2009-2011 YTD

	2009 Deal Volume	2009 Deal Value ($mn)	2010 Deal Volume	2010 Deal Value ($mn)	2011YTD Deal Volume	2011YTD Deal Value ($mn)
Venture capital	1	8	2	11	NA	NA
Private equity	2	6	7	138.41	NA	NA
Private equity investments	NA	NA	1	5.62	1	17.41

Deals in pharmaceutical sector from 2009-2011 YTD

Year	Target	Buyer	PE Type	Deal Value ($ mn)
2011	Plethico Pharma	Arum Investments	Private Equity	17.41
2010	Vyome Biosciences	Navam Capital	Venture capital	1
2010	Celon Laboratories	Sequoia Capital India	Private Equity	16
2010	Shilpa Medicare	Baring India Private Equity Fund III	Private Equity	15
2010	Arch Pharmalabs	Emerging India Focus Funds	Private Equity	9.91
2010	Arch Pharmalabs	Emerging India Focus Funds, India Infoline VC Fund	Private Equity	1.94
2010	Arch Pharmalabs	India Infoline VCI Fund	Private Equity	0.79
2010	NovaLead Pharma	Tata Capital Ltd.	Private Equity	5.62
2010	Intas Biopharma	Tata Capital Private Equity	Venture capital	10
2010	Famy Care Ltd.	AIF Capital Asia III LP.	Private Equity	40
2010	Nectar Lifesciences	New Silk Route Partners	Private Equity	54.77
2009	Lyka Labs Ltd.	Clearwater Capital Partners LLC	Private Equity	0.53
2009	NovaLead Pharma	Kotak Private Equity Group	Venture capital	8
2009	Anjan Drugs	Evolvence India Life Sciences	Private Equity	5.2

Source: VCC Edge

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Q4 RESULTS PREVIEW PHARMACEUTICALS

Maintaining the momentum

6215

Pharma universe is likely to report steady year-on-year growth and profit margins

WE EXPECT Dr Reddy's (DRL) and Cadila Healthcare, among large caps, to report strong numbers, while in mid-caps, Aurobindo Pharma and Ipca Laboratories will have strong traction. Ranbaxy, Lupin and Sun Pharmaceuticals, among large caps, will have weak operating performance in the quarter, while in mid-caps, Unichem is likely to report lower numbers.

We expect the pharma universe to report a steady revenue growth of 10% YoY (flat QoQ) during Q4FY11, with a positive impact from the consolidation of Taro (36% YoY in Sun.) Cadila will outperform peers in the large-cap space, with a strong growth of 27% YoY. In mid-caps, growth will remain robust (20-22%) for most peers like Torrent, Ipca, and Aurobindo, led by strong performance in branded generics and ramp-up from new capacities.

Among large caps, growth in Ranbaxy and Lupin could be impacted from higher exclusivity sales in US generics in Q4FY10. Ranbaxy is likely to report degrowth of 16% YoY, from $180m of sales from Valtrex in Q1CY10, while Lupin could see impact from Lotrel price erosion and lower Suprax sales. Excluding Ranbaxy and Sun, revenue growth is 16% YoY during the quarter.

Ebitda (adjusted for Sun & Ranbaxy) could grow 18% YoY (40 bps expansion in Ebitda margins), driven by higher contribution from branded generics business (Cipla, Cadila) and niche product approvals in the US (41% YoY growth in DRL). Ramp-up in SEZ revenues will positively impact operating margins of Aurobindo (150bps YoY). Including Sun and Ranbaxy, Ebitda growth for the quarter is likely to decline 11% YoY (520 bps contraction in Ebitda margins, led by of one-off impact from higher margins from Valtrex (Ranbaxy) and full integration of Taro (Sun) that has lower Ebitda margins). Excluding Taro, Sun's margin is expected to decline due to higher fixed costs in Caraco.

