# Life sciences firms chant IPO mantra

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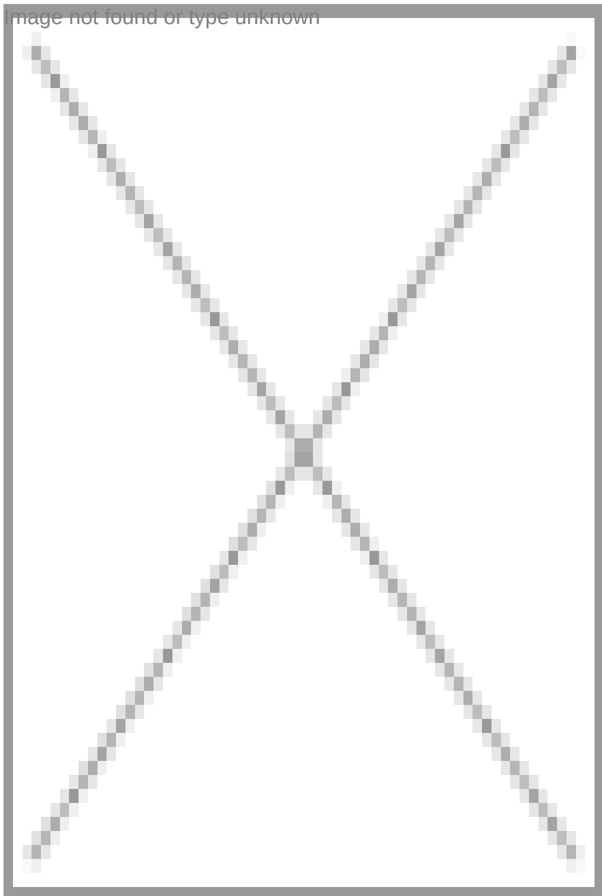
*The life sciences sector is gradually undergoing a metamorphosis. From being a risk-averse segment in the past, to looking towards the public market — in order to meet large scale growth and expansion plans*




With the Indian markets picking up in the year 2010, floating an Initial Public Offering (IPO) is becoming the favored route for mid-sized life sciences companies to meet large-scale expansion plans. Last month, the industry saw three prominent companies, namely Intas Pharma, Arch Pharmalabs and Calyx Chemicals filing for the Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI), all within a span of seven days. The shift of the bullish market sentiments, from all-time favourite sectors like real estate and IT towards niche sectors such as life sciences, are said to be some of the reasons for this

Market analysts and investors are hopeful that the coming months will witness several IPOs from this sector. Says Sanjay Singh, associate director, Corporate Finance, KPMG, “Several mid size pharmaceutical companies are expanding their operations in R&D, manufacturing and marketing functions and require capital. In some cases, capital is needed to rationalize the debt/equity ratio. We will continue to witness IPOs of growth oriented pharmaceutical companies that have achieved the

With the markets now reaching an all time high, analysts opine that this is the right time for companies to go in for an IPO. “The market timing of several DRHP filings is just right as the BSE Sensex is inching back towards the 20,000 mark. This would indicate that the recent DRHP filings are not due to ‘spillover effect' but just preempting market timing to gain better premiums for the investors who are diluting their shareholding through the IPO route,” elaborates Kapil Khandelwal, director, Makven Capital, a niche investment banking and advisory services company.

Dr Nitin Deshmukh, CEO, Private Equity, Kotak Private Equity Group (KPEG), Mumbai, who has been a prominent figure in the industry spearheading funding for most of the top life sciences companies including Biocon, also provides an insight. He says, “We do have some quality IPOs in the pipeline. Earlier most companies were apprehensive of going public because of the volatility in the market. But now markets look strong and the pharmaceuticals' sector has demonstrated good earnings growth which makes it a stable sector to invest.” In addition to this, recent turn of events in the last year could prove to be brownie points for life sciences companies. “Increasing foreign interest in the sector along with a slew of mergers, acquisitions and high valuations of companies over the past one year has changed market sentiments towards this sector.” says Sujay Shetty, director — Pharma and Life Sciences, PricewaterhouseCoopers. The only dampener could be the talks regarding the Indian government putting a cap on FDI and introducing price control measures on drugs.

While in the past, companies in the contract research and manufacturing services (CRAMS) space were the favourites amongst investors, it is no longer the case in the present scenario. “Companies having a good size revenue before going public and companies with a strong domestic presence have the upper hand. Also, companies into Biogenerics are gradually turning out to be favourites amongst investors,” adds Dr Deshmukh. Last year, Gujarat-based injectables' company, Claris Life Sciences, floated an IPO but received a lukewarm response from the market. According to an industry observer, from a PE firm, “The market at that time went into a bearish outlook and it was not the right time to go in for an IPO. Coupled with this, was the recall of one of the company's products from the US market.”

