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India market charged with deals

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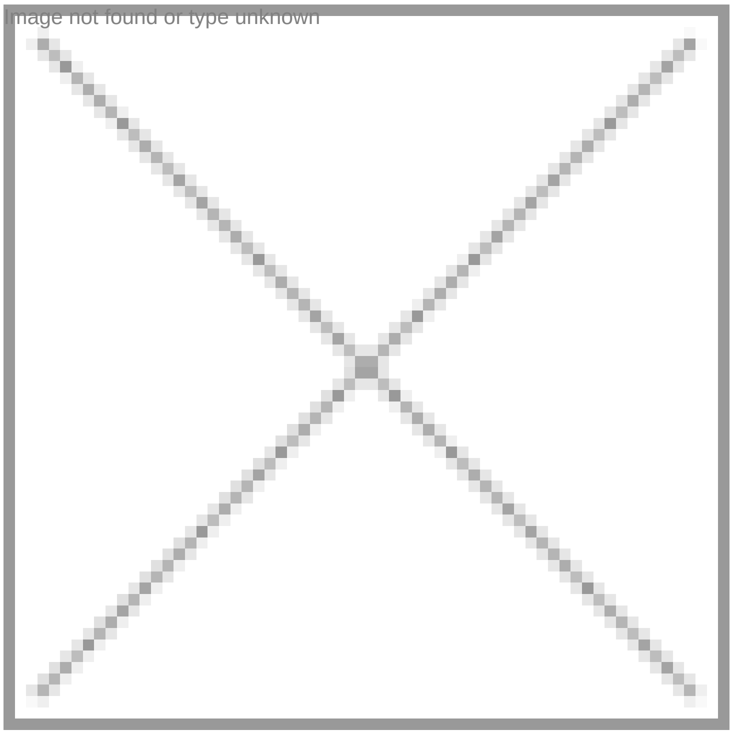

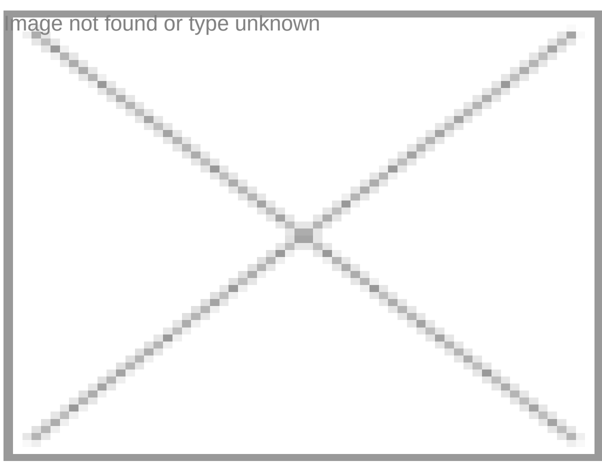

India market in 2009 has seen a rise of inbound deals both in terms of volume and value. â€œIndia is the place to be and every company has an India strategy. Inbound deals in India are either because of geographical expansion or from the CRAMS side,â€? says a Mumbai-

There have been multiple small scale outbound deals but not a large scale blockbuster transaction like the Dr Reddy's Labs acquisition of Betapharm. â€œThere has been an overall contraction of cross-border merger and acquisition (M&A) transactions between 2008 and 2009 in India. The drop in outbound deals was even more visible (30-40 percent). In fact, many Indian companies had to offload their domestic and foreign assets to shore up liquidity,â€? says Kapil Khandelwal, director, Makven rvices company.

A quick view across all sectors in 2009 reveals an overall drop in M&A deals in India. Indian companies were involved in a total of 356 M&A deals, which dropped 34 percent as compared to 2008, according to a study by Venture Intelligence, a research service focused on private equity and M&A transaction activities in India.

However, with the global financial crisis beginning to ease, industry observers believe biotech might be the next top acquisition target.for most M&A and private equity deals. A recent study by Grant Thornton, an advisory firm reveals that the sectors where PE firms are most active now are pharma, healthcare and biotech, along with real estate and infrastructure management, IT and BPO. Analysts predict that in the near future though a large scale outbound acquisition from India looks remote but this will not stop the flow of small and mid-size deals.

Outbound deal aversion

Most analysts opine that companies are currently on the wait and watch mode. Navroz Mahudawala, associate director, Transaction Advisory Services, Ernst & Young, says, â€œBetween 2004 and 2007, Indian companies were on a major acquisition spree with Dr Reddy's Laboratories (DRL), Ranbaxy and Wockhardt being in the forefront for outbound deals. Various factors have changed since then.â€?

Today, Wockhardt is a debt-ridden company trying to raise cash by offloading non-core businesses such as animal healthcare and hospitals, while Ranbaxy is now a subsidiary of Japan's Daiichi Sankyo Group. DRL has incurred massive losses in its German subsidiary Betapharm. These top Indian pharma companies have now given way to newer rivals in the market-Glenmark Pharma, Zydus Cadila, Lupin and Piramal Healthcare who, however, go in for small outbound deals or brand acquisitions.