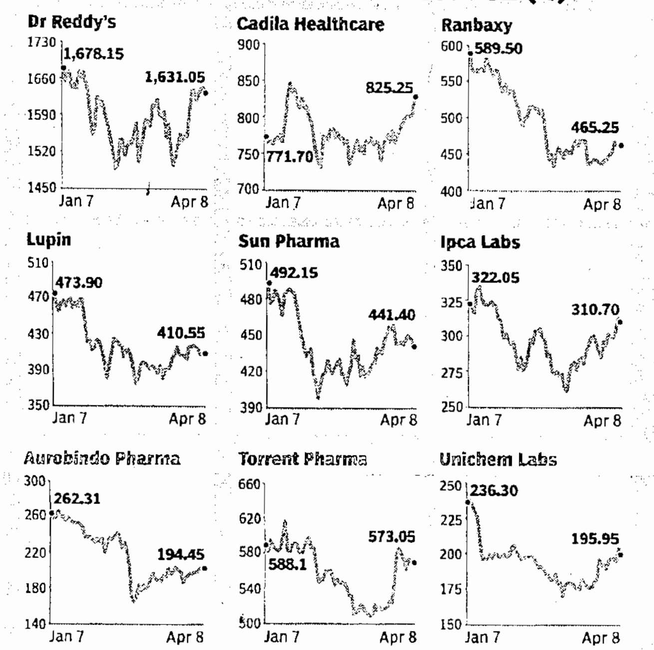
We expect relatively higher growth in earnings during the quarter. Excluding Ranbaxy and Sun, adjusted PAT (profit after tax) is likely to grow 17% YoY for the quarter, led by strong earnings growth in DRL (49% YoY), Aurobindo (43% YoY), and Cadila (23% YoY). However, lower growth and higher fixed cost will lead to a decline in earnings for Ranbaxy (-61% YoY), Unichem (-25% YoY) and Sun (-21% YoY), resulting in 15% YoY decline in the PAT of the pharma universe.

We expect strong revenue visibility for FY12, with a double-digit growth in domestic formulations and ROW (rest of world) markets and upsides in US generics from $35 bn patent expires in FY12. Further, investments in field force and capacities during FY11 are likely to consolidate and will result in higher growth over H2FY12; however, performance could vary across companies.

The pharma universe is currently trading at 17x (times) FY12e earnings, at a relative premium of 11% to the Sensex, which likely expands during market consolidation. Hence, we remain focused on specific stock performance. DRL and Lupin are our top picks in large caps, and Torrent our preferred pick in mid-caps.

—Edelweiss

STOCK PERFORMANCE ON BSE (₹)



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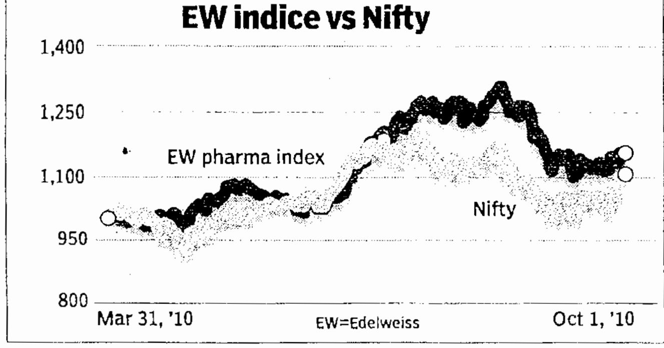

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Evolva plans to buy out R&D partner

R Ravichandran

Chennai, Apr 10: Evolva, an emerging biotech company which has operations in India and the US, has proposed to acquire its R&D partner Abunda Nutrition of the US. Evolva has tied up with San Francisco-based Abunda for development of the latter's next-generation nutritional ingredients since 2009. One part of this collaboration has focused on advancing highly purified forms of the natural high intensity sweetener Stevia, produced via fermentation in yeast. This process bypasses the complex logistics associated with the traditional cultivation, processing and refining of Stevia plants and allows pure Stevia components to be produced.