**Companies that filed IPO in the past one year**

| | Segment | IPO | Issue Price | Multiple | PE Dilution | Over/Under Subscribed |
|---|---|---|---|---|---|---|
| Intas Pharma | Pharma | Apr 2011 | DRHP Filed | NA | Yes | NA |
| Arch Pharmalabs | Pharma | Apr 2011 | DRHP Filed | NA | Yes | NA |
| Super Religare | Labs | Mar 2011 | DRHP Filed | NA | No | NA |

| | | | | | | |
|---|---|---|---|---|---|---|
| Omkar Speciality Chemicals | Specialty pharma intermediates | Jan 2011 | 98 | 9.8 | No | 4.67 times |
| Claris Lifesciences | Injectables | Dec 2010 | 228 | 22.8 | No | 1.50 times |
| Marck Biosciences | Pharma | Oct 2010 | DRHP Filed | NA | Yes | NA |
| Parabolic Drugs | API | June 2010 | 75 | 7.5 | Yes | 1.20 times |
| Syncom Healthcare | Formulations | Jan 2010 | 75 | 7.5 | No | 5.17 times |

**Expansion plans for companies**

By floating an IPO, Intas Pharma, Arch Pharmalabs and Calyx Chemicals are looking to raise 425 crore, 135 crore and 100 crore of capital funds respectively. Intas Pharma has identified biosimilars as a long term growth opportunity and is expected to continue to make substantial investments in manufacturing, in-house development and marketing of products based on biotechnology, with a focus on high-growth therapy areas such as oncology, nephrology and arthritis. The company is looking at streamlining a chunk of the net proceeds from the IPO into its biopharmaceutical subsidiary, Intas Biopharmaceutical (IBPL). The subsidiary, which was acquired by the parent company (Intas Pharma) in December 2010, has investments worth 322.4 crore, including in-house development and manufacturing of products based on recombinant DNA. It has currently developed and fully commercialized five products in India and other semi-regulated markets in Africa, Latin America and Asia Pacific. It has additional 11 projects at advanced stages of development, nine of which are for the Indian market and two for the regulated markets. At the Moraiya facility, Ahmedabad, which is operated by IBPL, the company intends to invest over 15 crore from the net proceeds towards acquisition of ready premises and expansion of the given facility in three stages.

Arch Pharmalabs, which apart from APIs and intermediates also looks at CRAMS, is looking at repayment or prepayment of term loan, capital expenditure towards existing manufacturing facility, investment in EHS infrastructure and corporate R&D center. Calyx Chemicals has major plans to expand its CRAMS business, globally, and it has revealed that around 80 percent of its proceeds are being fed in doubling its existing manufacturing capacity at Tarapur.

Bangalore based-biotech company, Avesthagen, is also looking at going the IPO route to raise around 700 crore for its expansion plans. The company began the exercise back in 2008, but had to shelve its IPO plans due to the economic downturn. In 2010, Avesthagen CMD Villoo Morawala-Patell announced that the company would launch its IPO offerings towards the second half of 2010. The plan has already run into delays. Looking into the future, if Avesthagen's IPO comes through, we could expect to see expansion of the manufacturing and marketing capabilities of its products, mainly biosimilars. Market analysts also reveal that Emcure Pharmaceuticals is planning to raise around 600-700 crore through the IPO route.

**Top PE exit for rich gains**

Going public is good news not just for companies but also for private equity (PE) players who are looking at monetary profits by exiting from these companies. Though the exact returns are not yet available, the multiples could go beyond the five times mark, claim market analysts. Says Khandelwal, “With the Sensex looking bullish and touching levels which were last seen during 2007, we can expect PE exits with higher returns and gains.” ChrysCapital is selling half of its holding in Intas Pharmaceuticals (5.61 percent stake) out of its total holding of 11.2 percent. Five years back, the firm had picked up a stake from ICICI ventures and had invested 48 crore in the Intas.

Arch Pharmalabs will see the exit of six of its PE shareholders. ICICI Venture is part-exiting its investment in Arch Pharmalabs through India Advantage Fund V, which holds 21.1 percent stake and fully exiting through India Advantage Fund II (1.45 percent), Dynamic India Fund I (1.77 percent) and Rainbow Fund (0.02 percent). Swisstech VCF is also exiting by selling its entire 8.16 percent stake, while Leverage India Fund is selling around one-third of its 7.28 percent stake.

In conclusion, it can be stated that the move to float an IPO is considered as a welcome sign by both the investors and the market observers. “It has been a long time since we have seen a good IPO in this sector. Looking at the profiles of some of the companies filing in DRHP, some positive outcomes are in the offing,” says Dr Deshmukh.

**Nayantara Som** in Mumbai