Chapter 7

Mergers and Acquisitions in Indian Pharmaceutical Sector

7.1 Pharmaceutical Industry in India: A Brief Overview

The pharmaceutical sector in India is highly fragmented comprising of more than 20,000 registered units with severe price competition and government price control. It has expanded drastically during the last two decades with the leading pharmaceutical companies having control over 70% of the market and the market leader holds nearly 7% of the market share and meets around 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles. There are about 250 large units and about 8000 small scale units, which form the core of the pharmaceutical industry in India. In a report by McKinsey & Company titled “India Pharma 2020: Propelling Access and Acceptance, Realizing True Potential”, it has been stated that the market is expected to reach US $ 55 billion in 2020 from US$ 12.6 billion in 2009.

India’s pharmaceutical sector has undergone unprecedented changes after the introduction of a system of product patents with effect from 1st January, 2005. Before that, only patents for processes were permitted to be issued, a fact that has been instrumental in the domestic industry's huge success as a worldwide exporter of high quality generic drugs. The new patent regime has also led to the return of the pharmaceutical multinationals, many of which had left India during the 1970s. Now they are back and looking at India not only for its traditional strengths in contract manufacturing but also as a highly attractive location for research and development (R&D), particularly in the conduct of clinical trials and other services.

The Indian pharmaceutical industry is at present in the front rank amongst the developing nations with wide ranging capabilities in the complex field of drug manufacturing and technology used. The sector is unique as it traverses across...
geographies. Moreover, as health has no boundaries, this very boundary-less nature supports consolidation in this industry. With the easy availability of capital and increased global interest in the pharmaceutical industry, the sector has become one of the favourite routes for M&As. After traversing the learning curve through partnerships and alliances in the domestic industry as well as with international pharmaceutical firms, Indian pharmaceutical companies have now moved up a step forward in the value chain and are now looking for a different route for growth through acquisitions. Indian Drug manufacturers are pursuing foreign acquisitions due to their need to:

- improve global competitiveness,
- increasing efficiencies through leveraging economies of scale,
- enhancing revenue through global presence,
- strengthening research and development capabilities,
- move up the value chain,
- create and enter new markets,
- widening their product portfolios,
- strengthening distribution networks,
- gaining access to new technologies,
- acquire assets (including research and contract manufacturing firms, in order to further boost their outsourcing capabilities) and new products,
- consolidate their market shares and
- compensate for continued sluggishness in their home market.

Many top and mid-tier Indian companies have gone for building up critical masses in international markets. Also, given the easy access to global finance, the Indian companies are also finding it easier to fund their acquisitions. Over the past few years several Indian companies have targeted developed market in their pursuit of growth. Indian companies such as Ranbaxy, Wockhardt, Glenmark, Jubilant Organosys, Nicholas Piramal, Matrix Laboratories, Aurobindo Pharma, Cadila Healthcare, Dr. Reddy’s Laboratories, Sunpharma, NATCO Pharma and a few others made international acquisitions in areas of generics, marketing, custom synthesis, contract research, pharmacies, manufacturing assets, while others are also scouting for their potential targets. Besides gaining a faster entry into the target
market, one of the basic strategies behind the acquisitions remains that of leveraging India’s low cost advantage by shifting the manufacturing base to India.

7.2 Recent Merger & Acquisition Trends in Indian Pharmaceutical Industry

Over the last few years, besides domestic acquisition, several Indian pharmaceutical companies have targeted the developed markets in their pursuit of growth. The industry has also been witnessing intense inbound interest with several MNCs actively scouting for buy-outs and strategic tie-up opportunities in this sector. The following figure represents the number of M&A deals that have taken place in the Indian pharmaceutical sector from 2002 to 2011.

Exhibit: 7.1
Number of M&A Deals in Indian Pharmaceutical Industry (2002 to 2011)

Before 2006, any clear trend in number of M&A deals in the Indian Pharmaceutical Industry was hardly noticed. The number of M&A deals in this sector had touched the highest of 103 in 2007. In 2008, the number was slightly reduced to 93. The year 2009 and 2010 were the corrective years for the Indian economy as a whole after the global economic meltdown. This had curtailed the number of M&A deals significantly in this sector as well. Although there is an improvement in the scenario in 2011 over 2009 and 2010 figures, M&A activity in
the Indian pharmaceutical industry has yet to return to the record setting level of 2007.