EVOLVA HAS TIED UP WITH SAN FRANCISCO-BASED ABUNDA FOR DEVELOPMENT OF THE LATTER'S NEXT-GENERATION NUTRITIONAL INGREDIENTS

In addition to Stevia, Evolva will obtain full ownership of certain additional development-stage compounds with relevance in cardiovascular health and other nutrition sectors. Clinical nutrition trials are being conducted on selected compounds. "Under the terms of the proposed merger, Evolva will acquire 100% of the share capital of Abunda in return for 25 million Evolva shares (12.9% of Evolva's share capital post transaction, fully diluted). If certain value-creating milestones are achieved in the 19 months after closing, Abunda shareholders are entitled to receive up to an additional 12 million shares and, for three years, a low-teen percentage share of cash returns from the Abunda assets," said PM Murali, managing director and CEO of Evolva Biotech.

Abunda brings in sufficient cash for the development of its product portfolio till 2012 and as such the transaction does not affect Evolva's cash runway. The intended transaction would increase Evolva's expected cash outflow in 2011.

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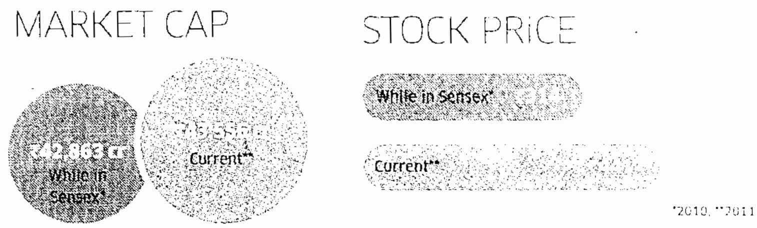
Width: 18.29 cms Height: 10.16 cms, Ref: pmin.2011-04-10.33.14

Sun Pharma

Knocked off the Sensex in :
March 2010

14/115



Sun Pharma's removal from the Sensex took many by surprise. The company had been growing fast and was on the cusp of settling a longstanding dispute related to a merger with the promoters of Israel's Taro Pharma. But the news did not shock the company. "It did not matter to us when we were included in the Sensex. And it didn't matter when we were excluded either," says Uday Baldota, senior vice-president of Sun Pharma.

According to Baldota, here's why. India does not have too many index funds. In global markets, the inclusion or exclusion of a stock in the benchmark index has a significant impact on its price as funds that 'passively' track an index are big players. In India though, the effect is much less, he says.

Analysts concur. "The Sensex gives visibility to companies, but as analysts we do not view the company on the basis of the Sensex," says Ranjit Kapadia, vice-president of HDFC Securities.

Sun Pharma is a shining example of this inference. The stock was included in the Sensex in January 2009. Over the next 14 months, the stock underperformed the index (it rose 40% while the Sensex rose 91% in the period). But since its exit in early May last year, the stock has risen by over a third to date compared with a 4% increase in the Sensex.

The latter part of 2010 was good for the company. In September, it managed to take a controlling stake in Taro after a three-and-a-half year battle. Sun has also asked the management of its US subsidiary Caraco Pharma to delist the stock from Nasdaq. Analysts say this move is an effort to add value to their shareholders. "Caraco has been under the US Food and Drug Administration scanner and in the short term won't get any value for its shareholders. Hence, if the stock is delisted, at least the shareholders can get temporary relief," says Kapadia. (Disclaimer: Kapadia holds Sun Pharma shares and recommends the stock to investors).