Outbound deal sizes today vary anywhere between Rs 45-225 crore ($10-50 million) unlike a few years ago, when Indian companies had ambitious targets of hitting the Rs 2,000 crore ($500 million) plus mark. â€œBeing in the cautious mode, there were few deals across the globe and now there is more of an inbound focus,â€? adds Mahudawala.

A Venture Intelligence study revealed that in life sciences sector, in 2008 there were 35 outbound deals, 2009 saw a sharp dip to less than half-13 deals to be precise. This coupled with the economic downturn which hit world markets led to credit squeeze. Sujay Shetty, associate director, PricewaterhouseCoopers, says, â€œSince the markets were down, Indian companies became too cautious and did not want to spend money for any acquisition. The financial slowdown resulted in lack of money and management, and the companies started concentrating on adjustment, on getting more synergies out of the older acquisitions.â€?

This was a wake up call for many Indian companies. â€œThe global financial crisis and fears of the slowdown in the economic growth activity impacted the valuations of the companies. Many active acquisition-discussions for outbound deals slowed down or literally froze as the expectations of rock-bottom valuation emerged rather than inherent value of the assets. This delayed the deal making and closure activities,â€? explains Khandelwal.

Indian companies in the CRAMS space, however, have been consistent in their outbound investments over the years, they have strengthened their market position by actively pursuing overseas acquisitions to expand their customer base and this also includes the period of global economic crisis.

â€œThere have been more deals in CRAMS, formulations and generics, but, hardly any in the API segment,â€? says Mahudawala. Jubilant Organosys acquired Hollister-Stier Laboratories, US, for Rs 550.76 crore ($122 million) in 2007 and Draxis Health, Canada, for Rs 1,182 crore ($262 million) in 2008. These acquisitions have provided Jubilant access to new technologies, expanded service portfolios, global manufacturing and research sites, international regulatory approvals and a ready client network. A KPMG report suggests that private equity firms have invested in Indian CRAMS companies for funding the expansion of their research and manufacturing capacities and for acquisitions. In 2008, Jacob Ballas and New York Life Investment Management invested Rs 194 crore ($43 million) in Themis Laboratories and Baring Private Equity Partners India invested Rs 67.72 crore ($15 million) in Sphaera Pharma.

Outbound deals have also shown a consistency in cases where Indian companies are looking at entering new geographical regions. â€œCompanies that are overexposed to developed markets like the US and Europe, where there is high price erosion or competition, they start looking at other markets like the emerging markets, some look at Africa or Latin America for expanding their presence,â€? adds Shetty.

Above all, the year 2009 was a year of consolidation and emphasis on increase in sales for Indian companies. This trend, itis said, will continue in the coming years. Dipta Chaudhury, program manager-South Asia and Middle East, Pharma and Biotech Practice, Frost & Sullivan, says, â€œThough the recession had hit many global companies, performance of Indian companies had remained steady. This, however, required concentrated efforts and also reduced the risk appetite for the companies. With global mergers and acquisitions also taking place, the pharma scenario was unpredictable on an international level. This reduced the scope of deals from India in 2009.â€? A KPMG report points out that in the near term, the focus will be on consolidation, as the life sciences sector continue to face regulatory barriers, pricing and intellectual property challenge.

Strategic inbound focus

India Inc, now, has an inward focus which means an M&A could happen at two levels â€“ either through domestic acquisitions or being acquired by a foreign company. Mahudawala says, â€œIt is on a case-by-case basis. Most of the inbound deals happened out of financial compulsion or specific strategic decision like the Wockhardt-Abbott and Orchid-Hospira deals.â€? There is definite activity in the biotech segment, particularly in the vaccine segments. The global H1N1 and other endemics are one of the key drivers for M&A activities to acquire assets and capacity that are attractively valued.

â€œThe reason for increase in inbound deals is simple, larger foreign companies look at India as an emerging power and can add significantly to their numbers. The current trend is that the MNCs are targeting Indian companies that have strong foothold in the local market. So, the deals are not very segment specific. But vaccine market is quite hot these days,â€? adds Shetty. The Shantha Biotech-Sanofi Pasteur deal that happened last year was a landmark deal with Shantha selling out at eight times their valuation at Rs 3,475 crore ($770 million), as was much unexpected deal of Orchid selling its injectibles business to US-based Hospira in December 2009.

â€œAs the value of the Indian assets and subsidiaries have decreased, the inbound deals become an attractive value proposition for foreign players to increase their stake in their Indian subsidiary, like the deal by Pfizer, or acquire an outright stake into Indian companies.â€? adds Khandelwal.

Apart from the large scope of the Indian market, the competitive advantage enjoyed by Indian companies is unparalleled in terms of cost, and competency. â€œIn addition, through experience it has been seen that Indian companies enjoy the privilege of understanding the Indian market better than any new entrants.â€? adds Chaudhury.

