CHAPTER – III
PROFILE OF SAMPLE UNITS

The Indian corporate sector is witnessing a restructuring revolution since liberalization of the Indian economy. The somewhat guarded, tentative response of the early years of economic reforms is slowly giving place to more decisive initiatives on corporate restructuring.

Corporate restructuring is a broad term that denotes significant reorientation or realignment of the investments (assets) and for financing (liabilities) structure of a company through conscious management action with a view to drastically alter the quality and quantum of its future cash flow streams.\(^1\) This broad definition includes such corporate actions as mergers, acquisitions, divestitures, demergers (spin offs) and debt-equity changes.\(^2\) In the post liberalization era, the Indian corporate sector has been steadily restructuring itself through mergers and acquisitions (M&As). The companies started to rationalize their business portfolios, consolidation of business, interest diversification and expansion through M&As. M&As have become a means of external expansion and growth which are considered as an easy route to achieve economies of scale, operating and financial synergies, core competency and to face the competition in the domestic and international markets. Therefore hundreds of Indian companies restructured their activities through M&As to take various
advantages. The M&As have taken place in all most all sectors in India. The foreign companies have entered into Indian markets and Indian companies also have entered global markets through M&As.

The present study is an attempt to evaluate the pre-merger and post-merger performance of companies which have undergone M&As process in India. For this purpose the study has selected the following six samples:

1. Merger of Smithkline Beecham Pharmaceuticals (SKBP) with Glaxo India Ltd., (GIL) creating a new company Glaxo Smithkline Pharma (GLAXO) (MNC).


5. Lupin Laboratories (LUPLAB) merged with Lupin Chemicals Ltd., (LUPCHEM) creating a new company ‘LUPIN’ Ltd., (Indian Private).


An attempt has been made to provide an overview of sample units in the following pages.
1.1 Smithkline Beecham Pharmaceuticals (SKBP):

Smithkline Beecham Pharma (SKBP), formerly Eskeyef, was formed in 1984 to acquire the business of the Indian branch of Eskaylab, UK. The company started its operations in India under the name Menley James, which was changed to Smithkline and French (India) in 1960, and then to Eskaylab in 1981. The company has collaboration with Smithkline Beecham, United Kingdom (UK), which has a 40% stake in the company and it changed its name from Eskayef to Smithkline Beecham Pharmaceuticals (India) Ltd., in July 1994.

SKBPs products line includes leading brands like Iodex, Engeric B, Fefol-Z, Augmentin, Zentel, Zevit, Ditide and Depandal-M. The company has a substantial presence in respiratory, iron preparation, anti-infective skin preparation, anti-helemintics, anti-allergies, oral polio and multi-vitamins. The top 7 brands of the company are among the top 250 brands of India. Iodex, the pain balm, is the largest brand of the company which accounts for around 18% of SKBP’s formulation sales. Other products like Iodex sport, Iodex spray and Iodex power were manufactured by the company. Augmentin is the top brand in the co-amoxyclave category. It is an anti-infective in the co-amoxyclave class. The brand has an annual sales close to Rs. 40 Crore.

The gradual shift in the immunization market from mono vaccine to combination vaccine is a very good opportunity for the company. The new combination vaccines, Tritanrix HB and Twinrix
provide patients greater value for money and at the same time will keep competition away. Harvix, Varilix, Twinrix and chicken pox vaccines are expected to contribute increasingly to the company's earnings in future. SKBP is a pioneer in India as far as Hepatitis-B.

SKBP and Glaxo India have merged during October 2001 and formed a new company called Glaxo Smithkline Pharma Ltd.,

1.2 Glaxo Smithkline Pharma Ltd., (GLAXO) - MNC:

Incorporated in 1924, as H.J. Foster and Co. and acted as an agency house to distribute the well-known Glaxo baby food, Glaxo India Ltd. (GIL) became a wholly-owned subsidiary of Joseph Nathan and Co. UK. In 1947 the company was renamed as Glaxo Laboratories (India). Consequent on merger in October 2001 a new company named Glaxo Smithkline Pharma Ltd., (GSKP) came into existence on account of merger of Glaxo India Ltd., The new company is well placed to respond to the health care challenges of the twenty first century with market leadership in major therapeutic categories.