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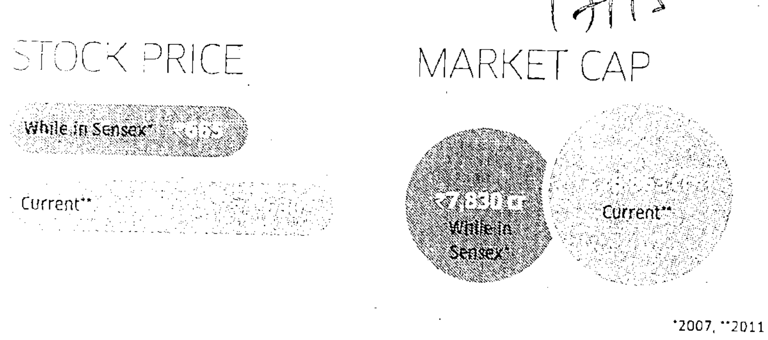
Knocked off the Sensex in: **November 2007**

12/15



Dr Reddy's Laboratories has long been rumoured to be a prime acquisition target for many multinational companies. Never mind that the promoters have denied they want to sell. The second-largest drug maker in the country has also been one of the few companies that dared to venture into the high-risk patent drug manufacturing business. Though the company is yet to come up with a successful molecule, it has not abandoned the pursuit.

The company was removed from the Sensex in November 2007. That has barely mattered. Since then, the stock has risen by over 150% to around ₹1,586. The Sensex has fallen 7% in this period. The market capitalisation of the company has grown to ₹26,000 crore from ₹7,830 crore in the past three years.

The stock has long been a favourite among traders and analysts. "In the pharma space, I would not go really for a midcap per se but Dr Reddy's may be one of the better performing pharma stocks. It has picked up a fair amount of momentum lately and has made slightly better moves," says Deepak Mohoni of trendwatchindia.com.

In 2009, Dr Reddy's signed a licensing deal with Glaxo Smithkline to develop and market products for the emerging markets. GSK wanted a partner that could help it grow emerging markets, and DRL w a strong multinational playe could help it distribute and n its branded generics.

The company sold generic cines worth $600 million in Chairman Anji Reddy has to porters that the company wi for revenues of $1 billion a ye the next three years.

There are concerns though. A latory clearance from the USF sell a generic version of the anti-l clotting drug Arixtra is still awa The delay, experts say, could pus stock down. But traders still re mend DRL over its peers.

Industry.

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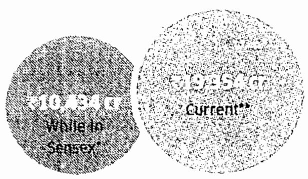
Ranbaxy Laboratories

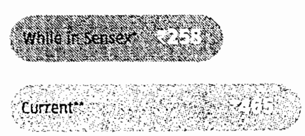
Knocked off the Sensex in:
June 2009

1/6/18

MARKET CAP



STOCK PRICE



*2009, **2011

Daiichi Sankyo's takeover of Ranbaxy Laboratories for $4.6 billion in 2009 is the biggest deal in the Indian pharma sector to date. But little did the market know at the time that Ranbaxy was heading towards a stormy battle with the US Food and Drug Administration over manufacturing practices at the company's factories in Ponta Sahib, Dewas and Ohm labs in New York. The facilities were the main suppliers to the company's largest market—the United States. As expected, Ranbaxy's stock was battered on the bourses. The stock that peaked at ₹598 in June 2008 was down 56% by June 2009, after which it was expelled from the Sensex.

> Like Sun Pharma, Ranbaxy Labs has outdone the Sensex after leaving it

Ranbaxy did not comment for the story. But since its termination, Ranbaxy's stock has performed well. The stock crossed ₹600, the highest in the company's history, in November 2009 (it is currently trading at around ₹453). And like Sun Pharma, Ranbaxy has outdone the Sensex after leaving it, rising by three quarters since June 2009. The Sensex, in comparison, has risen around 22%.

Analysts say Ranbaxy is getting its act together. The Japanese are finally taking charge, say Ranbaxy officials. The company has seen some high-profile exits. Chief executive Atul Sobti quit last year followed by chief financial officer Omesh Sethi earlier this year. But analysts say management changes aren't enough.

"Ranbaxy has to resolve its USFDA issue, to get back in the game," says Kapadia. For the company, 2011 will be critical. Ranbaxy owns the first licence to launch Pfizer's blockbuster anti-cholesterol drug Lipitor, which has the potential to generate revenues of nearly $10 billion. If Lipitor succeeds for Ranbaxy, according to analysts, the stock is likely to become a long-term performer.

