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Pharma M&As: Appetite unabated, as scope widens

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The doors have not quite closed on mega merger-and-acquisition (M&A) deals in the domestic pharmaceutical space, say investment bankers and consultants involved in the match-making between companies.

Despite the Rs 17,000-crore acquisition of Piramal Healthcare's domestic formulations by multinational drug-maker Abbott last year, followed by the Rs 3,000-plus crore buy of Paras Pharmaceuticals by Reckitt Benckiser – the appetite continues, unabated, they say.

If anything, the doors have only been opened further – bringing in more players and increasing the "coverage" of local companies being looked at, they add.

The Abbott deal increased the credibility, showing that that the acquisition of a big Indian player was not a one-off deal, says Mape Advisory Group's Dr Abhishek Sharma.

The scope, range and depth of companies in India being viewed through the M&A prism now, has increased, he told *Business Line*. So, it is not just top Indian drug-makers, but companies across the board and geography of the country, that are on the radar, he said, sparing just about no local drug-maker.

On the acquiring side, while much has been said of the Pfizers, Glaxos and Sanofis circling domestic companies with interest, now, the next tier of companies, such as Watson, are also at the door-step, he observed. The continuing interest in the sale season is because there is uncertainty on the policy-road ahead on M&As, and how long such high valuations can persist. A cap on the foreign direct investment in existing operations, already being spoken about by the Government, could be viewed as a dampener for the acquirer, he observed.

Also, on the distribution side, size does matter and so, mid-sized and smaller local companies will be forced to seek at least collaborations to survive and command better prices in the market-place, Dr Sharma points out.

SOURCING OPTIONS

Multinationals looking into the country also realise as the number of acquisition deals increase, their sourcing options also dry up. The recent equity participation by Jordan-based Hikma in the unlisted Unimark, a maker of pharmaceutical ingredients and intermediates – is a deal to tie-up sourcing, he says.

However, not every multinational can write out those big cheques to buy out local drug-makers, says Mr Sujay Shetty, India-Head (Pharmaceuticals) of PricewaterhouseCooper's. While it is true that companies are scouting around for good buys and the scope and coverage for this has widened, several mid-tier companies will look at collaborations to start with, as they are unable to fork out the kind of money that local promoters expect.

Collaborations too could eventually take a turn to the altar, observes Dr Sharma, as pressure develops within the alliance for greater control, as the quantum of sourcing increases.

Industry