The company has a strong product line with quite new brands in the country's top 250 brands. Among its principal products are Betamethasone based topical steroids, Betnovate-C, Betnovate-M and Betnovate-GM. Its other key products are Betnesol, Cephalosporin, Ceftum, H2 blocker based on Ranitidine, Zinetac and the Vitamin Celin. Glaxo manufactures the bulk drug from the basic stage, furfuryl alcohol, employing the technology developed by its parent company Galxowelcome, UK.
The company has launched Celex, a clarithromycin anti-infective formulation under licence from and manufactured by Abbott India, ventoride for asthma and fluticasone cream a corticosteroid. During 2002 the company has launched Timentims (an injectible antibiotic), Flutibact (combination of Fluticasone and Mupirocin) and COD (daily-Ciprofloxacin-dosage).

During 2005 the company has bought back 26,19,529 shares of Rs. 10 each for an aggregate consideration of Rs. 209.16 Crores. As a result, company's paid up capital was reduced to Rs. 84.70 crores from 87.32 crores. Promoter shareholding was increased to 50.67% from 49.15%. The company commands a 6.5% market share, retaining its No.1 position in the Indian pharmaceuticals market. Its registered office is situated at Mumbai, Maharashtra. The post-merger name of this company is abbreviated as GLAXO in the analysis.

2.1 Chicago Pneumatics India Ltd., (CPNL) – MNC:

Chicago Pneumatics India (CPNL) was a subsidiary of the world renowned Chicago Pneumatics Tools, Sweden which, in turn was a part of the Atlas Copco group, Sweden. CPNL is a renowned manufacture of compressors, drilling equipments and pneumatic tools, including screw and reciprocating compressors, grinders, riveters and chippers. Screw compressors are manufactured in technical collaboration with Hokuetsu Industries, Japan, balance opposed reciprocating compressors are manufactured in technical collaboration with creppelle and Cie, France. Moreover all
Pneumatic tools manufactured and marketed by Chicago Pneumatics Sweden; Pneumatic Screw drivers from Desoutter, UK and electric power tools of AEG, Germany are also sold and serviced by CPNL.

In 1994-95 the company completed an expansion programme to increase the manufacturing capacity of pneumatic tools at Nasik and Halol. The company has manufacturing facilities at Mulund, Nasik and Halol in Maharashtra state. The unit at Nasik is a 100% Export Oriented Unit (EOU). Company has credit rating ‘FAA’ from ‘CRICIL’ for fixed deposits. In April 2000 the Board of Directors of the company and that Atlas Capco decided to merge the two companies i.e., CPNL and Atlas Capco (India) Ltd., As per the scheme of amalgamation of the company with Atlas Copco (I) Ltd., three equity shares of Atlas Copco (I) Ltd., were allotted for every five shares of CPNL.

2.2 Atlas Capco (India) Ltd. (ATLAS) - MNC:

Atlas Capco (India) Ltd (ATLAS), a subsidiary of Atlas Capco AB, Sweden is the leading manufacturer of compressors, drilling equipments, construction and mining equipments. ATLAS manufactures compressors ranges i.e., reciprocating, screw and centrifugal and is the market leader in screw compressors (apart from being the only manufacturer of oil free screw compressors). It also manufactures underground, surface and geo-technical equipment, rock and construction tools. The company has decided to take up home manufacture of full range of rock drilling tools and to market under its own brand name.
The company which started its operations with a manufacturing facility at Sveanagar (Dapodi) near Pune has put up another facility also in Pune at Chakan in 1989. The company got three more manufacturing facilities at Nasik, Mulund both in Maharashtra and Halol in Gujrath with the acquisition and consequent merger of CPNL with it. During the year 2001 the company closed down the Mulund (Mumbai) plant and shifted it to Nasik and Pune plants.

