

# Drug firms diversify to derisk business

Players with bigger basket of products get higher valuations

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Don't put all your eggs in one basket. Pharmaceutical companies that hold a dominant position in one or two active pharmaceutical ingredients (API) are taking this idiomatic phrase seriously.

Companies like Wanbury Ltd, Orchid Chemicals and Pharmaceuticals and Virchow Laboratories that are global leaders in APIs like metformin, cephalosporin, and sulphamethaxazole, are now focusing on a wider portfolio. This is a strategic shift for these companies, which have established themselves in one particular API.

Analysts see this focus on a larger basket of products as a

risk mitigation strategy. "These companies have huge capacities for one or two APIs. At times, a larger basket of products is tougher and it makes better business sense to stick to fewer products. But this is slowly changing," said Alok Gupta, executive vice-president & life sciences head at Yes Bank.

Wanbury Ltd, the Rs 550-crore Mumbai-based global leader in metformin (bulk drug for diabetes), caters to 35% of the global requirement for the drug, which contributes Rs 120 crore to its revenues. But the company is now focusing heavily on its other products, which include salsalete (anti-inflammatory), tramadol (painkiller), and atenolol (hypertension).

"Wanbury believes in focusing on less number of products and achieving a bigger market share in these products and servicing a large number of customers in

more markets for each product," said Ashok Shinkar, director (corporate finance), Wanbury.

He added that the company is focusing on 30 products, including in therapeutic areas such as orthopaedics, painkillers and haematinics (for iron deficiency).

Focusing only on a few APIs and gaining world dominance in them was a strategy that worked well in the past. "But not anymore," said Kirit Gogri, an analyst from Quant Capital. "From growth and profitability perspective, a wider portfolio of products is better," said Gogri.

Likewise, the Rs 1,300-crore Chennai-based Orchid Chemicals and Pharmaceuticals is increasingly concentrating on products in the antibiotics range such as penicillin, carbapenems, etc. Orchid has been a global leader in cephalosporin (antibiotic), which brings in about 80% of revenues.

According to C H Ram, head

## Wider view

**Wanbury Ltd**, the global leader in metformin, is focusing on other products like salsalete and tramadol

**Orchid Chemicals**, the cephalosporin major, is concentrating on products in the antibiotics range such as penicillin, carbapenems, etc

**Virchow Labs**, the world's largest producer of antibiotic sulphamethaxazole, is now eyeing areas like biotech products and cephalosporin

(communications and investor relations), after establishing a specialisation in a particular category, the company feels it is a sound strategy to increase its base in the antibiotics range by manufacturing other products and entering other therapeutic areas. "So a year ago, we entered



segments such as cardiovascular system, central nervous system, anti-fungals, etc," said Ram.

Similarly, the Rs 600-crore Hyderabad-based Virchow Laboratories, the world's largest producer of antibiotic sulphamethaxazole, is now looking at other areas like biotech products and

cephalosporin. Sulphamethaxazole contributes over 50% to the company's revenues.

N V Reddy, managing director, Virchow Labs, said concentrating on other products would help the company flourish and grow in the long term. "We presently get, say, Rs 10 crore revenues from biotech products, and Rs 200 crore from cephalosporin. We are looking at expanding these product areas."

Bino Pathiparampil, an analyst from IIFL Capital, said a larger basket of products is a better strategy in the pharma sector as there is always uncertainty over competition. Pathiparampil said that a company making more products gets a better valuation than one focusing on just one or two products. "The risk is higher in case of companies with a very limited basket of products."

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