The following table highlights the major cross-border M&As involving Indian pharmaceutical companies that have taken place in the recent past.

**Exhibit: 7.2**

**Major Cross-Border Acquisitions in Indian Pharmaceutical Industry**

<table>
<thead>
<tr>
<th>Cross-Border Acquisitions</th>
<th>Indian Acquirer</th>
<th>Foreign Target</th>
<th>Deal Value (US $ mn)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Reddy's Laboratories</td>
<td>Betapharm (Germany)</td>
<td>582</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Sun Pharmaceuticals</td>
<td>Taro Pharmaceuticals (Israel)</td>
<td>454</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Ranbaxy Laboratories</td>
<td>Terapia (Romania)</td>
<td>324</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Wockhardt</td>
<td>Negma Labs (France)</td>
<td>265</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Matrix Laboratories</td>
<td>Docpharma NV (Belgium)</td>
<td>263</td>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>Wockhardt Ltd.</td>
<td>Pinwood Lab (Ireland)</td>
<td>150</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Ranbaxy Laboratories</td>
<td>RPG (Aventis) SA (France)</td>
<td>86</td>
<td>2004</td>
<td></td>
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<tr>
<td>Strides Acrrolab Ltd.</td>
<td>Aspen Pharmacare (Brazil)</td>
<td>75</td>
<td>2010</td>
<td></td>
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<tr>
<td>Dr. Reddy's Laboratories</td>
<td>Roche's API Unit (Mexico)</td>
<td>59</td>
<td>2005</td>
<td></td>
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<tr>
<td>Vivimed Labs Ltd.</td>
<td>Uquifa SA (Spain)</td>
<td>55</td>
<td>2011</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Cross-Border Inbound Acquisitions</th>
<th>Foreign Acquirer</th>
<th>Indian Target</th>
<th>Deal Value (US $ mn)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daichi (Japan)</td>
<td>Ranbaxy</td>
<td>5477</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>Abbott Laboratories (USA)</td>
<td>Piramal Healthcare - Domestic Formulation Business</td>
<td>3720</td>
<td>2010</td>
<td></td>
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<tr>
<td>Sanofi Aventis (France)</td>
<td>Shantha Biotech</td>
<td>783</td>
<td>2009</td>
<td></td>
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<tr>
<td>Reckitt Benckiser Group PLC (UK)</td>
<td>Paras Pharmaceuticals</td>
<td>726</td>
<td>2010</td>
<td></td>
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<tr>
<td>Mylan Inc. (USA)</td>
<td>Matrix Laboratories</td>
<td>723</td>
<td>2006</td>
<td></td>
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<td>Hospira (USA)</td>
<td>Orchid Chemicals</td>
<td>400</td>
<td>2009</td>
<td></td>
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<td>Group Danone (France)</td>
<td>Wockhardt (Nutrition Business)</td>
<td>355</td>
<td>2011</td>
<td></td>
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<tr>
<td>Cilag GmbH International (Switzerland)</td>
<td>Brands Doktor Mom and Rinza from JB Chemicals &amp; Pharmaceuticals Ltd.</td>
<td>245</td>
<td>2011</td>
<td></td>
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<tr>
<td>Fresenius Kabi AG (Germany)</td>
<td>Dabur Pharma</td>
<td>219</td>
<td>2008</td>
<td></td>
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<tr>
<td>Abbott Laboratories (USA)</td>
<td>Wockhardt (Nutrition Business)</td>
<td>130</td>
<td>2009</td>
<td></td>
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</table>

*Source: Collated from Publicly Available Sources of Information*

**Major Cross-border Outbound M&As by Indian Pharmaceutical Companies**

**Ranbaxy Laboratories’ Acquisition of 100% Stake in RPG Aventis of France:**

In 2004, Ranbaxy Laboratories acquired 100% stake in RPG Aventis of France for US $ 84 million along with its fully-owned subsidiary, OPIH SARL. At that time France was considered to be the fifth largest generic market in the world after US, Japan, Germany and UK. Interestingly, though US was the largest generics market in the world, more overseas acquisitions had taken place in Europe. RPG Aventis had a wide-ranging pipeline of 52 molecules and 18 of the 20 best selling molecules
represent its strong product portfolio. The company was present in major therapeutic areas, including cardiovascular, anti-infective, gastro-intestinal, rheumatoid / non-steroidal anti inflammatory drugs, neurology and analgesics. It was also acknowledged as a reputed high quality and reliable generic player which developed products strictly comparable to the original drugs (an important factor for pharmacists to convince patients to switch).

