

A Study on Wave of Mergers and Acquisition in Indian Pharma Industry

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Abstract

Mergers and acquisitions (M&A) have become a globally acknowledged phenomenon. To gain the competitive advantage and increase in profit the companies take the path to enter into business with other companies either by selling off the unprofitable divisions or by acquiring assets like technology, skilled workforce, etc. In the past few years, there has been an evident rise in number and capital investment in M&A deals across all over the world including India. The financial stability, R&D expertise and access to innovations of the merged units have remained the major economic rationale behind M&A in the pharmaceutical industry. The broadness and complexity of this field has attracted research scholars to undertake different empirical studies and to review the M&A deals in different sectors including pharmaceutical sector in Indian scenario. This paper is based on a systematic review utilizing a structured approach to reviewing published academic research.

Keywords — *mergers and acquisition, pharma industry, Indian scenario*

I. INTRODUCTION

India's presence in the pharmaceutical sector is crucial as it ranks high in manufacturing and exports of drugs. The low cost of manufacture has greatly influenced export which includes drug intermediates, finished formulations, active pharmaceutical ingredients and biopharmaceuticals (Mahajan, Nauriyal and Sha, 2015). Mergers and acquisitions as an external growth strategy has gained surge in pharma sector because of increased deregulation, privatization, globalization and liberalization adopted by several countries. Mergers and

acquisitions have become an important medium for pharma companies to expand product portfolios, enter new markets and acquire technology, gain access to research and development and gain access to resources which would enable the company to compete on a global scale. Sometimes, pharma companies can produce more efficiently if they combine their efforts and facilities. Collaborating or sharing expertise may achieve gains in efficiency, or a company might have underutilized resources, the other company can better use.

II. RESEARCH METHODOLOGY

This is a descriptive research which includes fact-finding enquires of secondary data. The major purpose of this research is the description of the state of affairs as it exists at present. Secondary data has been collected from the financial press, IPA, FICCI, CII and the department of pharmaceuticals of the government of India and also from various journals, books, research papers, and concerned websites.

III. OBJECTIVES

- To identify the wave of merger and acquisition in pharma industry
- To examine the environment drove Indian pharma industry to mergers and acquisition.

IV. MERGERS AND ACQUISITION WAVE

Over a period of time the merger and acquisition (M&A) have gained significant momentum. Since late 1800s M&A has been taking place in a small or large scale and with increasing globalization and the competitiveness it has found its wide application in different industries. Researchers have studied evolution of M&A in different stages which are referred to as waves (Malik et al., 2014). In literature the period of waves have been varied (Gupta, 2010; Malik et al., 2014). In the Table 1 the main points pertaining to each wave are consolidated.

TABLE I**MERGER AND ACQUISITION WAVES (1897-PRESENT)**

Number of M&A waves	Period	Background
First wave	1897-1904	• Merger type: Horizontal • Monopoly factor • Benefitted sector: manufacturing (steel, mining, oil, railroads, telephone) • Status: Failure
Second wave	1918-1932	• Merger type: Vertical • Emphasis on oligopoly • Benefitted sector: oil and gas industry
Third wave	1955-1975	• Merger type: conglomerate • Emphasis on expansion and diversification For eg., emergence of General Electric Company (GE)
Fourth wave	1980-1991	• Merger types: congeneric • Acquisition type: hostile takeovers • Corporate raiders • Investment banks played a role in providing cash • Benefitted industry: oil and gas, banking, pharmaceutical, airline industry
Fifth wave	1992-2002	• Merger type: conglomerate and cross-border mergers between two countries • Mega deals resulting in MNCs • Introduction of foreign investors • For e.g., merger of Exxon and Mobil resulting in ExxonMobil; merger of Glaxo Wellcome and SmithKline Beecham to give rise to GlaxoSmithKline in pharma world • Status of deal: led to bankruptcy
Sixth wave	2003-2007	• Acquisition type: leveraged buyouts (LBOs) • Private equity share and shareholders • Support from governments of different nations

Number of M&A waves	Period	Background
		• Industry: Telecom, oil and gas, healthcare • For e.g., American Online (AOL) buying Time Warner
Seventh wave	2011-present	• Merger type: cross-border and concentric • Acquisition type: hostile takeovers and LBOs • Increase in industrial consolidation, hostile takeovers, leveraged buyouts • For e.g., BRICS is emerging as the top economies

