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The Making of India's first biotech IPO

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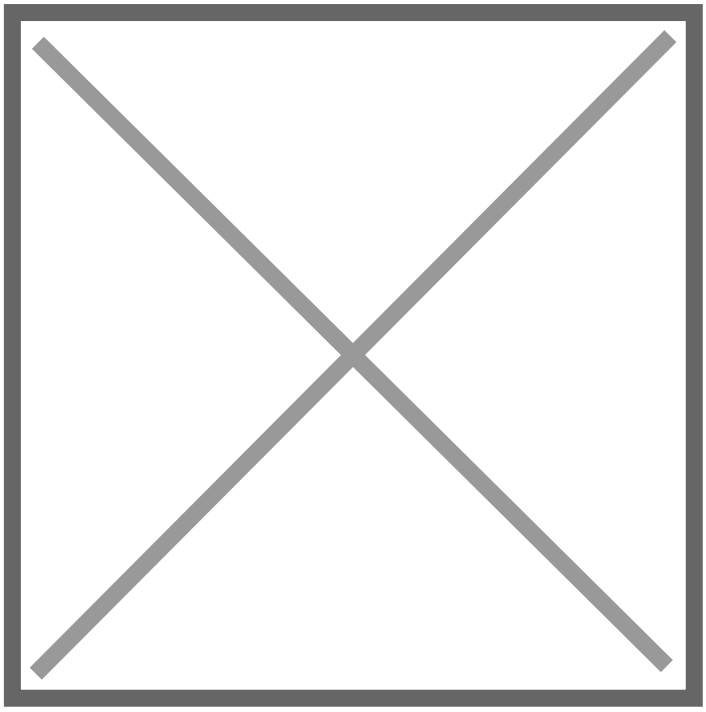
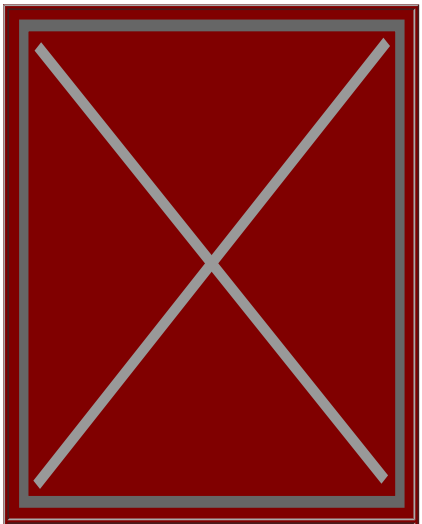


An important chapter in the Indian biotech industry was written when Biocon Ltd opened its public issue on 11 March and closed on 18 March. Biocon's IPO generated an overwhelming response. The total demand was in excess of Rs 10,000 crore. The overall issue was not only oversubscribed by about 32 times, but over 90 percent of the demand came at the top end of price band, i.e., Rs 315 per share. There was large-scale participation by Qualified Institutional Buyers (QIBs), High Networth Individuals (HNIs) and retail investors. In fact while the retail portion was oversubscribed 14 times, the subscription for the HNI and QIB category was close to 39 times. BioSpectrum looks beyond the fundamentals that went into the Biocon issue to understand how the issue was planned and executed.



Team Biocon on success ladder

Three years of preparation Ã¢â?¬Â¦

The IPO did not happen overnight. It did not happen in a couple of months. In fact, "The thought of taking the company public was there on the radar since 2001. This was the time when the biotech industry was booming. The other factor was the coming of NASDAQ to India. And we set for ourselves a target that we should go for an IPO in the future," said Kiran Mazumdar-Shaw, chairman and managing director, Biocon.

But Biocon wanted to achieve certain things and reach some milestones before going public, as at that time it was a small company. These included things like getting used to the public face and making public disclosures. As a private company, quarterly reporting was not a practice. At that time, Biocon was only doing half-yearly reporting. "We wanted to go public, when we could show eight quarters of quarter-on-quarter growth. The reason: if that was achieved, then we would be disciplined and ready to go for an IPO," explained Kiran. Biocon had an active Board that had the experience of taking companies public. Board members Dr Neville Bain and Prof. Charles L Cooney had the experience to guide through the processes and mechanisms of getting to an IPO.

Engaging the merchant bankers Ã¢â?¬Â¦

It was in July 2003 when Biocon really set out to go public. It was decided to go public within the next one year then. "When it was decided, we set ourselves a very well worked out time lines. We knew it would take us an X number of months to bring out the prospectus," pointed out Kiran.

Of course, it had initiated some activity much earlier itself. For instance, in 2002 itself Biocon started with the process of looking at the merchant bankers and who could be used for its IPO. Biocon wanted a merchant banker who could understand its business and showcase it in the right way. Reasoned Kiran, "The one thing we were very keen on doing was we wanted to start a new sector, the biotech sector. We did not want it to be clubbed with the pharma sector. It must be understood that the biotech business is knowledge driven with long gestation periods and is process intensive. Besides, the whole business model was different. Therefore we wanted to capture the value for the intellectual value that we are creating." So in 2002, it made each of the merchant bankers give a presentation on what Biocon was in terms of a story to sell to investors. It chose three merchant bankersÃ¢â?¬â?•DSP Merrill Lynch, Kotak Mahindra Capital Company and HSBC Securities. In that sense the process started almost 20 months back. "But even then we knew it would take at least two years before going public," said Kiran.

