

Multinational Mergers and Acquisitions: Opportunities and Challenges for the Indian Pharmaceutical Industry

Joseph. G. Adel

Department of Pharmacoinformatics, National Institute of Pharmaceutical Education and Research, India.

ABSTRACT

This study deals with the Mergers and acquisitions (M&As) sector of India and boom in Indian pharma industry. M&A has become a means for firms to acquire, merge, absorb and exploit the knowledge of the target firm. This phenomenon is considered to be the most important strategy for gaining competitive advantage for firms. There are many factors will affect the M&A sector and it is important to consider the recent changes in political and social environment around the globe. This sector mainly depends on the Government policies and political factors, therefore, this sector is highly elastic in its behavior. This study attempts to find out the M&As in Indian pharma sector, regulations, recent trends and its impact on Indian pharma sector compared to the Europe.

KEYWORDS

Acquisitions; Mergers; Indian pharma sector; Regulations; India.

1. Introduction

Currently, Indian Pharma Sector stands the top amongst the science based industries with wide ranging capabilities in the complex field of drug manufacture and technology development. It is not only sells the drugs in domestic market but also exports low cost, high quality drugs to the international market such as USA, Russia, Kenya and Singapore etc [1]. Since last two decades, due to the low cost for manufacture of drugs and suitable environment for pharma sector in India, most of the multinational and national pharma companies are seeking to acquire or merge with other pharma companies to expand their market and enter into the manufacturing of new category of medications [2]. Let us know what are acquisitions and mergers? Mergers and acquisitions (M&A) are transactions where the ownership of organizations or companies transferred or combined. Merger means two companies or organizations are combined to form one company or organization i.e. new company or organization and acquisition means one company or organization takes ownership of another company or organization's assets, stocks and equity interests. Simply acquisition is a takeover process where one larger company or entity purchases the small firm. In such cases, if the management control is acquired by small firm, then it is called as reverse takeover. Reasons behind the M&A

are accelerating the growth and performance of companies, diversification of higher growth products and risks, enhancing the market share, improve global competitiveness and consolidate their market shares [3]. Mainly mergers are two types such as 1) Horizontal mergers: Usually occurs between two companies in the same business sector (Example: Health care system buys another health care system) and 2) Vertical mergers: It is a buying of supplier of business (Example: health care system buys the ambulance services from their service suppliers). Acquisition has mainly acqui type i.e. where acquiring company acquires Target Company's talent rather than products. Nowadays most of the companies eagerly waiting for acquisition or merge with other companies to expand their products. However, the studies proven that the 50% of the acquisitions are unsuccessful but the overall effect of M&A transactions appears to be positive [4]. Hence, we have taken a step to study the role M&As in Indian Pharma sector.

2. Recent Trends

Indian Pharma Sector is expected to grow in sale by 14.4% to USD 27 billion in 2016 from USD 22.6 in 2012. The major trend in M&A of India is acquisition of Ranbaxy by Sun Pharma for USD 4 billion. The combination of Sun-Ranbaxy became 5th largest generic drug maker in the world [3]. In another case, Chrys capital has invested USD 40 million in Torrent Pharma to expand its portfolio of healthcare companies to nearly USD 300 million. Since, last two decades, most of the Indian companies have been targeted by multinational companies (MNC) for either acquisition or joint venture and some of them collaborations are Bayer and Zydus Candila became Bayer and Zydus Pharma (BZP) for sales and marketing of pharmaceuticals in India, Sun Pharma and MSD for distribution of Merck's Januvia (sitagliptin) and Janumat (sitagliptin+metformin), Lupin+Lilly collaboration to promote and distribute Lilly's Huminsulin in India and Nepal etc. Some of the MNCs have acquired the Indian pharmaceutical companies such as Mylan taking over Matrix Labs, Aventis acquired Universal Medicines for USD 100 million and Sanofi bought Shantha for USD 783 million in 2008. The most prominent inbound deal in 2016 by Indian firm Mylan was the acquisition of female health care business of Famy Care's for USD 800 million [3].