Matrix Laboratories' Acquisition of 22% Stake in Doc Pharma NV of Belgium: In 2005, Matrix Laboratories had acquired 22% stake in Belgian firm Doc Pharma NV for US $ 263 million. At that time, Doc Pharma had about 130 products in the European Union market with presence in Belgium, Netherlands, Italy and France. Matrix had signed a share purchase agreement with Docpharma promoters for acquiring 13,70,085 shares, constituting a controlling stake of around 22 per cent, at a price of 34 Euros per share.

Dr. Reddy's Laboratories' Acquisition of Mexican Firm Roche's API Unit: In 2005, Hyderabad-based Dr. Reddy's Laboratories (DRL) acquired Roche's active pharmaceutical ingredients (API) business at the state-of-the-art manufacturing site in Cuernavaca, Mexico including all employees and business supply contracts for a total investment outlay of US $ 59 million including working capital. This acquisition was DRL's first overseas acquisition in the API segment. This business was involved in the manufacture and sale of APIs including intermediates to Roche and to other innovator companies. The product portfolio of the business comprised of 18 products including a range of intermediates and steroids. This acquisition also added unique steroids manufacturing capabilities to DRL.

Dr. Reddy's Laboratories' Acquisition of 100% Stake in Betapharm of Germany: In 2006, Dr. Reddy's Laboratories (DRL) acquired 100% stake in Betapharm, the fourth largest German generic pharma company, for an enterprise value of Euro 480 million (equivalent to US $ 570 million or Rs.2,500 crore) in an all-cash deal. This is the largest acquisition by an Indian company in the pharma sector. DRL outbid Ranbaxy Laboratory, Israeli pharmaceutical major Teva and French firm Sanofi Aventis for this acquisition. Such acquisition has given DRL control over Betapharm's portfolio of 146 products, with 60 more potential ones.
Ranbaxy Laboratories' Acquisition of Terapia SA of Romania: In order to increase its size and consolidate its market position in Europe, Ranbaxy acquired Terapia SA of Romania in 2006 for US $ 324 million. Terapia had 157 marketing authorizations and strong broad-based product portfolio. About 70% of its products were focused on the central nervous system, musculo-skeletal diseases, and 30% were focused on cardio-vascular system. The acquisition of Terapia was significant for Ranbaxy as 30% of its products were registered in 15 countries in Europe and CIS (Commonwealth of Independent States) including Russia, Ukraine and Poland. Ranbaxy aimed to have a strong manufacturing presence in Romania, once the country enters the European Union.

Wockhardt Ltd.'s Acquisition of Pinewood Laboratories of Ireland: In 2006, Mumbai-based pharmaceutical and biotechnology major Wockhardt Ltd. had taken over Irish generic pharmaceutical firm Pinewood Laboratories Ltd. for US $ 150 million (equivalent to Rs.686 crore). Pinewood was the company's fourth European acquisition, after the UK-based Wallis and CP Pharmaceuticals as well as Germany's Esperma. Such acquisition gave Wockhardt an entry in the generics market of Ireland. Wockhardt had also used Pinewood's marketing, distribution system and customer base in Ireland for its vast range of hospital products.

Wockhardt Ltd.'s Acquisition of Negma Laboratories of France: In May 2007, Wockhardt Ltd. announced the acquisition of Negma Laboratories, one of the largest independent and integrated pharmaceutical group in France, in an all-cash deal of US $ 265 million (equivalent to Rs.1,100 crore). Negma had a strong research and life cycle management capability with a rich portfolio of 172 patents and an exciting range of products in various stages of development. The company used to hold leading positions in the osteoarthritis, rheumatology and the arterial hypertension segments. With this acquisition, Wockhardt had become the largest Indian pharmaceutical company in Europe covering all the key markets of Europe viz. Germany, the UK, Ireland and France, with more than 1,500 employees based in the continent. Wockhardt's European business accounted for more than 60% of the company's total revenues.

