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A Shallow in the Pharma Space

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Can the Piramal-Abbott deal change the fate of the sector?

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FINALLY, the original takeover artist in the Indian pharmaceutical space has decided to part with his own family silver. Ajay Piramal's move to sell his company Piramal Healthcare Ltd's domestic formulations business to the US-based Abbott Laboratories for $3.72 billion (around Rs 17,000 crore), raises several questions. What is the way forward for the Indian pharmaceutical industry? Which pharma company is next in line for takeover? How many domestic pharma firms will eventually retain their ground to build strong domestic businesses as well as to aggressively tap the global opportunities?

The Piramal-Abbott deal would not have been surprising had it not been for the go-getter attitude with which chairman Piramal built his empire over the last two decades. Some well-known global names were Piramal's targets in this period, be it Roche, Boehringer Mannheim or Rhone-Poulenc.

It's hard to believe that the predator could become the prey at a juncture when the domestic business is thriving. The Piramals have been perceived as a dedicated family in the life sciences space. Swati Piramal has been evangelising India's potential in new chemical entity research with as much gusto as Anji Reddy did in the 1990s. The interest shown by the couple's children, Anand and Nandini Piramal, was cited as firm reasons why Piramal Healthcare would remain intact as a cohesive, Indian-run business. "Piramal has built a business leadership that is unquestionably professional," agrees Sujay Shetty, associate director for pharma & life sciences at PricewaterhouseCoopers.

This was an obvious temptation for Abbott. "While this has led to extremely good valuations for the formulations

secret that Piramal's plans to bring in external funding into R&D found no takers even a year after the R&D division was demerged from Piramal Healthcare and listed on the bourse. The unit now has 14 molecules in various stages of clinical trials. Ajay Piramal was clear about his intentions to pump back funds into R&D, custom manufacturing, over-the-counter business and diagnostics. "If it was about selling the company, I could have sold off my shares and gone to the beach," he said as he announced the sell-off.

The most compelling factor, apart from the handsome valuations, is the twin challenges that any Indian pharma entrepreneur would face today. The first is to build a sound business in patented products post-the product patent regime. The second is to tap the global generic space that has thrown up big opportunities, considering that sev-

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business, not all business houses should expect the same kind of valuations." Indeed, a major reason for the sellout would be the highly attractive valuations of around enterprise value (EV)/sales of 9(x) and EV/earnings before interest, taxes, depreciation and amortisation (Ebitda) of 27(x).

As Navroz Mahudawala, MD of Candle Partners, a boutique investment firms puts it, "The valuation was audacious, to say the least." But he hastened to add: "This was also the first instance wherein a pharma industry promoter had the courage to sell the cash cow and bring money into the company to reinvest without looking at encashment structures." The deal, coming two years after Japan's Daiichi Sankyo bought Ranbaxy for $4.6 billion, has catapulted Abbott to the No 1 slot among pharma companies in India with a 7% market-share, ahead of Cipla and Ranbaxy, from the 18th position this March.

Apart from valuations, it is the move to bring in money to plough back into the company that makes the decision justified. Some of the money can be used as risk capital to fund Piramal's R&D business, which is housed under the listed Piramal Life Sciences. It is no

eral governments in the developed world are supporting copycat drugs to rein in healthcare costs. "The pharmaceutical landscape is seeing competition, and there are issues related to patents and stronger regulatory hurdles," says PwC's Shetty. "Today's pharma entrepreneur would require product development expertise of the highest degree and the ability to innovate. The other option would be to grab an opportunity to sell off when it arrives", points out Shetty.

Was there an alternative to the sell-out that Piramal could have explored? "The Piramals were focussed primarily on the domestic market for their growth and profitability. The valuations they got for that business were too good," reckons Sarabjit Kaur Nangra, vice-president, research, at Angel Broking. The focus on the Indian market, while helping the company see revenues of Rs 2,000 crore for FY10 in formulations, also limits its spread in the high-value global generics game. Piramal would rather leave the global play to the new buyer, Abbott, to ponder. For the time being, he can smile about all that money in the bank, and take a well-deserved break.

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