In 1999, the compressor technique division has upgraded its product range by using the energy efficient imported elements from Belgium. The re-layout and resource allocation focused on product driven manufacturing has resulted in improvement in efficiency and quality. CPNL was amalgamated with ATLAS on 1st April 2000. ATLAS’s registered office is situated at Pune, Maharashtra. The post-merger name of this company is abbreviated as ATLAS in the analysis.

3.1 Cheminor Drugs Ltd (CDL):

Cheminor Drugs Ltd., (CDL) was promoted by Dr. K. Anji Reddy and was incorporated in December 1981. It manufactured bulk drugs and intermediates. It was leading exporter of bulk drugs. The company’s product profile has expanded over the year to include famotidine and import substitute drug intermediates like cyclopropylamine and N-methyl-4-Piperidone. CDL is also on the verge of a transformation from being a bulk exporter to being a generic formulation giant. From 1994, CDL became a dominant
player in pharmaceuticals with a major thrust on globalization as a result of amalgamation with Globe Organics (the world’s second largest producer of ranitidine).

The company has set up a Rs. 40 Crore 100% Export Oriented Unit (EOU) in the Ranga Reddy district of Andhra Pradesh, to produce various formulations. The company has entered into a long-term strategic alliance with pharmaceutical resources, US (PRI) for the supply of certain key bulk active ingredients and finished dosage forms. This would enable the company to enter the US market for these products.

During 1999-2000, CDL commenced commercial operations of its formulation plant with export of Ranitidine 75 Mg to North America. It also launched four new molecules celecoxib – a selective Cox 2 inhibitor and Zolpidem, sibutramine, olanzapine in the neuropsychiatric drugs category.

In April 2000 CDL merged with Dr. Reddy’s Laboratory. As per the scheme of amalgamation, nine equity shares of Rs. 101 each were allotted for every twenty five existing equity shares of CDL.

3.2 Dr. Reddy’s Laboratories Ltd., (REDDY):

Dr. Reddy’s Laboratories (REDDY) was established in 1984, and is the leading Indian pharmaceutical company with vertically integrated operations. The company develops, manufactures and markets a wide range of pharmaceutical products in India and overseas. It produces finished dosage forms, active pharmaceutical ingredients, diagnostic kits, critical care and biotechnology products.
The company has over 190 finished dosage brands and 60 active pharmaceutical ingredients currently in production. The company actively pursues a basic research programme under the aegis of Dr. Reddy's Research Foundation (DRF). DRF focuses on cancer, diabetes, bacterial infections and pain management. The company is developing several new products.

The merger with Cheminor Drugs has made REDDY the third largest pharmaceutical company in India with participation in every elements of the value chain. REDDY is a major player in the domestic finished dosages market and many of its brands are leaders. The company has a formidable presence in the highly regulated markets of the US, the EU, Canada and Japan and it exports its products to 60 countries the prominent being UK, Germany, Spain, Italy, Switzerland, Russia and Netherland.

It has signed a joint venture agreement with the Khetan Group, Nepal for setting up a joint venture for the manufacture and marketing of finished formulations in Nepal and other neighbouring countries. The products are recognized by World Health Organization (WHO) and other leading organizations in the healthcare industry. The company entered the global generic market with exports of Ranitidine-75mg and Fluoxetine to North America. It entered into an exclusive company marketing and development agreement with Par Pharmaceuticals Inc. covering fourteen generic products. This has strengthened the company’s position in the US
generic market and it will get a substantial cost advantage on account of its vertical integration capabilities.

In April 2004 the company has launched Redotil, the first anti-hypersecretory agent for the management of acute diarrhea and the first Dutas for the treatment of enlarged prostate which is a oral treatment in India. The company in 2006 involved de-bottle-necking of existing capacities and adding new lines especially to meet growing international demand for generics and customs pharmaceuticals services. The registered office is at Hyderabad, Andhra Pradesh. The post-merger name of this company is abbreviated as REDDY in the analysis.

