On the threshold of growth

Ind-Swift group gets ready to storm into the big league of the Indian pharma industry

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Most pharmaceutical majors in the country have a significant presence in both bulk drugs (sold in large quantities, and supplied in gunny bags or barrels) and formulations (tablets, capsules, syrups or injections that people can consume). Chandigarh-based Ind-Swift is no exception but the promoters, Nav Ratan Munjal, S.R. Mehta, and Himanshu Jain, have preferred to structure it as two separate companies.

Munjal, 58, Mehta, 55, and A.K. Jain (Himanshu's father) had been close friends for several years when they decided to go into business together. At that time A.K. Jain, who has since passed away, and Gopal Munjal, 52 (Nav Ratan's younger brother), were working in a multinational drug company based in New Delhi. That prompted the group to select pharmaceuticals as their line of business.

Thus, Ind-Swift Ltd, established in 1986, is the older of the two, and concentrates on formulations while Ind-Swift Laboratories, formed in 1994, is focussed entirely on bulk drugs (also known as Active Pharmaceutical Ingredients or API). Similarly, Ind-Swift Laboratories, the API company, gets about 30 per cent of its ₹783.5 crore (FY 2010 figures) through exports, but its older sibling earns 95 per cent of its ₹681.3 crore sales from the domestic market. Though the annual results for FY 2011 are still a couple of weeks away, senior executives claim the sales of the two companies together would cross ₹2,000 crore.

Though Ind-Swift Ltd started with formulations, the management understood quite early that they would also have to start manufacturing bulk drugs from which the formulations are made, if they were to remain competitive. Those were days of stringent government controls on medicine prices, imposed through the Drug Price Control Order (DPCO), and every company was desperately searching for ways and means to reduce their production costs. Hence, in 1994, Ind-Swift Ltd decided to create a separate company known as Ind-Swift Laboratories Ltd, in which Punjab State Industrial Development Corporation (PSIDC) took up a 26 per cent equity stake at a price of ₹15 per share. "We thought the valuation of Ind-Swift Ltd was already quite high and were reluctant to part with a sizeable stake in the company at that stage," says vice-chairman and managing director Nav Ratan Munjal. Mehta is chairman of the company, while the third member of the promoter group, Himanshu Jain, is a joint managing director. All three have nearly identical holdings in the company.

This was how Ind-Swift Labs became a separate company, a status which it maintains to this day. It went public in 1997 with an IPO (initial public offer) of ₹7.5 crore, offering about 25 per cent of its equity for the retail investors and successfully raised $10 million in 2004 through a GDR (global depository receipt). Though the promoters also bought back the PSIDC stake in 2003 at more than double the original price, they have avoided merging the two recently established a Global Business Unit, which has started the process of obtaining approvals from drug regulatory authorities in Europe. The company has also approached the EMEA (European Medicines Evaluation Agency) and Therapeutic Goods Agency (TGA), Australia, and MCA (South Africa) for certification of six of its manufacturing facilities. This would enable Ind-Swift to market its formulations in those countries.

In addition, it has received patents in Europe and the US for Clarie-OD, a dosage form of Clarithromycin developed in Ind-Swift's research and development centre near Chandigarh. It has also applied for a similar patent for Fexofenadine ODT (an anti-allergy drug), while it has successfully developed and marketed at least 15 other products based on novel drug delivery systems (NDDS).

Managing IP

The key to these achievements is the strong R&D set up with which the company is equipped. Its annual R&D budget of 8-9 per cent of the annual sales is probably higher than most companies its size. "Apart from scientists who focus on developing the NDDS and discovering newer, patentable processes for more and more drugs, we also have a powerful intellectual property management group," says Shekhar Bhirud, vice-president, research and development. An important task of the IP management group is to work with the global Patent Co-operation Treaty (PCT) officials to establish the company's own patents. Within one year after a patent is granted and published by the PCT, the IP group has to decide which countries it would like to maintain the patent. This involves an annual fee of about ₹2 lakh per product per country. If this decision is not well thought out, and some other company markets the same product, it can result in considerable revenue losses to the company, Bhirud explains.

With all these initiatives, exports to Europe, Australia, South Africa and the semi-regulated markets could soon account for as much as 25 per cent of Ind-Swift Ltd revenues, a drastic change from the current figure of

Focussing on bulk drugs

5 per cent. "We have however decided not to market our formulations in the US, because that would place us in direct competition with our customers, who buy the APIs from Ind-Swift Labs," says Lalit Wadhwa, chief operating officer (COO). Thus, they have effectively shut themselves out of the most lucrative pharmaceutical market in the world.

In a similar fashion, Ind-Swift Labs is also making rapid strides both in the domestic and international market. "ISLL has been working on two main long-term growth drivers – (a) targeting leading generic companies in regulated markets for supplies of APIs that are expected to go off-patent in the next 2-3 years, and (b) leveraging its API development skills to explore forward integration opportunities through a tie-up with its group company – Ind-Swift Limited for supplying APIs for generic formulations through the out-licensing route in European markets.

"Over the long term, ISLL also aims to enter into contract research services by leveraging on its API development skills. Recently, it has also entered into profit-sharing agreements with leading generic players both in the European markets and the US for manufacturing and supplying generic formulations. Under these arrangements, ISLL will supply the bulk drug to Ind-Swift Limited, which will in turn manufacture the formulations and tie up with marketing companies in these markets by way of out-licensing of dossiers," says the ICRA report.