Sun Pharmaceuticals' Acquisition of Taro Pharmaceuticals of Israel: Taro was a multinational generic manufacturer, established in 1959 and headquartered in Haifa,
Israel. Taro used to operate mainly through three entities: Taro Pharmaceuticals Industries Ltd. (or Taro Israel), and its two subsidiaries, Taro Pharmaceuticals Inc. (or Taro Canada) and Taro USA. Taro had strong franchise in dermatology and topical products, in addition to products in cardiovascular, neuropsychiatric and anti-inflammatory therapeutic categories. In 2006, Taro had run into substantial losses. Sun Pharmaceuticals acquired Taro for US $ 454 million in an all-cash deal. Sun Pharmaceuticals had funded the acquisition with internal accruals and proceeds from its US $350 million Foreign Currency Convertible Bonds (FCCBs). The deal valued Taro’s equity at US $ 230 million, or US $ 7.75 per share, which was at 27% premium to its May 18, 2007 closing price of US $ 6.10 per share. Franklin Templeton, which held 9% stake in Taro, had opposed such acquisition. It felt that, Sun’s offer of US $ 7.75 a share was too low and unjust to the minority shareholders of Taro. The law suit moved through Israeli legal system and landed in the Supreme Court, which upheld the validity of the agreement in favour of Sun Pharmaceuticals in 2007.

**Strides Arcolab’s Acquisition of a Sterile Injectable Manufacturing Facility in Campos, Brazil, from Aspen Pharmacare of Africa:** During 2010, Bangalore based listed pharmaceutical company Strides Arcolab had announced the acquisition of a sterile injectable manufacturing facility in Campos, Brazil, from Aspen Pharmacare, Africa’s largest pharmaceutical manufacturer. The US $ 75 million deal had given Strides a boost in the sterile injectable market, which caters to the manufacturing of drugs for the treatment of infectious diseases. The facility at Campos, Brazil used to manufacture Penems and Penicillins.

**Vivimed Labs Ltd.’s Acquisition of Uquifa SA of Spain:** In 2011, Hyderabad based pharmaceutical company Vivimed Labs Ltd. announced the acquisition of Uquifa, a 75-year old Spanish manufacturer of Active Pharmaceutical Ingredients (APIs) and intermediates with operations spread in Spain and Mexico, for US $ 55 million. The acquisition has been financed by a balanced mix of debt and equity funds. The investment consideration of US $ 55 million was paid by equity of US $ 20 million, debt financing of US $ 25 million and the balance of US $10 million by way of deferred payment. With the acquisition of Uquifa, Vivimed had made a footprint into Latin America and went deeper into Europe.
Major Cross-border Inbound M&As by Leading Global Pharmaceutical Companies in India

Mylan Laboratories’ Acquisition of Matrix Laboratories: In 2006, another one of the biggest takeover deals took place in the Indian pharmaceutical industry when US generic giant Mylan Laboratories acquired 71.5% stake in Matrix Laboratories for a total consideration of US $ 736 million at Rs.306 per share. This acquisition strategy of Mylan was aimed at establishing a global platform and expanding its dosage forms and therapeutic categories. This acquisition was also meant to deepen Mylan’s vertical integration and enhance its supply chain capabilities. Mylan had practically no foot hold outside the US. Through the merger, the subsidiaries of Matrix provided Mylan the opportunity to access Europe, China and India. The fusion of Matrix helped Mylan in consolidating its share in the anti-AIDS product market.

Daiichi’s Takeover of Ranbaxy: In June 2008, Japan’s third largest drug maker Daiichi-Sankyo agreed to buy out at least 50.1% share of Ranbaxy for up to US $ 4.6 billion through tender offer, the private placement of new shares and the purchase of outstanding shares from the founder family. In November 2008, Daiichi-Sankyo had completed the takeover by buying a total 63.9% stake for US $ 4.20 billion at Rs.737 a share, which was at 31% premium to the-then ruling market price of Rs.561. It became the largest deal recorded in Indian pharmaceutical industry. The deal gave the Japanese major a foothold in over 60 markets. It also helped Daiichi in leveraging its innovative drug making capabilities and R&D expertise with Ranbaxy’s low cost manufacturing abilities to achieve a competitive position in the world generics drug market. The deal had helped Ranbaxy in reducing its debt significantly and the company had become cash-rich. With this deal, Ranbaxy had also bypassed a lot of European and US companies those were finding it difficult to enter the Japanese market, where safety and testing requirements were a lot higher.

