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Piramal-Abbott deal: A reiteration of India story

But change in pharma landscape worrying too.

P.T. Jyothi Datta
Mumbai, May 21

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Mr Ajay Piramal, Chairman, Piramal Group, addressing a press conference in Mumbai on Friday. - Paul Noronha



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The Piramal Healthcare deal to sell its domestic formulations business to US drugmaker Abbott for a whopping Rs 17,000 crore, is reiteration of the India story, say industry-watchers. But the applause over valuations is not without a tinge of concern over the changing landscape of the domestic pharma industry. That Piramal Healthcare chose to sell a business division that clocked revenues of over Rs 1,800 crore - a virtual "golden goose" - seems to be justified by the valuation they have got, says Mr Ranjit Kapadia, HDFC Securities' Vice-President (Institutional Research).

Outlining the India advantage, he said, the customs manufacturing business, where Piramal Healthcare makes products for overseas clients, may be under some pressure at present. But the prospects for this business are good, given global recessionary trends and efforts by Governments to keep healthcare expenditure under control, he observed.

Further more, the Rs 17,000 crore remains with Piramal Healthcare and that adds to confidence in the company, he said, pointing out the difference from the Ranbaxy deal about two years ago, where promoters exited by selling their entire stake to Japanese company Daiichi Sankyo.

In fact, Piramal Healthcare Chairman, Mr Ajay Piramal, and wife, Dr Swati Piramal, were at pains to explain to the media gathered in their office that they were "not exiting the business."

PricewaterHouseCooper's India-head for pharmaceuticals, Mr Sujay Shetty, observes that Abbott gets a booster shot in its emerging markets strategy, even as it integrates its earlier acquisition of Solvay Pharma, which also has an Indian arm.

But one surprise loss for Piramal Healthcare from the transaction is the loss of cough syrup Phensydyl that will go into the Abbott stable, say analysts, a detail confirmed by a Piramal Healthcare official.

While Piramal Healthcare pulls off a great valuation, he says the acquired business will give Abbott a seven per cent market-share in the local market, something that would have otherwise taken the multinational a "generation" to achieve!

But industry watchers point out with both excitement and concern that the domestic pharma landscape is seeing a "seismic shift". Some years ago, the list of top drug-makers in India, saw only 20 per cent representation from multinational companies.

Today, with the latest deal putting Abbott at the top of the pile in India, it is of concern how this will reflect in the profile of the medicines market, their pricing and so on, they point out.

It is a reiteration of the India story, agrees Ernst & Young's Partner (Life-Sciences) Mr Muralidharan Nair, who points out that multinationals are increasingly showing confidence in the pharma industry and market in India, as against merely using it as a sourcing location. That said, it does power Abbott's emerging markets strategy, he added.