



PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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

COPY

Date : 25-05-2010

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

Pharma: Running on valuation adrenaline

Akash Joshi & Sunaina Vasudev / Mumbai May 25, 2010, 0:08 IST

Direct link to the News/Story:-

<http://www.business-standard.com/india/news/pharma-runningvaluation-adrenaline/395936/>

The recent sale of Piramal Healthcare's domestic formulation business boosts valuation expectations of Indian pharma companies.

A huge premium valuation for Piramal Healthcare's formulation business made Abbot Labs the largest multinational pharma company in India. The trend of MNCs paying a premium for Indian companies is catching on. The enterprise value (\$3.7 billion) Abbot has paid for the business is estimated to be around eight times its estimated 2011 sales and 33 times its earnings before interest, depreciation, taxes and amortisation (Ebitda). This is nearly double the industry average for Indian companies. Earlier, Ranbaxy also attracted a premium valuation after being paid 6.4 times its sales by Daiichi Sankyo.

The current Piramal Healthcare valuation is higher than that of most global acquisitions that have taken place in the past few years. This should cheer players in the industry who would want to sell off their businesses for a strong premium valuation. They have reasons for keeping such expectations, as the Indian and other emerging markets promise remains strong. The BSE Healthcare Index has outperformed the benchmark Sensex this year. Since the beginning of CY10, the index has risen 5.16 per cent as compared to six per cent fall in Sensex. The Indian pharma market, estimated to be around \$8 billion, is expected to grow to more than \$20 billion by 2015, at almost 1.6 times the GDP growth, reckon analysts. The US and European market is expected to grow at a mere two per cent rate. Therefore, the MNC market share is expected to double to 50 per cent in the same period.

Indian companies are seen to be an attractive target. They have strong production facilities and access to low-cost manufacturing facilities. Apart from good domestic demand, several Indian companies have a strong export presence. Moreover, Indian companies have largely focused on the generic drug segment, as it takes around a billion dollars to launch a new product and face product failure risk. There are innovator-generic alliances that have been springing up and are expected to gain momentum in future.

Considering the short-term concerns, a five per cent currency appreciation could have an equal negative impact on the earnings per share, say analysts. Other than that, the pharma sector will continue to attract premium valuations.