

**RATIONALE FOR M & A - INDIAN INDUSTRY -
Grant Thornton Study
SURVEY OF INDIAN CORPORATE MANAGERS**

The two main objectives behind any M&A transaction, for corporates were found to be:-

- Improving revenues and profitability, and
- Faster growth in scale and quicker time to market.

M & A are a significant form of business strategy today for Indian corporates.

REASONS FOR M&A

- Greater value generation
- Gain in market share
- Gaining cost efficiency
- Procurement of supplies
- Revamping production facilities
- Market expansion and strategy
- Financial strength
- General gains
- Own development plans
- Strategic purpose
- Corporate friendliness
- Desired level of integration
- Size of the organisation

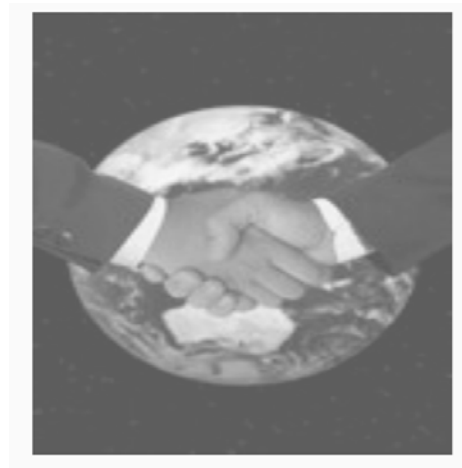


Table:- Objectives of Indian Corporates for M&A	
<i>Objective Behind the M&A Transaction</i>	<i>Responses (in %)</i>
<i>To improve revenues and profitability</i>	<i>33</i>
<i>Faster growth in scale and quicker time to market</i>	<i>28</i>
<i>Acquisition of new technology or competence</i>	<i>22</i>
<i>To eliminate competition and increase market share</i>	<i>11</i>
<i>Tax shields and investment savings</i>	<i>3</i>
<i>Any other reason</i>	<i>3</i>
<i>SOURCE:- Grant Thornton (India), The M&A and Private Equity Scenario, 2006.</i>	

CONSIDERATIONS IN SUCCESSFUL ACQUISITION PROCESS

- Screening, selecting and negotiating with target firms.
- Due diligence inclusive of language, cultural, regulatory and marketing issues
- Strategic and financial issues
- Integrating the newly acquired business



NUMBER OF ACQUISITIONS BY TOP 10 INDIAN PHARMA COMPANIES

	Total	Foreign
Ranbaxy Labs	12	7
Dr. Reddy's Labs	8	6
Cipla	-	-
Sun Pharma	10	4
Piramal Health	14	4
Lupin	5	4
Wockhardt	8	3
Aurobindo Pharma	3	3
Cadila Healthcare	11	5

M & A Benefits For Pharma Companies

- As a growth strategy
- Benefit of “time to market” factor
- Benefit of scale of operation
- Achievement of critical size in shorter time frame

Why INDIA ?

- Easy availability of investment capital for R&D
- Large scale prevalence of major diseases
- India is a huge domestic market
- Product and process patent regime
- Low cost Biotechnology and Generic Pharma manufacturing Industry growing at accelerated Rate of 13 %
- Well developed Business Infrastructure of Pharma Regulators, suppliers, Market research Agencies, sales promotion, distribution etc.
- Availability of low cost clinical trials expertise

Funding Advantage

- Funding environment of Indian market supports the Pharma industry, expected to remain robust
- Various investment avenues such as FCCBs, AIMS, GDRs
- Increased focus on innovation and R&D expenditure

Union Budget 2008 As Instrument of Development

- Increase in healthcare allocation by 15%
- Allocation of Rs12050 Crs for Rural Health Mission
- Excise duty on Life-Saving and Anti-AIDS drug scrapped
- Custom duty cut on selected Life-Saving Bulk drugs from 10% to 5%
- Increased allowances for R & D expenditure

Union Budget 2008 Recommendations

- Extension of 150% weighted deduction of in-house R&D expenses by 5 yrs
- Additional medical insurance premium of Rs 15000-20000 for parents under Sec 80D
- Overall drugs prices to fall by 4-5% as NPPA announces new notification on prices for 74 controlled drugs

How to Make M&A Successful?

- Clarity of long term objective for a Transaction
- Value accretive to shareholders
- Look into cultural issues (for overseas acquisitions)
- Be aware of the intricacies of doing be transactions in another country

Sealing the Deal



- Right Valuation of The Business
- Completion of Transactions
- Proper Integration of Transactions
- Due Diligence

Reasons for Failure of Mergers

- Excessive premium
- Poor strategic fit
- Incomplete and Inadequate Due Diligence
- Incompatibility of Partners
- Mergers between Lame Ducks
- Expecting Results too quickly

Ways to Avoid the Pitfalls

- Understand the other company's offering
- Find out about key employees and the culture of the business
- Not all customers are equal

Case Studies

- Sun Pharma –Taro



- Ranbaxy- Daiichi Sankyo



Refernces :

- ICFAI Journals
- Journal “Express Pharma”
- www.ibef.org

SECTION - 2
PROCEEDINGS OF SEMINAR
14.02.2009