Piramal’s acquisition plan won’t be limited by place, industry

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Armed with a warchest of around $3 billion (around Rs14,000 crore), Ajay Piramal’s acquisition plans won’t be constrained by geography or industry, said a senior company official.

The Piramal group that he heads has interests in healthcare, original drug discovery, glass manufacturing, etc.

“While as a group we are looking at India, valuations are very attractive in the US and Europe. There are huge opportunities for consolidation there,” said Vijay Shah, managing director of the Rs1,103 crore Piramal Glass Ltd, a group company that was almost dragged down by its acquisition in 2005 of a US firm, Wheaton Glass, in chapter 11 protection, but was smartly turned around in fiscal 2009-10.

Scalability of the business and a shot at global leadership will be the prime motives behind the next phase of acquisitions in the group, he said, adding that Piramal, who handled all the deals personally, has already started the process.

Global healthcare firm Abbott Laboratories Inc. had acquired the domestic formulations business of Piramal Healthcare Ltd, the Piramal group’s flagship company, for $3.7 billion in May.

Earlier this month, Piramal Healthcare sold its diagnostic services business to Super Religare Laboratories Ltd for Rs600 crore. The initial payments from both deals amount to about $3 billion.

“Scanning possible acquisitions in high-growth sectors is going on, but nothing is concluded yet,” said Shah, a 22-year veteran of the group.

Ranjit Kapadia, vice-president (institutional research) at HDFC Securities Ltd, said the company will likely be looking to strengthen its contract research and manufacturing services business by global acquisitions as several assets in that segment are available at cheap valuation in the recession-hit markets.

Earliest this week, Murari Rajan, executive director responsible for mergers and acquisitions and corporate developments at Piramal Healthcare, had told*Mint* that the group would finalize new investment options in a few weeks’ time, mostly in areas it has retained in its portfolio.

“Piramal is keen at acquisition opportunities in areas such as contract manufacturing, hospital supply products and over-the-counter drugs in the healthcare space, and the group is apparently in discussion with several players in these areas on a global basis,” said Muralidharan Nair, partner (health sciences advisory practice) at audit and consulting firm **Ernst and Young**.

He added that the group could look at new areas that can grow even faster, such as “real estate and financial sector, especially insurance sector that is all set for a boom in India”.

Shah dismissed as “baseless” market speculation that Piramal Glass is next in line for a possible divestment. This had gathered strength after the promoters sold 1.5 million shares, or a 1.79% stake, on 14 July.

“There is no conscious attempt to sell every business of the group,” Shah joked.

The company explained in a notice to the exchanges that the transaction was made to comply with capital market regulator Securities and Exchange Board of India’s norms mandating a minimum public shareholding of 25%.

Following the sale, Piramal Glass, which makes bottles for global companies such as Procter and Gamble Co., Coty Inc., L’Oreal SA, Givenchy, Elizabeth Arden and Estee Lauder, among others, also stands to become the flagship company of the Piramal group.

Shah, however, discounts that possibility, pointing out that the size of the global market it operates in just $2 billion.

“The group is sitting on $3 billion and none of the existing businesses can absorb so much cash,” he said.

Piramal Glass, which posted annual losses till the 2008-09 fiscal, though, is ideally poised to go global, conceded Shah.

By systematically moving some of the key operations to India, Piramal Glass has become the lowest-cost producer in the world.

Piramal Glass would have gone bankrupt if it had not been for chairman Piramal, who committed to fund 90% of the Rs185 crore rights issue needed to pare debt, Shah said. That helped narrow the company’s debt-equity gap from 15:1 to 3:1, he added.

The US acquisition allowed the company to fulfil its strategy of accessing customers and know-how through such moves.

Shah said he moved from Piramal Healthcare because the glass company had the potential to become a global leader.

However, the company’s aim of becoming one of the top three speciality glass manufacturers in the world may not be easily achieved. It currently has a 5% global market share, while Saint Gobain and Pochet SA have 21% and 13%, respectively.

Piramal Glass is currently ranked ninth in the world by market share in a list of mostly European firms.

An analyst affiliated to a domestic brokerage firm, who has interacted with the group, said Piramal Glass is linked to Western economies and if Europe and the US continue to flounder, the Indian firm will be hit as its main markets are there. He declined to be named as he is not authorized to speak to the media.

Shah, however, argued that the company will be able to compete strongly because it operates on a low-cost base, compared with its rivals.

The strategy at Piramal Glass, he said, has been about changing the product mix and optimizing profit as it deliberately moves to high-margin bottles for cosmetic products.

From a 5% return on capital, the business has now moved to 10% and Shah expects it to be closer to 20% in two years.

Interest rates on debt from Indian banks for the US acquisition have also been cut from 13% to 7%, a significant cost reduction.