Abbott Laboratories’ Acquisition of Piramal Healthcare: In 2010, US based multinational drug major Abbott Laboratories had acquired the domestic formulation business of Piramal Healthcare for US $ 3.72 billion (equivalent to Rs.17300 crore). This was the second-largest deal in Indian pharmaceutical Industry (after Daiichi-Sankyo’s takeover of Ranbaxy). After the acquisition, over 350 brands and about
5,500 employees and manufacturing units at Baddi in Himachal Pradesh have become part of Abbott’s Indian operations. However, Piramal Healthcare retained businesses worth Rs.1,700 crore and 11 manufacturing units in India, UK, Canada and US. The businesses that had remained with Piramal included custom manufacturing, critical care, active pharmaceutical ingredients, vitamins and fine chemicals, diagnostics (pathology and radiology laboratory chains), diagnostics equipment and drug research. The acquisition has helped Abbott to gain the leading market position in India and to hold strong position in branded generics and growing presence in emerging markets complementing its market-leading proprietary pharmaceutical offerings in developed markets.

**Sanofi Aventis’ Acquisition of 80% Stake in Shantha Biotechnics:** In July 2009, the vaccine division (Sanofi Pasteur) of French pharma major Sanofi Aventis had acquired 80% stake in Hyderabad based Shantha Biotechnics for Rs. 3,770 crore (equivalent to approximately US $ 783 million). Sanofi Pasteur acquired ShanH, which held majority stake in Shantha Biotechnics, a privately held maker of vaccines against Hepatitis B, Diphtheria and Tetanus amongst others. ShanH, the French subsidiary of Merieux Alliance, had bought stake in Shantha Biotechnics in November 2008. Shantha provided Sanofi Pasteur with a portfolio of new vaccines in development, which along with the already existing vaccines, helped the company to accelerate its growth in strategically important emerging markets. Shantha’s sales were also expected to grow significantly given the commercial resources of Sanofi Pasteur and launch of new vaccines.

**Acquisition of Paras Pharmaceuticals by Reckitt Benckiser Group PLC:** In December 2010, British consumer goods major Reckitt Benckiser acquired Ahmadabad based FMCG firm Paras Pharmaceuticals, the maker of brands such as Moov, Krack, D-cold etc., for Rs.3,260 crore (equivalent to approximately US $ 726 million). Reckitt Benckiser, the maker of popular brands like Dettol, Lyzol, Harpic, Collin, Mortein, Easy off Bang, Vanish, Airwick etc. in home care arena, Veet in personal care arena and Disprin, Clearasil, Strepsils etc. in over-the-counter product range, had directly entered the fast-growing personal care categories such as deodorants, hair care products, anti-ageing creams etc. with the acquisition of Paras, a dominant player in these categories.
Acquisition of Orchid Chemicals by Hospira of US: In December 2009, the US based pharmaceutical company Hospira acquired generic injectable pharma business of Chennai based Orchid Chemicals and Pharmaceuticals for US $ 400 million (equivalent to approximately Rs.1,900 crore). Such acquisition was a win-win situation for both the companies. Through this acquisition, Hospira gained the full beta-lactam portfolio of Orchid and also obtained the ownership of low-cost US FDA approved beta-lactum product manufacturing sites in India along with a talented pool of 450 employees and an R&D facility. At the time of acquisition, Rs.1,200 crore Orchid was amongst the top five generic beta-lactum antibiotic manufacturers in the world with a market capitalization closed to Rs.1,550 crore. The attractive valuation had also helped Orchid to repair its balance sheet. With a debt of over Rs 2,000 crore on its books and an interest burden of Rs 200 crore, the consideration money received from Hospira had helped Orchid in freeing itself from a long-term debt of Rs.1,250 crore and to cut down its working capital requirement by Rs.250 crore. As a result of repayment of a significant portion of long-term debt, the interest cost had also come down from Rs.200 crore to Rs.30 crore.