A. Status of Mergers and Acquisitions-Industry Scenario

In recent times, the primary goal of an organization is to achieve the domestic as well as international growth. The liberalization policy and increased globalization have exposed the various sectors such as banking, telecom, manufacturing sector, etc. to undergo restructuring by adopting M&A. The financial performance of the corporate sector of JSC silknet delivering telecommunication services improved after the M&A deal for over a period of 2011-2018 with several companies which offered different industrial activities like digital, media, mobile service, etc (Pachulia, 2018). In such scenarios, industries diversified their business product portfolio and enlarged their customer base by offering different services. With such deals companies gained the business strength, competitive advantage and the financial stability. During the economic crisis in Spain in 2007, in the hotel industry, many hotels (NH hotels and Hisperia) merged to improve their economic situation. One of the disadvantages of this merger was the loss of identity or brand image and reputation (Rosselló Dalmau and Arteaga Amorós, 2012). Even in the financial sector like banks (Georgios and Georgios, 2011) the profitability and growth after the M&A has been reported. Various other industries like paper and forest product industry, aerospace/defense industry, petroleum industry, food processing industry, etc. Have projected gain post merger and acquisition with respect to 8.38% in operating synergy which is the result of the gains from cutbacks in investment and 1.64% of financial synergy from tax savings (Devos, Kadapakkam and Krishnamurthy, 2008). The overall efficient resource utilization results in synergy after post M&A in different industries.

The introduction of economic reforms in 1991 liberalized the Indian economy and business sector and paved the path for merger and acquisitions. The mergers and acquisitions process in the Indian industrial scenario has been divided into three segments, the consolidation era spanning from 1991 to 1995, foreign acquisition era from 1995-2002 and venturing abroad era spanning ten years from 2002-2012 (Mantravadi and Reddy, 2008; Pandya, 2017). This process restructured the Indian corporate and business sector and strengthened the worldwide presence of Indian business. In the past few years, in different business sectors like banking, power, cement, insurance and telecom a large number of M&A deals have been witnessed. According to PWC India report (2017), in 2016, India witnessed some of the major and different type of mergers, namely, a conglomerate merger of various business divisions of Aditya Birla Group, amalgamation of Aditya Birla Nuvo Limited (ABNL) with Grasim Industries Limited (Grasim) worth US\$ 9 billion, an all-share merger deal of Indian oil producing company Cairn India Limited (Cairn) with the metals and mining giant Vedanta Limited (Vedanta) for worth US\$ 2.5 billion. Similarly, in 2016, acquisition transactions were also observed such as acquisition of Welspun Renewable Energy Private Limited by Tata Power Renewable Energy Private Limited for around 1.4 billion USD, slump sale acquisition of heavily debt-laden Jindal Steel and Power Limited (JSPL) by JSW Energy Limited (JSW) for US\$ 0.98 billion. Other than M&A deals, joint venture (JV) is another form of business agreement between the companies which together takes up a business venture. The M&A has restructured various Indian sectors like finance (Sinha, Kaushik & Chaudhary, 2010), steel industry (Mehtab, 2010), commercial banks (Rao and Kumar, 2013), telecom sector (Babu & Sheriff, 2012; Ghosh & Dutta, 2014), education sector (IBEF Report, 2019), etc. Post-merger, there has been a mixed financial performance of domestic and cross-border acquisitions (Saboo & Gopi, 2009).

B. Merger and acquisitions-Pharmaceutical Industry

The pharmaceutical companies have always benefitted from the scaling economy; however, the recent globalization and increased market competition have reduced the gain in profit for many pharmaceutical companies. Thus, to generate revenue and to globally expand the market, the pharma companies have come in terms with M&A. Compared to other industries, the pharmaceutical industry has witnessed the maximum number of deals and cash flow on

