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the business of Bio & Health Sciences

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-Sushil Mehta, managing director, RFCL

Could you tell us how RFCL's growth strategy continues to develop and evolve?

We were initially looking at strengthening our capabilities in terms of our people and customer base. In the second phase, we started building new capabilities in terms of capacity expansion with a new manufacturing facility, stringent quality control measures, and up-scaling of the lab for the final quality control. We have enhanced our basket of services, but a lot of work still has to be done like offering veterinary services to the veterinarian and providing kits for diagnosis of mastitis and diagnostic tools for pets. We started bringing some of these to the market and are increasing our basket of products.

The growth in India is double the global rate in all the segments that we are present. But the size of the Indian market is only about 1 percent of the global market. Even though this size is increased to a 4-5 percent share, we would still not be a global player if we are not physically present in strategic markets because exports will take a longer time. We are looking at Europe first. To achieve this, we will need a global mindset and build global resources. We will be closing FY2007-08 with revenues of Rs 300 crore annualizing our current businesses and the three companies that we have acquired in the last one year.

How did the acquisitions strengthen your business?

Wipro Biomed strengthened our Diagnova business. It not only expanded our in vitro capability, but also strengthened our overall life sciences portfolio. We want to be a consolidated diagnostic supplier. We have 200 people in the diagnostics team and the Diagnova business on an annualized basis will be around Rs 80 crore this year compared to Rs 35 crore in the previous year.

Godrej Medical Diagnostics has been a helpful addition because they had a point of care business which means that it had an offering which can be used by a physician for hemoglobin analysis and even for diagnosis of malaria. This was one segment that we were looking at in order to take the products to the physician's desk.

Alved Foods and Pharma has generic products in animal health just like Vetnex. While Alved has a very strong base in southern India, our strength is the North and the East. This acquisition strengthens our market share in South. Second, it has a very good institutional business. Government is a major buyer in the animal healthcare business and Alved has a good share there. Third, it also has a good presence in the Middle East. So the revenue mix is complementary.

Have the acquisitions changed your priorities?

All business units are given the same emphasis. In an inorganic growth, something that would have started a year back would be in the process stage and something started two months back could have possibly happened. Our idea of acquisition is that it should come to us at a value where we think it is good and we can enhance its value. It has to be synergistic and not conflicting with the present growth that we have. There won't be many opportunities for domestic consolidation until and unless we are enhancing the product portfolio and hence the focus is on market outside India.

Are you looking at overseas partners in particular sectors?

The largest opportunities will come from lab solutions and in the animal health space. There has already been a lot of consolidation in the diagnostics market. The top 10 players are global bigwigs and are followed by niche players in Europe. So we are looking at picking up such companies and it will take time. But in the animal health space, when there's more pressure on the margins for these companies, they will look at companies, who either have the capability in sourcing of APIs or synthesizing of APIs which are going off patent. There has to be a win-win situation for both the entities.

How has the private equity helped you?

ICICI Venture has been helpful to the management in terms of providing future orientation perspective to the business and development of leadership. We have moved from the typical target to aspirational goals. When we were in the process of disinvestment from Ranbaxy, we were given a four-year goal to take our revenues from Rs 150 crore to Rs 350 crore, but today with a consistent double digit growth in all the segments that we operate in, we are set to achieve our target in the third year itself. We are already a year ahead of that deadline. What has helped achieve our goals is the transition of the core team from professional managers to entrepreneurs, focus on corporate governance, good business hygiene and global outlook.

How are you looking at funding your growth?

We had created a corpus of about $20 million through equity dilution in April 2007. Through that we offered a 10 percent equity which resulted in valuation of the company at $170 million. So we have some amount of corpus available with us even after the three acquisitions that we have done. When we do acquisitions beyond India, we will be creating a holding company and bring investors into that holding company. This will depend on the size of the ultimate target that we will be finalizing in Europe.

What are your plans for the future?

In 2008-09, we are looking at revenues of close to Rs 400 crore from our organic business (that already has a growth of 20-25 percent). We are looking at inorganic growth as well. We are aiming at a fairly achievable target of Rs 500 crore by 2010 because by that time we would have added some more businesses. We have sufficient capability in terms of the people to drive us at double the market growth in all the segments. We will be consolidating our position in the Indian market and increase our global presence by acquiring companies that are also looking for suitable partners who have a base in India as well as manufacturing capabilities. There has to be a win-win scenario for both the entities. We see RFCL in a unique position in the next few years in the life sciences and laboratory solutions space, as the largest service provider in the country with our diverse range of businesses.

Shalini Gupta