

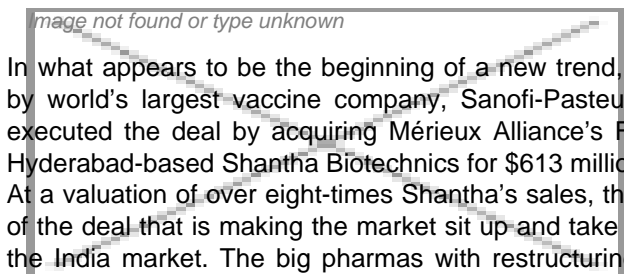
Vaccines, the big deal

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In a first-of-its-kind deal in the region Shantha Biotechnics got acquired by world's largest vaccine company, Sanofi-Pasteur for \$613 million (Rs 3,740 crore). This has opened the possibility of greater MNC play in the vaccines segment in the region, given that India has many such likely takeover targets.



In what appears to be the beginning of a new trend, India's pioneering vaccine company, Shantha Biotechnics got acquired by world's largest vaccine company, Sanofi-Pasteur. The vaccines division of the Sanofi-Aventis Group, Sanofi-Pasteur, executed the deal by acquiring Mérieux Alliance's French subsidiary ShanH, which owns a majority stake (79 percent) in Hyderabad-based Shantha Biotechnics for \$613 million (Rs 3,740 crore).

At a valuation of over eight-times Shantha's sales, this is the first-of-a-kind deal in the region. However, it is not just the size of the deal that is making the market sit up and take notice. The buzz is that more such deals are in the offing. Especially, in the India market. The big pharmas with restructuring on their agenda are eyeing the Indian market. An acquisition of this nature can quickly change the complexion of their financials and put them on a fast track growth path. In that light, Sanofi-Pasteur's acquisition is significant.

Also significant is the fact that there were many other companies who were wooing Shantha, including some top Indian vaccine players. Its founder-promoter KI Varaprasad Reddy, never in his wildest dream thought that his company one day will be valued at over eight-times the market valuation. The deal was way beyond his expectation. Though market experts believe Shantha Biotechnics is a deserving target.

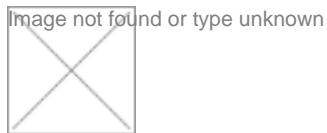
The love and labor of Varaprasad Reddy's life, Shantha Biotechnics, came into existence and shot into prominence with the altruistic agenda of launching India's first r-DNA Hepatitis-B vaccine. The company challenged the monopoly leadership of SmithKline Beecham with its hepatitis-B vaccine Shanvac-B in 1997. Today, Shantha's combination vaccines are sold in many countries and bought by WHO and UNESCO.

According to Sujay Shetty, associate director, PwC, the deal will certainly lead to many a boardroom discussions. "The focus is on India and the India growth story. Besides, there's a feeling that the MNC will play a much bigger role in the vaccine market in India. The MNCs are making up for lost time when they ignored India by acquiring domestic vaccine makers and grow relatively quickly," says Shetty. Another market analyst adds if such generous valuations are done then more such vaccine makers in India will be willing to sell-out.

There are very good reasons for the foreign MNC-interest in vaccines, elaborates Shetty. Firstly, there has been a stagnation in the R&D pipeline globally. Secondly, there's been a rise in some new diseases. Thirdly, most of the big diseases will become bigger in emerging markets. "So, the principle is quite simple. Prevention is better than cure. If you can treat someone cheaply with vaccines, then vaccines will score high," he says.

Market research puts the current Indian vaccine industry at \$737 million (Rs 3,587 crore) and it is expected to grow at about 20-25 percent over the next few years, while globally, the vaccine industry is valued at \$20.6 billion and is growing faster than the pharma industry.

This fast-paced growth and the deepening of the healthcare industry will lead to more vaccine use in India and elsewhere. India-based companies are likely to be front runners in the segment as they are years ahead of other countries, in vaccine technology, at least in the region. Indian vaccines are affordable and companies have ready manufacturing units that supply globally. This is enticing enough for big vaccine or pharma companies to look at India.



Cashing on India

Shantha-story is an example of how foreign vaccine makers want to cash in on Indian vaccine makers. This deal has in fact improved the fortunes of some of Shantha's domestic rivals—such as Serum Institute, Panacea Biotech, Indian Immunologicals and Bharat Biotech—who also have equally rich vaccine pipeline, research and manufacturing capabilities.

According to Shantha founder, Varaprasad Reddy, the deal sends a strong signal that Indian pharma and biotech companies are well respected. "The high valuation is due to our quality conscious products at low prices. We have been focusing mainly on good quality and developing new products for affordable healthcare," he says. Vaccines have come to represent why India is being respected. Most Indian companies have an exciting range of product pipeline and many are in development stages. And if the interest in vaccines worldwide is anything to go by, then Indian companies will be the top sellers of vaccines, even in developed countries. This is why foreign companies want to look at Indian companies.

For Sanofi-Pasteur, the acquisition of Shantha is a sureshot way of getting into a very lucrative business, that promises to give returns for many years.

Footprint in the South

In this context, the single important point is: foreign companies do not have the full expertise to penetrate the local public markets by themselves in India as domestic companies have a good reach, some of which they gained while being in an protected era. "In order to serve these public markets with Sanofi-Pasteur products, it is critical to have the right products and to have the ability to both quickly develop and manufacture these products at low cost with a solid and recognized local presence: infrastructure in industrial operations, R&D and commercial operations," adds Sanofi-Pasteur spokesperson. "Shantha is a footprint in the South and will give Sanofi-Pasteur the opportunity to produce and deliver vaccines that conform with international standards of high order and at affordable prices for the short, mid and long term. Sanofi-Pasteur will support Shantha's ongoing development as a platform to address the need for high quality affordable vaccination in international markets."

Shantha has four vaccine products in its pipeline, and intends to launch a wave of new vaccines in the years to come, so Sanofi-Pasteur could utilize Shantha's R&D capability to enhance time-to-market of its products, for example by performing early stage clinical trials.

Sanofi-Pasteur intends to operate Shantha as a separate business unit, besides it will also maximize the synergies while retaining the competitive advantage.

Sanjeev Jain