3. Regulations for M&As in India

Various laws regulate the M&A in India and objectives are to make these deals transparent and protect the interest of all the share holders. The acts such as The Companies Act-1956, The Competition Act-2002, The Foreign Exchange Management Act (FEMA)-1999, The Security and Exchange Board of India Act (SEBI)-1992 and The Income Tax Act-1961. Section 391-394 of The Companies Act-1956 gives the information for M&A in India. The Competition Act-2002 regulates various forms of business combinations through Competition Commission of India and provisions for combinations includes in the section 5, 6, 20, 29, 30 and 31. FEMA regulates the cross border M&A. The regulations for inbound and outbound cross border M&A in India issued by RBI under the vide notification of FEMA 20/2000-RB dated 3rd May 2000. SEBI is a nodal authority that regulates the entities that are listed on exchanges in India. The Income Tax Act-1961 gives the information for conditions to be followed for M&A in India [5-6].

4. New Developments in Acquired Company

In most of the cases, the mega companies will acquire the medium or small scale pharma companies. Those mega companies will develop the facilities such as research & development in acquired company according to the regulations of regulatory bodies like USFDA etc. After acquisition, we can expect best facilities in the acquired company and it is also beneficial to the mega company, how means, it can enter into the new category of medications thereby it enhances its brand value in the global market [7-8].

5. Standards

Mega companies will try to maintain the higher standards in acquired company according to the regulations laid down by the regulatory bodies of respective countries thereby it can enhance its market value by introducing new category of medications manufactured in the acquired company into the market of different countries [9].

6. Top 5 M&As in Pharma Industry [10]

According to the report of Revenues & Profits 2015, it is witnessed that, since last two decades, 60 pharmaceutical companies progressively become just 10 big companies. Those are,

1. Sanofi acquisition of Aventis for USD 65 billion transactions.
2. Pfizer acquisition of Warner-Lambert for USD 90 billion.
3. Merger of SmithKline and Glaxo resulted GlaxoSmithKline Company and became largest of its kind in the world as well as UK (Home country)
4. Pfizer acquisition of Pharmacia in 2003 for USD 256 billion.
5. Pfizer acquisition of Wyeth in 2009 for USD 68 billion.

7. Major M&A by Indian Pharma Companies

The Indian firms such as Sun Pharma, Cipla and Lupin too took an acquisition path for international expansion of their market and brand. The biggest acquisition done by Indian firm Lupin in 2015 for USD 880 million to take the control of US based Gravis [11]. Another firm Sun Pharma made a deal to pay USD 48 million to acquire USA based eye care firm InSite and also completed its merge with Ranbaxy [12]. Other Indian firm Cipla also paid USD 26 million to acquire majority stake in Uganda's Quality Chemicals [13].

8. Impact of M&A on Indian Pharma Sector Compared to the Europe

According to the IMAF India report-2016, India showed 340% increase in total value of cross border M&A transactions but overall activity fell 30% to USD 3.7 billion. IMAF also reported that inbound deals contributed USD 1 billion and outbound deals for USD 2 billion. European market was divided into Western Europe, Central and Eastern Europe (CEE). IMAF UK, reported that Western Europe market was considered as seller's market and the valuations in 2015 appeared to an average of 17x EBITDA (compared to 2014). According to the IMAF Czech & Slovak Republic, CEE market of M&A showed 1,120 million Euros in 2015 with 29 transactions but in 2013, with 41 transactions showed 1208 million Euros and in 2014, with 37 transactions showed 998 million Euros. Poland in CEE recognized as center of investors interest because where 12 transactions were took place [14].

9. Conclusion

About 50% of M&A are unsuccessful but overall effect is positive. It is in case of India, the markets have witnessed that increased trend in M&A which might be due to the business consolidation by multinational operating in India. Hence, it is good time for MNCs to look at the Indian Pharma Sector to grab the opportunities.

10. Conflict of Interest

The author(s) report(s) no conflict(s) of interest(s). The author along are responsible for content and writing of the paper.

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NA

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