Danone’s Acquisition of Wockhardt’s Nutrition Business: In August 2011, French dairy and nutrition major Danone had acquired the nutrition business of Wockhardt Ltd. for 250 million Euros (equivalent to US $ 355 million), paving the way for its entry into the medical and baby nutrition markets in India. Danone acquired Wockhardt's nutrition business and brands as well as related industrial operations from Carol Info Service, which was a subsidiary of Wockhardt Ltd. The deal was considered to be a positive move for both Danone and Wockhardt. Danone had taken on Wockhardt’s strong brands (which include Farex, Protinex, Dexolac, Nusobee etc.) and existing distribution networks to expand its Indian presence while Wockhardt had utilized the cash proceeds to pay off its debt.

Fresenius Kabi AG’s Acquisition of Dabur Pharma: In 2008, German major Fresenius Kabi had acquired 73% stake in India’s largest anti-cancer drug maker Dabur Pharma for around Rs.872 crore (equivalent to US $ 219 million). With this, the Burman family, the promoters of the company, holding 65% stake in the company, made exit from their pharmaceutical business. The German company bought the stake through its Singapore based subsidiary Fresenius Kabi Pte. at Rs.76.27 per share, which was at 10.3% premium over Dabur Pharma’s the then
current share price of Rs.69.15 quoted at the Bombay Stock Exchange (BSE). The Burman family had got Rs.775 crore from the deal. To the industry analysts, this move of Dabur Pharma was to focus on its core competence. Though oncology was a lucrative segment, it required high level of research and development to treat the serious diseases that will necessitate huge investment. The promoters might not want to invest in the business when the parent company was buying brands and aggressively expanding its FMCG business. With the acquisition of Dabur Pharma, Fresenius Kabi had also broadened its offering of patient-specific oncology therapies.

Acquisition of Over-The-Counter Brands of J B Chemicals & Pharmaceuticals Limited by Cilag GmbH International: During July 2011, Cilag GmbH International of Switzerland acquired the over-the-counter brands of J B Chemicals & Pharmaceuticals Limited for US $ 245 million in cash. The brands included in the acquisition were Rinza, Russia’s leading multi-symptom cough and cold brand, and Doktor Mom, Russia’s number two selling cough brand, as well as several other brands. Johnson & Johnson LLC and its affiliates marketed these products in Russia, the world’s eighth largest market for over-the-counter products, in the Commonwealth of Independent States (CIS) and in other countries. Cilag GmbH International and Johnson & Johnson LLC are the wholly-owned subsidiaries of Johnson & Johnson.

Abbott Laboratories’ Acquisition of Wockhardt’s Nutrition Businesses: During July 2009, Abbott had acquired the nutrition businesses of Wockhardt Ltd., Carol Info Services Limited, and certain Wockhardt subsidiaries and group companies for a total consideration of approximately US $ 130 million in cash. Mumbai based Wockhardt had a significant presence in India’s pediatric and adult nutrition segments with infant formulas, weaning foods and adult protein supplements. These products held the number two position in India’s pediatric nutrition category. Some of the popular brands were Farex, Dexolac, Nusobee etc. The adult protein supplement, Protinex, was the segment leader. These acquisitions also included acquisition of nutrition manufacturing facilities located in Lalru and Jagraon of India. These acquisitions were considered to be excellent strategic fits for Abbott to accelerate growth of its nutrition business in India, where the nutritional market was expected to experience strong growth in the coming years. Combining these trusted
nutrition products, local manufacturing capability and commercial infrastructure with Abbott's existing pediatric and adult nutrition offerings positioned Abbott very well to serve Indian consumers.

7.3 Merger & Acquisition Challenges to the Indian Pharmaceutical Companies

While growth via acquisition is a sound idea by principle, there are challenges as well, which relate mainly to the stretched valuations of acquisition targets and the ability to turn them around within a reasonable period of time. The acquisition of RPG Aventis by Ranbaxy and Alpharma by Cadila in France are clear examples of acquisitions proving to be a drain on the company's profitability and return ratios for several years post-acquisition. In several other cases acquisitions by Indian generic companies are small and have been primarily to expand geographical reach while at the same time, shifting production from the acquired units to their cost-effective Indian Plants. A few have been to develop a bouquet of products. Other than Wockhardt's acquisition of CP Pharma and Esparma, it has taken at least three years for the other global acquisitions to break-even. Most of the acquiring companies have to pay greater attention to post-merger integration as this is a key for success of an acquisition and Indian companies have to wake up to this fact. Also with the increasing spate of acquisitions, target valuations have substantially increased making it harder for Indian companies to fund the acquisition.