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(Set up by Ministry of Commerce, Govt. of India)

COPY

Date : 03-06-2010

News / Story reproduced with thanks:- **Pharmabiz**

Falling Euro hits exports but opens up opportunities for strategic partnerships

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The falling Euro may have affected the competitiveness of Indian pharma exports and caused some concern about the receivables, but the crisis has opened up opportunities for firms in terms of partnerships with European companies. It has also helped some debtor companies with the rupee value in the Euro component coming down.

Dr Abhishek Sharma, VP and head, Life Sciences, MAPE Advisory Group Private Limited, said that a few companies like DRL, Ranbaxy, Cipla and Wockhardt. May have a problem as they have a presence in Europe but his company does not foresee much currency risk.

“While there is the obvious primary impact of the Euro devaluation leading to less competitiveness of Indian pharma exports, this may delay in the ‘sellout’ of mid-sized European businesses which could now be competitive with lower cost countries. In addition, Indian pharma firms have found that cost advantages can last for a while, but have not been able to reach the size and scale to compete with global players. A case in point are the sell-outs by Ranbaxy and Nicholas Piramal. In the final analysis, Innovation and R&D spend are key factors for longevity in this business where only a handful of large firms can afford to stay in this game. The falling Euro is probably a bigger consolidation opportunity for firms in the US firms than India,” said Nainesh Jaisingh, managing director, Standard Chartered Private Equity Advisory Limited.

Echoing Jaisingh's sentiments, Amit Chander, head of Investments, Pharma & Healthcare, Baring Private Equity Partners India, said that nearly 25 to 30 per cent of pharma exports are to Europe. To that extent, a weak currency will negatively impact the earnings. In the last five years Indian pharma has also taken foreign currency loans to finance their growth plans. The rupee value of the euro component in this debt would have come down with the depreciating currency and is an opportunity to repay.

The crisis has opened up opportunities to Indian pharma firms for mergers and acquisitions. “This may be a good time for Indian pharma firms to strike partnerships in Europe to create a multi-locational model which exploits the advantages of low cost skills from India, as well as innovations, know how and markets of Europe”, pointed out Jaisingh.

From the M&A perspective, interest in pharma has now moved to emerging markets for Indian and global companies. Only a handful companies are interested in ramping up presence in regulated markets. Within this subset, the interest is skewed towards US and not Europe. Compounding that background is the current situation where Indian companies would be wary of making acquisitions in Europe. Hence, we will see low traction in outbound deals to Europe despite lucrative valuations. The only exception is good quality contract manufacturers which will be acquisition targets for the Indian CRAMS players, opined Dr Sharma.

“Companies have tried to acquire manufacturing assets in EU to reduce time-to-market and over a period of time transition manufacturing to India. But this has proved more difficult and expensive than was originally perceived. A lower valuation would improve the return on investment (ROI) profile of such buyouts. But from an overall strategic perspective the recommendation would be to pursue acquisitions which give access to niche technologies and products,” said Chander.

On the steps to be taken to reduce the impact of the crisis, besides the more conventional hedging policies, is to diversify operations. However, risks like the European crisis can't be factored in as they are too widespread for any company to manage. One could only minimize the impact by continuously diversifying revenue streams, added Sharma.