M&A (Demirbag, Ng & Tatoglu, 2007). According to The Pharma Letter, M&A deal in pharmaceutical sector boomed in the year 2015-2016, registering 155 deals in 2015 and 130 in 2016, whereas in 2017 total of 101 M&A deal were made which increased to 111 in 2019 (Pharmaletter, 2018). As per the reports of Informa Pharma Intelligence, M&A worth about \$265 billion was registered during 2018, which was a rise of 26% on 2017. In 2017, some of the largest pharmaceutical M&A deal were such as acquisition of Ireland based rare diseases specialist Shire (LSE: SHP) by Japanese pharma Takeda's worth \$64 billion, acquisition of Novartis by Glaxo Smith Kiline for \$13 billion, acquisition of Bioverativ by France's Sanofi for US\$ 11.6 billion, etc. Several key factors have triggered this change. The primary reason is the fund requirement for developing the drug. There has been a tremendous increase in the cost of drug synthesis making R&D an unaffordable dream for all the companies. The synthesis to approval of a new drug is a costly and lengthy process. With an increase in competition in drug synthesis to achieve a better product than what already exists in the market and with competition the regulatory requirements have also become stringent. The companies are spending more than 20% of their revenue in R&D to obtain a drug development portfolio (Chandra, 2016). So, to meet the requirements, the pharma company's last resort is to implement M&A deal. Increase in requirements, building of new platforms, amidst long existing big and competitive company's existence who have established themselves in the last 100 years such as Novartis and other pharma companies in the market. The R&D and manufacturing unit are the backbone of the pharma industry. So, the financial investors or the originators who have existed in the industry for long time allocate the capital amount to acquire biotech companies (Beena, 2006). The cost-benefit, increased return on capital, improved synergy and introduction of new projects has become profitable in the drug marketing and development. Almost all industries including pharmaceutical are primarily driven by factors like scaling economies and gaining access to domestic as well as international market. Pharmaceutical sector has additional driving factors like promotion of domestically developed technologies in multiple markets, acquiring latest technologies, diverse product range, manufacturing unit, R&D units, management and supply chain (Gupta, 2012).

Other than acquisitions, the pharmaceutical sector is mainly dominated by horizontal mergers driven by the primary reason to access the R&D and biotechnological information. The

vertical mergers are lesser in frequency and are mainly motivated to reduce the cost of production, to easily access the raw resources and gain channels for distribution and profitability. The other type of mergers such as conglomerate mergers is very rare. (Çilhoroz, Songur, Gözlü and Konca, 2016). The other factors include patents through innovations, synergy, scale economies, funding for R&D activities and exposure to the market to pursue M&A. Overall, M&A will provide the ease of funding for R&D and reduce the cost of the drug. In the United States (US), the generic drug industry, a part of pharmaceutical sector has undergone a transformation after the M&A. There has been an upsurge in deals from none in 1995 to a gradual increase to 42 deals in 2016 worth more than \$44 billion, which corresponded to 89.7% of the dollar value. However, the rise in M&A deals has garnered the government's attention due to less competition, which will eventually lead to an increase in the price of drug and shortage of drug (Gagnon and Volesky, 2017).

In the pharmaceutical sector, mergers and acquisitions have introduced new markets for drugs, encouraged adoption of advanced technologies to synthesize drugs and improved the efficiency of drug industry (Shepherd, 2018). In Biopharma sector itself, total of 19 M&A deals worth more than US\$ 1 billion was recorded (Micklus & Muntner, 2019). Simultaneously, it can be observed that in the last decade, there has been a substantial reduction in the number of pharmaceutical companies due to M&A (LaMattina, 2011). However, the impact of these on R&D productivity is still in progress. It is argued that the decrease in diversity of portfolios of pharma companies such as closing of research sites at various locations, R&D cuts, reduced progress of pipeline projects due to regulatory approvals, duplication of projects, data handling can slow down the R&D and potentially decrease the chances of finding new drugs (LaMattina, 2011). Bearing in mind the overall medical industry involving the status of patients, physicians, the rise in a wide variety of diseases such negative scenarios of M&A deals calls for major considerations in investment and productivity in R&D during the M&A process.

C. Merger and acquisitions-Indian pharmaceutical industry

A decade back in 2009, India's domestic pharmaceutical sector was worth US\$ 11 billion. In 2010, the 70% of the Indian domestic market was controlled by pharmaceutical companies and 70% of the Indian's demand for pharmaceutical formulations, capsules, tablets, etc was