Industry.

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New drug shrinks cancer, with few side effects

WASHINGTON: Scientists at the University of Michigan Comprehensive Cancer Center showed in animal studies that new cancer drug compounds they developed shrank tumors, with few side effects. The study, done in two mouse models of human cancer, looked at two compounds designed to activate a protein that kills cancer cells. The protein, p53, is inactivated in a significant number of human cancers. In some cases, it is because another protein, MDM2, binds to p53 and blocks its tumor suppressor function. This allows the tumor to grow unchecked. The new compounds block MDM2 from binding to p53, consequently activating p53.

New drugs.

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Width: 4.53 cms Height: 26.29 cms, Ref: pmin.2011-04-10.7.25

Breather for Ranbaxy in generic Lipitor case

25717

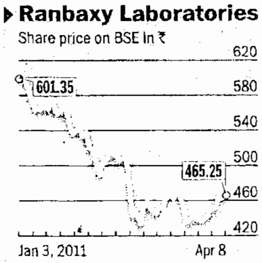
FDA: Mylan suit to block launch has no merit

Priyanka Golikeri MUMBAI

Ranbaxy Laboratories has got a breather in its battle to launch the generic version of the world's top-selling drug Lipitor in the US market.

The Gurgaon-based company, which holds the first-to-file (FTF) status on Lipitor that had sales of $7.27 billion in the US last year, was facing an awkward situation after US firm Mylan Labs filed lawsuits to stop its launch of the generic version of the cholesterol-lowering drug.

▸ Ranbaxy Laboratories



Mylan had said that Ranbaxy is ineligible for launching the generic version because it had falsified data from its manufacturing plants in India from where filing for generic Lipitor was made.

However, now the US Food and Drug Administration (FDA), has said that it is premature for Mylan to seek action as the regulatory body has not yet granted approval to any of the applications filed for generic Lipitor. It said it is still considering the applications and cannot decide on any exclusivity until an application is ready for approval.

The FDA also said it is in talks with Ranbaxy on the issue. A Ranbaxy spokesperson refused to comment.

However, industry experts say the FDA's remark is a reprieve for Ranbaxy which, if manages to get the regulatory approval and successfully launch generic Lipitor by the scheduled November date, can earn $500-600 million in the six month period of exclusivity, during which, other than Pfiz-

Regulatory.

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Width: 6.35 cms Height: 6.10 cms, Ref: pmin.2011-04-10.7.25

Breather for Ranbaxy in generic Lipitor case

"It is not a sure shot win for Ranbaxy, but it is not a fall either," said Bhavin Shah, research analyst, Dolat Capital Market.

Ranjit Kapadia, vice-president, institutional research, HDFC Securities, said it is a court case and only time will tell in what direction it moves.

US is a major geography for Ranbaxy with about 24-25% of its sales coming from there. Successful monetisation of Lipitor and other products like Nexium, Diovan and Actos, can fetch Ranbaxy as much as $1.7 billion during the exclusivity period, say analysts.

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Controversy over generic Lipitor

WASHINGTON, 9 APRIL: The US Food and Drug Administration has asked a Federal judge to throw out Mylan Inc's lawsuit to clear the way for the company's generic version of Lipitor and deny a rival bid by India's Ranbaxy Laboratories. In a court filing this week, the FDA disputed claims Mylan made in a lawsuit filed last month in Federal court in Washington to force the agency to allow it to introduce the generic version of Pfizer Inc's cholesterol-lowering drug as early as June, the *Wall Street Journal* reported. Mylan wants the FDA to deny an application by rival Ranbaxy Laboratories, the largest drug maker in India but majority owned by Japan's Daiichi, to sell generic Lipitor, and to deny Ranbaxy a six-month period of market exclusivity for the copycat product, the *Journal* said. **ians**

13.4.11

Regulatory