4.1 Andhra Valley Power Supply Company (AVPS):

The Andhra Valley Power Supply Company (AVPS), a member of the Tata Electric Companies (TEC) group, was incorporated in 1916. AVPS supplies electricity to the Bombay Port Trust, Rashtriya Chemicals and Fertilizers and large state owned organizations. In January 1999, the company acquired a power generating station consisting of 37.5 MW unit at Wadi, Karnataka at a cost of Rs. 90 Crores.

During the year 2000 – 01 the AVPS company was merged with Tata power company Ltd., The swap ratio was 4 shares in Tata Power Company for every 5 shares in AVPS.

4.2 Tata Power Company Ltd, (TATA):

Tata Power Company (TATA) was promoted by the Tatas and was incorporated in 1919. A pioneer in the Indian power sector,
TATA is rated as one of the country’s largest private power utilities. The fully integrated energy company offers turn key solutions to the industry and other hi-tech segments. The company installed and commissioned India’s first 500 MW unit at its Trombay Thermal generating station. It has provided economical and reliable power for the last 80 years to the highly industrialized state of Maharashtra and its capital Mumbai.

TATA’s main line of business is the generation, transmission and distribution of power. Modern technology and computer based systems management have helped the company to achieve high levels of operational efficiency. The subsidiaries of TATA are Chemical Terminal Trombay Ltd., Af-Taab Investment Co. Ltd., Tata Power Trading Co. Ltd., Alaknanda Hydro Power Co. Ltd., Tata Power Broad-band Co. Ltd., and Powerlinks Transmission Ltd.,

The hydro-generation plants are in Khopoli, Bhivpuri and Bihar and the thermal power plants are located at Trombay in Maharashtra, at Jojobera in Bihar, at Belgaum in Karnataka. Electronics division is located at Bangalore in Karnataka and distribution division at Mumbai. Apart from its main power business, the company is engaged in energy business and communication fields also. The power business consists of licence business, captive power plants (CPP) and independent power plants (IPP) and services. The company has completed various power projects in UAE, Malaysia, Soudi Arabia, Kuwait and Algeria. The energy business consists of oil and gas, LMG and Coaln oil gas. It is
participating in private sector coal mining activities also. The communication business consists of Mumbai Broadband, Metro Broadband and National Highways projects. In January 2002, the company agreed to supply power to Bhutan.

During 2004-05 and 2005-06 the company has added two distribution sub-stations, 24 consumer stations providing high tension (HT) and low tension (LT) network etc., and 36 Ckt. Km of HT/LT cable network lines were added.

The company is actively pursuing setting up of an imported coal based 1000 MW power plant in coastal Maharashtra to meet long-term requirements. Its registered office is at Mumbai, Maharashtra. The post-merger name of this company is abbreviated as TATA in the analysis.

5.1 Lupin Chemicals Ltd., (LUPCHEM):

Lupin chemicals was incorporated in the year 1983 promoted by Lupin Laboratories. The aim of the company was to manufacture rifampicin, an anti-TB drug at Tarapur. The company consolidated its position in fermentation to produce rifampicin from the basic stage. The highly complicated procedure of stabilizing the bacteria, which normally takes three to four years under local conditions was achieved in around one year with the help of a technological tie up with Fermic, Maxico.

Due to merger of Lupin Chemicals with Lupin Laboratories, a new company “Lupin Ltd” came into existence. The swap ratio has
been recommended at 12 shares of Lupin Chemicals for every 1 share of Lupin Laboratories.

5.2 Lupin Laboratories (LUPLAB):

Lupin group, which was bought as defunct firm in 1968 by Desh Bandhu Gupta was initially engaged in the manufacturing of medicines on contact basis. The company had manufacturing facilities in Aurangabad, Ankleshwar and Mandideep and a joint venture (JV) in Thailand. Its activities included pharmaceuticals, bulk drugs and formulations, fermentations, bio-technology, natural products and agro-chemicals. It was one of the largest producers of ethambutoal, an anti-TB drug in which it has 70% market share. Its other main focus was Rifampicin a bulk drug. It was the first Indian Company to undertake commercial manufacture of Vitamin B6. It is a Govt. recognized export house. In 1985, the company diversified into agrochemicals and in 1995, it launched speciality and natural products. It had technical tie-up with Gruppo Lepitit, Italy for fermentation. The cefotaxime dosages are popular in the UK, France markets and ceftriaxone dosages in France and European Markets.

