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Date : 05-06-2010

News / Story reproduced with thanks:- **Business Standard**

Mid-size pharma firms emerge faster, perform better

June 5, 2010

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They aren't household names, but the feisty growers may be tomorrow's growth story. Sun Pharmaceutical Industries may be the largest Indian pharmaceutical firm in terms of market capitalisation, but the lesser-known Surya Pharmaceuticals, a Chandigarh-based company with a turnover of Rs 1,130 crore, has emerged as one of the fastest-growing, listed drug companies in the country.

For the past few years, powered by acquisitions, Surya, started by first generation entrepreneur Rajiv Goyal in 1992, has clocked 30-40 per cent growth annually. Earlier this year, the firm ventured into the lucrative domestic formulation business to become an integrated player instead of remaining a bulk drug supplier and a contract manufacturer.

Surya is not alone. There are several such mid-size pharma companies, many unlisted, outpacing the industry growth.



Others like this

Take the case of three young friends, Ajit Kamath, Manoj Jain and Rajendra Kaimal, who decided to venture into pharmaceutical business a decade ago. Now, they own 11 drug manufacturing units, two research and development units and employ over 2,500 people in their Arch Pharmalabs. With a turnover of over Rs 1,200 crore, it is one of the largest Indian contract manufacturing players for global pharma.

Coming from a non-pharma background and specialisation in financial services, they started business by taking over a small sick unit in Hyderabad. Backed by venture capital funding, they effected nine small acquisitions in different parts of the country within a decade and enhanced manufacturing capacities and quality standards of acquired units.

Sitting in the same old, low profile office in Powai, the three friends reveal their success mantra. "While many players in our field were competing with their own customers, we decided to follow strict non-compete agreements with our customers. This helped to gain customer confidence and business," said Ajit Kamath, chairman and managing director.

While Arch's sales grew by 25 per cent, there were several others who recorded faster rise in sales. Chennai-based Granules India saw sales rise by 59.4 percent to Rs 461.09 crore, while net profit rose over six times to Rs 30.37 crore last year. Similarly, Parenteral Drugs saw sales rise by 56.5 percent to Rs 421.71 crore. Profits were up 179 percent at Rs 32.69 crore.

The mid-run pharma companies, many of whom are coming on the acquisition radar of the giants — both domestic and multinational — have their own USPs.

For RC Juneja, the 55-year-old managing director of Mankind Pharma and a former medical representative with Lupin, cost control and thin margins have helped his company offer products at a steep discount to what his Indian competitors sell. As a result, from a turnover of Rs 50 crore, 10 years ago, it has broken into the top 10 rankings in terms of domestic sales.

Challenging big firms

“The firms to watch out for are the fast-growing mid-size companies. At 30-40 per cent growth every year, they are the ones that will drive the growth of the domestic pharma business. On the other hand, big firms with Rs 4,000 crore-plus sales will find it difficult to sustain a similar growth. That is the time when attractive valuations result in sell offs or stake sales,” said Ranjit Kapadia, vice-president, institutional research at HDFC Securities.

Among the listed companies, there are nine domestic companies with over Rs 3,000 crore turnover (Ranbaxy, Dr Reddy’s, Cipla, Sun Pharma, Lupin, Jubilant, Aurobindo, Wockhardt and Cadila Healthcare). Another 10 companies (Glenmark, Biocon, Torrent Pharma, Ipca Lab, Dishman, Orchid, Strides Arcolab, Alembic, Surya Pharma and Ankur Drugs) have a turnover ranging between Rs 1,000 crore and Rs 3,000 crore. Companies like Panacea Biotec, JB Chem, Elder Pharma, Unichem, Hikal, Indoco Remedies, Granules India and Parenteral Drugs are likely to break into the above Rs 1,000 crore turnover group within a few years.

These top 30 players account for production of over Rs 60,000 crore to Rs 70,000 crore. “If we take into account the production of top 10 unlisted players like Alkem, Mankind, Aristo, FDC, Cadila, Emcure and Arch Pharmalabs, we can easily estimate that about 80 per cent of the total drug production in India is from the top 40 players. Growth has been phenomenal for most of these firms which are ranked after the top 10,” said an analyst.

“Among the unlisted companies, players like Intas, Mankind, Emcure, Aristo and Alkem are all fast-growing, unlisted drug firms. Among the first two, Intas focuses on both exports as well as domestic business, while Mankind’s growth is completely driven by domestic sales. I see tremendous opportunities for these firms,” said Sanjiv Kaul, managing director, ChrysCapital, a private equity firm.

Seeing the growth, Kaul’s firm has already invested in Mankind and Intas, may also get a chance to invest in a few others. But ask any of the smaller players whether they will sell out, just as the Ranbaxy promoters or the Piramals did and the answer is a firm No. Analysts also say that with the kind of growth they are witnessing they would prefer to wait than to sell now.