

Merger-killing ego: does it strangle Indian pharma superpower ambitions before birth?

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"Despite all the seeming cultural and other issues, if Dr Anji Reddy [the founder of Dr Reddy's Laboratories] and Dr Yusuf Hamied [Cipla's chairman and managing director] can come together and merge their businesses, it will be a great day not only for Indian pharma but for the country." So says Dr Brian Tempest, an ex-CEO of Ranbaxy Laboratories and currently an advisor to MAPE, a mid-market investment bank, and the United Nations Conference on Trade and Development, among other positions.

While there is absolutely no indication that such a historic union is in the making, there's growing debate in India on whether domestic firms should combine forces to create a new Teva, against the backdrop of mounting Western competition. A recent panel discussion at the golden jubilee celebrations of the Indian Drug Manufacturers' Association saw Sun Pharmaceutical Industries' chairman and managing director, Dilip Shanghvi, reportedly term such merger opportunities as an "interesting challenge", though he did refer to the limited management bandwidth at Indian entrepreneur-driven firms.

Another participant and industry bigwig, Zydus Cadila's chairman and managing director Pankaj Patel, said that such deals were possible, but would require a lot of time to nurture relationships and build trust.

Late last year, Devendra Chaudhry, then joint secretary of India's department of pharmaceuticals, had at a pharmaceutical summit organised by the Confederation of Indian Industry urged Indian firms to collaborate among themselves and with government institutes, suggesting that they get out of their individualistic mode of thinking.

"Indian firms must get out of the yogic way of thinking and forge partnerships to enter large markets," he said, adding that such partnerships would be vital if Indian firms want to challenge companies such as Teva or Pfizer.

While there may be some compelling reasons for Indian firms to give the idea more than just a passing thought, industry experts say that the fiercely independent Indian entrepreneur is far better at competing, and that any merger among large domestic firms would also need to factor in the potential personality clashes.

"I think the independent spirit of promoters will hold back India-India mergers. I can see the angel investment model working where promoters support mid-size/small companies financially," said Dr Tempest, adding that Indian firms prefer to talk with global pharma companies rather than fellow Indian companies. They also expect global companies to pay more for the assets, he noted.

Others, like Sanjiv Kaul, managing director of ChrysCapital, an India-focused investment firm, say that Indian entrepreneurs are excellent in competition but poor in collaboration. "I don't think aggregation between

equals or near-equals is either the answer theoretically nor [is it] possible practically. Also they [Indian entrepreneurs] have similar mindset and competences that may not provide synergistic leverage of great significance when combined," he observes.

Mr Kaul, whose firm has made investments in Eris Lifesciences, Intas and Mankind Pharma, among others, says Indian entrepreneurs have "huge egos" and would prefer to sell out to a foreigner rather than their fellow countrymen. "[The] concept of merger is alien to Indians as opposed to the concept of acquisition. As long as the focus is on acquiring, they will discuss but when the talk of being acquired by a fellow Indian crops up, the discussion is over and doors get slammed," he says.

Like Dr Tempest, Mr Kaul believes that Indian companies will not pay the same value for an Indian target when compared to a prospective foreign buyer, because of a "difference in perception" of strategic value that the target brings to the potential buyer.

But with several Indian firms now grooming the next generation - as seen at Sun, Zydus Cadila and Lupin among others - would the younger generation be more open to same-country mergers? Dr Tempest believes that some of the upcoming executives may not be "as good as" their parents. "Some want to get into other business segments. Training, mentoring and education is needed in bringing these young scions to full strength," he suggests.

Other experts like Utkarsh Palnitkar, executive director of Centrum Capital and a former Ernst & Young partner, believe that the second generation may not have the same zeal as their predecessors in "prosecuting a strategy" in a highly competitive and rapidly evolving market place.

need for Indian mergers

There are, however, some core reasons why mergers among Indian firms may perhaps be important, especially with large multinationals venturing into the branded generics space.

Sun's Mr Shanghvi refers to the large amount of duplication among firms doing the same things, when the same investments could fetch better opportunities if focused on new business lines.

Others highlight deeper gains. Mr Palnitkar says that India is a market of branded generics with multiple producers with similar products, leading to a duplication of sales forces, diffused focus and relatively high sales and marketing costs. "A lot of costs could be rationalised in a merger. Moreover, with complementary products, the reach of the combined entity will be both wider and deeper. The ability to spend on R&D will also grow significantly," he predicts.

He adds that many firms currently face a "difficult decision" in terms of very stiff competition and limited ability to invest in new product development, and that a larger combined entity may be better equipped to compete head on with larger global generic players.

Mr Palnitkar also highlights the increasingly competitive marketplace, more so with blurring business lines between generic and innovator companies. Multinationals such as Pfizer, Eisai and Sanofi are all actively exploring ways and means to strengthen their generic offering, he notes.

"This will result in even greater competition in the generics space. Moreover, these companies will start competing more actively in the branded generics space in India as well. In these circumstances, a question that crosses the mind of some entrepreneur driven Indian pharma is whether it is time to cash out or stay in the battle field with the risky proposition of investments in further R&D," Mr Palnitkar explains.

cultural issues

But wouldn't the cultural and other aspects of integration be much simpler among Indian firms than in a cross-border deal? No, appears to be the over-riding expert view.

Dr Tempest says that there are many "micro cultures" across India and "many egos". "These will both get in the way of India-India deals. Even deals with big pharma are often best done excluding the local Indian management," he explains.

Mr Kaul, a former member of Ranbaxy's senior management team, minces no words. He believes that even in the "remote" possibility of a merger happening, it will be much more challenging from an integration perspective. "Each party would want his writ to run large and his organisation to have the upper hand. However, acquisitions can happen in India as long as one pays the 'right' price, but even here the acquired would want it to be projected as a merger rather than an acquisition," he says.

Mr Palnitkar adds that each entrepreneur comes with their own unique management style and the operating styles of respective companies are also different. "At some firms, senior management is very hands on, whilst others follow a more inclusive management style. Reconciling these aspects could be cumbersome," he notes.

management bandwidth

Meanwhile, the Indian industry also faces challenges of limited management bandwidth, though Dr Tempest says that its current globalisation is increasing this. "When quality foreign management merges with quality Indian management there will be no problems. Trust is the base for working together efficiently. Distrust undermines good strategy," he says.

Mr Palnitkar says that the strong entrepreneurship streak in Indian firms leads to an "owner mentality" on the negative side. In addition, the intensity of competition makes it difficult for competitors to turn into collaborators.

Mr Kaul, though, says that over the last decade the Indian industry has been unable to attract good management talent and that pharma is no longer the flavour or day one option in any good management institute in India. "Our leaders have to work on this aspect and nurture professional talent. How many Indian pharma companies invest in leadership development programmes? I doubt if there are any. M&A is a specialised field and would require dedicated investment not only in terms of resources but also mindset," he says.

He adds that not many in the industry can source a deal, manage the transaction process and also have the operational expertise to pre-empt organisational challenges post-merger.

On the relevance of same-country mergers, when most deals would in any case involve integrating operations in different parts of the world, and the general low success rate of cross-border deals, Dr Tempest opines that the "best" cross border deal was Roche buying Genentech, "respecting their innovation and letting them have priority over the home team."

Mr Kaul says that Sun's acquisition of the Israeli firm, Taro Pharmaceutical Industries, is the only one to have passed the litmus test, backed by the "guts, persistence and might" of Mr Shanghvi to pull it off. Indian founder groups, he maintains, have in the past seen no merit in a merger. "Nothing has changed as far as this mindset is concerned."

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