provided by Indian pharma companies (Coopers, 2010; Chandra, 2016). According to the IBEF report, in 2017, Indian pharmaceutical sector was worth US\$ 33 billion and by 2020 it is estimated that it will be worth US\$ 55 billion with an expected expansion at 22.4% CAGR (IBEF report, April 2019). Globally, India is the leading producer and provider of cost-effective generic medicines and vaccines. The 50% of global demand of different vaccines, 40% of generic drug demand in the US and 25% of medicines demand in the UK is met by Indian pharmaceutical supplies, making India the largest supplier of generic drugs (IBEF report, April 2019). In 2018, India's domestic pharmaceutical market was worth US\$ 18.12 billion registering a 9.4% growth when compared with 2017. India's pharmaceutical sector also comprises the Biopharma category which includes varieties of services like bio-informatics, bio-agriculture, etc. Further, 80% of the global demand of anti-retro-viral drugs to combat AIDS (Acquired Immuno Deficiency Syndrome) are supplied by Indian companies (Rastogi, 2019). Globally, India ranks third and fourteenth with respect to production volume **(20%)** and by value (1.4%), respectively. The Indian pharmaceutical sector is fragmented into 3000 pharma companies and 10,500 drug manufacturing units (Rastogi, 2019). At present, generic drugs and drugs in anti-infective category dominate the Indian pharmaceutical sector. Further, the Indian pharmaceutical sector will boost due to opportunities in Contract Research and Manufacturing Services (CRAMS) by Mergers and Acquisitions (M&A) and Biogenic market.

The Indian companies welcomed M&A with an aim to gain access in the foreign markets to widen their footprint, to give a competitive edge to their product portfolios. The main advantage of the Indian pharma sector is the skilled and competent workforce in the form of scientist and engineers, manufacturing and research hub, low priced products, solid legal and financial framework (Tripathy and Prajapati, 2014). Indian pharmaceutical companies have also expanded their base in international market. One of the main reasons was to offer the customers with 'nearshore-offshore' options to provide a diverse range of drugs. The M&A with companies from Europe and US will allow the Indian companies to improve their R&D research, manufacturing, packaging and gain access to regulated markets (Beena, 2006). In early 2000s, Indian pharmaceutical companies were involved in more than a billion dollars outbound M&A transactions from the USA, UK, Europe and other countries from Asia. Many Indian pharma companies like Dr. Reddy's Labs, Sun pharmaceutical and Ranbaxy

acquired the generic drug manufacturing firms from Europe and America. Further, in 2008, India pharma industry witnessed 57 M&A which was a tremendous increase of 128% from the previous year (Coopers, 2010). Indian generic drug development along with market potential and knowledge has served as the large potential for M&A (Khorakiwala, 2007). The domestic pharmaceutical companies are strategically building tie-up relation with global pharmaceutical companies to expand their business in foreign market. A win-win scenario where the Indian R&D sector and a broad distribution network in Indian market served as a better financial opportunity (Chandra, 2016). In 2017, M&A deals worth US\$ 1.47 billion, which corresponded to a total of 46 M&A deals and in 2018, M&A deals worth US\$ 2.1 billion was registered in the Indian pharmaceutical sector (IBEF report, 2019). Some of the deal involved transfer of employees to another country or company, gaining of the territories for the market sale in different pharma sections like dermatology, respiratory, etc. In 2018, 70% of M&A deals, inclusive of dominating outbound deals were accounted from the pharmaceutical industry. Some of the acquirer and target companies with a disclosed value of M&A deals in Indian pharmaceutical industry are listed below (Furtado, 2017).

- In 2010, acquisition (slump sale) of Primal Healthcare by US-based Abbott Laboratories for worth US\$ 3.72 billion to access the domestic formulations.
- In 2015, SunPharma and Ranbaxy merger with net worth of \$4 billion.
- In 2015, in an outbound deal, the Indian pharma company Lupin Limited acquired (cash reserves and bridge loan) US-based Gavin for US\$ 880 million. This was the one of the most successful M&A deal, which catered to the market worth US\$ 63.8 billion.
- In 2016, Torrent Pharma bought Unichem's domestic business for Rs 3600 crore.
- In 2017, private equity firm Samara Capital acquired segments of women healthcare products of Novartis for an undisclosed amount.
- In 2018, Aurobindo Pharma Ltd's made an outbound deal worth US\$ 1 billion by acquiring Sandoz's dermatology business and manufacturing units (Vig and Krishan, 2018).

- In 2018, the Indian private equity firm True North made a joint venture worth Rs 635 crore (\$90 million) with Glenmark Pharmaceuticals Ltd's to access their orthopedic and pain management business for India and Nepal market (True North Press Release, 2018).

V. CONCLUSIONS

As it can be seen through M&A agreements India has established itself as a manufacturing and R&D hub and is becoming one of the fastest growing pharmaceutical sector in the global market. With an aim of global expansion and access to technology and innovations, pharma companies are positively looking towards M&A agreements.

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