Through its subsidiaries, Ind-Swift Laboratories Inc (USA), Meteoric Life Sciences Pte (Singapore) and Ind-Swift Middle East FZE (Dubai), Ind-Swift Labs is quickly expanding its global imprint. Its offerings include 40 products across 16 therapeutic segments ranging from heart disease to cancer to migraine and even Parkinson's disease. For this purpose, it has filed 302 DMFs (drug master files) in the past seven years, of which about half have already been approved, mostly by the European authorities. These would cover almost 23 of its total portfolio of 40 products. It is also targeting Latin America, where the key markets would be Brazil, Argentina and Mexico, where it plans to establish offices before too long. Two of these, namely Brazil and Mexico, have fairly well-developed pharmaceutical industries, also concentrating on generic medicines. When French multinational Sanofi wanted to get into the global generic medicines space two years ago, it took over Medley (in Brazil) and Laboratorios Kendrick (Mexico), both of which have 12-15 per cent market share in their respective countries.

In addition, Ind-Swift Labs has obtained a 'foreign manufacturers accreditation' from the Japan government and filed four DMFs with their regulatory authorities. It has also tied up with leading generic companies in Korea, while attempting to focus on China as well. In addition, the company has formed a joint venture with the Farayand Hakim Company, Iran, which has revenues of about $3 million and is the only producer of Clopidogrel in that region.

Taking all these efforts into consideration, it should not be much of a surprise, if both companies constituting the Ind-Swift group now enter a phase of rapid growth and storm into the big league of the Indian pharmaceutical industry in the near future.

• SUMIT GHOSHAL

companies. The reason: many US-based formulations companies to whom Ind-Swift Labs sells its APIs are medium-sized and prefer dealing with vendors smaller than themselves. But Ind-Swift Ltd owns a 25 per cent equity holding in its sister concern even today.

Although both companies have posted a reasonable profit over the past several years and recorded a steady growth, their share prices have not reflected this reality. Hence, they have a market capitalisation of less than ₹400 crore each, although their combined sales are well beyond the 'coming of age' benchmark of ₹1,000 crore. At a time when leading drug formulations companies like Ranbaxy and Piramal Healthcare command valuations of up to nine times their annual sales, both Ind-Swift companies have clearly underperformed in the stock market by a huge margin.

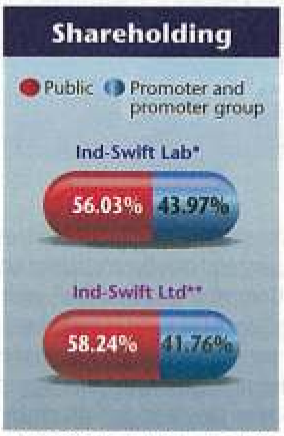
The company has 'good fundamentals' relative to other listed securities in India, but is 'significantly undervalued' on a relative basis, according to a recent report from ICRA (Investment Credit Rating Agency) Equity Research Service. It notes the company's leadership position in Clarithromycin, an antibiotic commonly used for lung infections, and in medicines such as Atorvastatin and Clopidogrel, which are used for the so-called lifestyle disorders.

Keeping a low profile

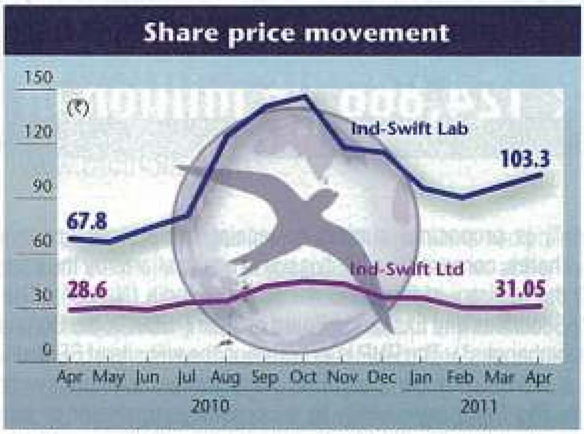
Interestingly, while other companies of a similar size are tracked regularly by equity analysts, and

Research: an area of strength

industry watchers, ICRA is the only one to come out with a detailed analysis of Ind-Swift Labs this year. Clearly, the company has managed to stay below the radar of both the equity research community and the business media, despite the fact that its chairman and managing director, N.R. Munjal is into his second term as president of the Indian Drug Manufacturers Association (IDMA). Similarly, Bombay Stock Exchange (BSE) records show that though the Ind-Swift Labs stock is traded in large volumes quite regularly, there have been only two bulk deals in the past one year. This could be because the public float in both companies is fairly large (55.8 per cent in Ind-Swift Labs and 58.2 per cent in Ind-Swift Ltd), besides the fact that the share prices have moved very gradually in either direction.



*March 2011 figures. **December 2010



2010 figures are of 10th day of each month and for 2011, 11th day of each month.

Though Ind-Swift Ltd was formed as far back as 1986, its growth has been rather tepid for the past decade, while other companies like Dr Reddy's and Sun Pharma, also formed in the mid-1980s, have posted annual sales close to $1 billion (₹4,500 crore). Since it is basically a medicinal formulations company, its business depends upon the ability to build strong brands in the market.

With its portfolio of more than 250 products, Ind-Swift Ltd has carved a place for itself in most of the important therapeutic areas within the Indian market. This is done through seven marketing divisions, each focussing on the treatment of one group of disorders. These divisions are: Ethical, Super Specialty, Mukur, Resurgence, Biocare, Maxcare and Healthcare. Among its best selling products are: Clarithromycin tablets, Clarithromycin taste masked granules, Atorvastatin, Suprox (a drug for blood pressure) Nitazoxanide (used for the treatment of infective diarrhoeas). In addition, Ind-Swift also has marketing alliances with Lupin and Ranbaxy for Nitazoxanide, Mankind Pharma for Clarithromycin and Roxithromycin, Dabur for Atorvastatin and Orchid for Clopidogrel (a cholesterol lowering drug).

While the company's medicinal formulations are sold entirely within India at present, the scenario is set to change in the next few years. It has