During the year 2000-01 Lupin Laboratories was merged with Lupin Chemicals and a new company Lupin Ltd., came into existence.

Lupin introduced ‘Rabeprazole’ an anti-peptic in the therapeutic segment under the brand name of Rablet during 2002. The company has setup a plant at Tarapur, Maharashtra for manufacturing lovastatina, cholesterol lowering products. During
2003-04, the company commissioned a new facility at Verna, Goa for non-cephalosporin oral finished dosage and it has started its commercial production. The company’s Lupin division is offering solutions in the respiratory segment with a range covering anti-TB, anti-Asthma, anti-infectives, anti-allergies and supportive therapy products. It has launched herbal division during 2004.

In 2006, the company increased its installation capacity of bulk drugs and intermediates and tablets by 221.80 million tons (mt) and 40 million numbers (mn) respectively. With this expansion, the total installed capacity increased to 3785.20 mt and 1570 mn respectively. Its registered office is located at Mumbai, Maharashtra.

6.1 Polar Industries Ltd., (POLAR):

Polar Industries Ltd., (POLAR) was established in 1982 and promoted by Anil Agarwal. It is the flagship of the polar group, primarily engaged in manufacturing of ceiling fans. Later it has refashioned itself into an electromechanical syndicate by diversifying into synergical products like fractional horse power (FHP) motors and water/chemical lifting pumps. POLAR which has four divisions – fans (cap: 15 lac), FHP motors (cap: 6 lac), pumps (cap: 3.6 lac) and electrical stampings (cap: 2940 tpa) – has also added domestic appliances to its fold. It launched a wide range of domestic appliances under the Sheffield brand name, which received a good response.

The introduction of hi-speed presses and de-carbonization and re-crystallization plants in the lamination division increased its
installed capacity. The company expanded its motor divisions capacity to 6 lakh p.a.

The fans are being exported to countries like the UK, Germany, Holland, France and other European countries, besides West Asian countries and Bangladesh; while motors are being exported to Russia and other European countries. The company has achieved a major milestone by becoming an ISO 9002 in all the product lines. It has expanded its product range through introducing new models like 'windchill', Winchester; Edison-M.X; Edison Sunflower Yellow, etc.,

During 2000-01 the company took a timely decision to merge a group company Polar Fan Industries Ltd., (POFAN) with Polar Industries Ltd., (POLAR). Its registered office is at Kolkatta, West Bengal. The post-merger name of this company is abbreviated as POLAR in the analysis.

6.2 Polar Fan Industries Ltd., (POFAN):

Polar Fan Industries Ltd., (POFAN) is a group company of Polar Industries Ltd., engaged in the manufacture and marketing of Fans of various types. It was a profit making company and its products are popular in India.

It has been merged with Polar Industries Ltd., during 2000-01.

Conclusion:

The profile of sample units clearly reveals that all the six units have made considerable achievements in their respective fields. All these companies have restructured their activities through M&As.
GLAXO is a leading MNC well placed to respond to the health care challenges of the twenty first century with market leadership in major therapeutic categories with a quite new brand in the countries top 250 brands. ATLAS, an MNC is a leader in the manufacture of compressors, screws etc., REDDY has become the third largest pharmaceutical company in India with major brands. TATA, a private Indian Power Company is playing a vital role in generating and supplying power to industries. Lupin diversified its activities into agrochemicals and is producing speciality and natural products. POLAR is popularly known in the field of ceiling fans. All these companies have opted M&A route as a means of corporate restructuring to expand their activities, achieve growth, synergies, entry into new markets and new products.

An attempt has been made to analyze the pre-merger and post-merger performance of these sample units in respect of profitability, operating and financial performance in the next chapters.

References:


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