The way forward

Now, the India market is far too attractive and dynamic, and it is driving the growth of global market in several segments. While vaccines are pitched to be the hot pick for deals and transactions, other sectors include medical devices, imaging and diagnostics. â€œIn terms of volume, we can expect deals in the medical devices, life sciences tools, medical equipment and testing and diagnostics segments to be comparably high, but the average ticket size in such sectors will be smaller,â€? says Khandelwal.

Despite facing a difficult year, margins for most companies have picked up in the first half of 2010 and Indian companies are back on the track of going global. â€œThe economic climate is improving and the funds are available. Valuation overseas is also better than in the domestic market. Indian companies can go out for quick franchisees and businesses,â€? adds Shetty.

There is scope for a pick-up in the small outbound deals but the focus again will be on domestic consolidation and inbound deals. An outbound deal of over Rs 2,000 crore ($500 million) scale seems highly unlikely. There is a possibility of a large scale deal if the Sun-Taro issue is settled. But, we will see deals mostly in the range of Rs 45-225 crore ($10-50 million).

â€œOutbound deals from India will definitely see a rise in the coming years. With Indian companies showing confidence in their business model and expansion plans, they will allocate a certain percentage of their income towards outbound deals. However, most of the large Indian companies in the pharma sector have already invested for establishing offices in across the world and are still integrating their acquisitions,â€? adds Chaudhury.

Industry watchers are positive that inbound deals will definitely see a surge in the second half of 2010. Talks about two big pharma companies' plan for large scale acquisition in India are doing the rounds. â€œThere are certain factors that may impair too many inbound deals from happening in the coming years such as exaggeration/over evaluation of a company, and quality issues as seen in the case of Ranbaxy),â€? adds Shetty.

Experts, however, caution. Market analysts believe that as of now there are very few sellers from India because of expectations reaching higher levels. While commenting on the market scenario, CEO of a top pharma company, says, â€œIndians become unrealistic when it comes to valuation of their assets. This might prove to become a hindrance to inbound dealsâ€?.

Outbound/Inbound deals

M&A transactions in HLS sector

Year	No of Deals	Amount ($ M)
2009	41	$2,101m across 19 deals with announced value

2008	67	$5,692m across 33 deals with announced value

Inbound M&A transactions in HLS sector

Year	No of Deals	Amount ($ M)
2009	13	$1,770m across 11 deals with announced value
2008	4	$4,898m across 3 deals with announced value

Outbound M&A transactions in HLS sector

Year	No of Deals	Amount ($ M)
2009	13	$113m across 5 deals with announced value
2008	35	$490m across 11 deals with announced value

Source: Venture Intelligence

Buyer	Target	Description
Millipore Corp, US	Millipore, India	Majority stake in their Indian subsidiary
Aurobindo Pharma	Trident Life Sciences	Merger with wholly owned subsidiary
Merck KGaA (through Merck Specialities)	Bangalore Genei (India)	Sanmar Group's company that specialises in developing products for proteomic and genomic research
Biocon	IDL Specialty Chemicals	Fully-owned subsidiary of Gulf Oil Corporation
PerkinElmer, Inc	Surendra Genetic Labs	Acquired the genetic screening business
Serum Institute	Orchid Chemicals	Open market stake buy out
Abbott	Wockhardt	Purchase the nutritional business of Wockhardt
Sanofi Pasteur	Shantha Biotech	Acquisition of MÃ©rieux Alliance's French subsidiary, ShanH, which owns a majority stake in vaccine company, Shantha Biotechnics
Daiichi Sankyo	Zenotech Laboratories	Open offer to increase stake
Pfizer, USA	Pfizer India	Open offer to increase stake
Ambalal Sarabhai Enterprises	Suvik Hi-tek	Stake acquisition
Emami	Zandu Pharmaceutical Works	Increase stake in the company
Lupin	Pharma Dynamics	Majority stake in the company
Panacea Biotec (through its subsidiary Kelisia Holdings)	Pharm Athene Inc	Stake in the company

Matrix Laboratories	Fine Chemicals Corp	Increased the stake in the company to 100%
Perrigo Company	Vedants Drugs and Fine Chemicals	Majority stake in the company
Cadila Pharmaceuticals	Novavax	JV formed under CPL Biologicals to manufacture vaccines
Kerala Ayuveda	Arya Vaidya Pharmacy	Merger
Vetoquinol	Wockhardt	Acquired animal health division
Lindopharm GmbH, Germany	Wockhardt	Acquired German business Esparma of Wockhardt
Pfizer Animal Health	Vetnex Animal Health Limited	Exit by ICICI Ventures
Lanxess AG	Gwalior Chemicals	Acquired chemical businesses and assets
Camlin Fine Chemicals	Sangam Laboratories	Entry into the alternative medicine space
Novartis AG	Novartis India	Open Offer to increase stake
Lupin	Generic Health	Increased stake from 30% to 50%
Ranbaxy	Biovel Lifesciences	Entry into vaccines business

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- **Dipta Chaudhury,** program manager, Pharma and Biotech Practice, Frost & Sullivan

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