Determining the right denomination Ã¢â?¬Â¦

Last January was when Biocon started looking at the exercise pretty seriously. It drew a timetable on how to progress with the process of financial due diligence, legal due diligence, etc and went through the process of hiring legal firms and financial firms. Ernst & Young were its auditors and they had to cast its accounts as per Indian and US GAAP for five years. Further, Biocon had to go through a major exercise of arriving at the share value and the size of the share. "Historically, the face value of each share was Rs 100 and obviously we could not go with Rs 100 a share and charge Rs 1,000. So we had to arrive at the right denomination. Also we had a lot of reserves and surpluses. So we had to make the capital structure complaint to what we were trying to do in terms of going into the market," informed Kiran. "That was quite a process, as there had to be frequent board meetings and resolutions had to be passed. The employees' component also needed to be properly addressed."

Learning curve Ã¢â?¬Â¦

According to Kiran as the company believed in good governance, it did disclose as much as possible. This itself was a good learning experience. "You learnt to project the story in the way you want them to understand. What was that they felt as high value and what interested them? Of course, there was an array of analystsÃ¢â?¬â?from pharma specialists to biotech specialists to generalists. Depending on who those analysts were one suddenly learns how to pitch the presentation. It was an interesting exercise and almost a practice for dealing with the analysts, which will now be a routine phenomenon," recounted Kiran.

Generating interest Ã¢â?¬Â¦

Biocon held several road shows in the process not just in India but also globally. An extensive road show was organized in the US in September and December 2003. The road shows were done across the USÃ¢â?¬â?New York, Boston, San Francisco, Denver, Los Angeles, etc. It did a road show in London and Frankfurt. It did two road shows twice in AsiaÃ¢â?¬â?Hong Kong and Singapore. What were the investors interested in? "The Indian investors were all focused on statins, whereas the foreign investors were interested in the insulin story, the capabilities that we had in protein manufacturing, custom research services, clinical opportunities, etc. So it was interesting to know where each one came from. It is a good practice to pitch your p

IPO Details

Ã¢â?¬Â¢ Issuing 10 million shares, equivalent to 10 percent of its post-issue capital (Rs 1 billion) through 100 percent book building method.

Ã¢â?¬Â¢ The price band has been fixed at Rs 270 to Rs 315 per equity share of face value of Rs 5.

Ã¢â?¬Â¢ Issue opened on 11 March and closed on 18 March.

Ã¢â?¬Â¢ DSP Merrill Lynch and Kotak Mahindra Capital Company are the Book Running Lead Managers while HSBC Securities & Capital Markets (India) is the Co-Book Running Lead Manager. Karvy Consultants is the registrar to the issue. Financial Advisors to the company was Allegro Capital Advisors

Ã¢â?¬Â¢ The total demand was in excess of Rs 10,000 crore

resentation," explained Kiran. Biocon wanted to demonstrate that it was a professional company and had good management depth and manufacturing capabilities. Kiran could project all this quite easily to the audience that did not know Biocon very well. But in India her whole objective was to tell that Biocon was not Kiran Mazumdar. "People did not realize how big this business was and how big the company was. Because I am the face, they thought it is some boutique operation. They had some preconceived impressions about Biocon, which had to be changed," added Kiran.

Butterflies in the stomach Ã¢â?¬Â¦

There was a lot of interest from even those foreign investors, who are not normally ready to visit. Reasoned Kiran, "Bangalore is slightly off the beaten track. They are eager to look at IT, but for the pharma group they go to Delhi, Mumbai or Hyderabad. Nobody comes to Bangalore because there is no major pharma sector. But these groups' efforts to come to Bangalore made a statement that they were interested." Of course, they came at a time when the merchant bankers really got Kiran worried. It was a time when there was a spate of IPOs in the market. "Despite this, we did not change the timing as we wanted to stick to our schedules as planned. We were not even overlapping with the IPOs, as the issue size (Rs 350 crore) was very small. Further, we believed that the interest in our sector would be different from the government sector. The doubt about not doing well, if at all, lay only in the retail sector. We were sure we could make the shortfall, if any, in that segment through the institutional investors."

The doubts were put to rest as soon as the IPO opened. In fact, the retail side got oversubscribed by 14 times and there was about 39 times oversubscription of the HNI and QIB. "Yes I was worried for two days. But that worry lasted for only two days. People were saying we were offering the stocks at a very high price band. But it must be remembered that when a company goes for an IPO, the company should capture the right value for what it does. The investors should then get good value for the future," explained Kiran. The argument in favor of this is that an IPO is not about just rising cash, unless somebody is desperate. The objective of Biocon going the IPO route was three-fold. One, give an exit for the private equity investors; two, give value for the stock options that Biocon had created. The third one probably was the most important consideration. It wants to have a public profile that would be tracked globally. Biocon has global aspirations and aims to become a global company, which is visible and properly tracked. "Further we had come to a point, where we had demonstrated that we had reached the level of critical mass in terms of size, growth, and capability. We are at the take off stage, where we can provide a good opportunity for the investors to grow too. Please do not expect Biocon as a bonanza investment, which will give instant returns. This is a very valuable long-term stock."

Preparing to manage investor expectations Ã¢â?¬Â¦

"One of the things is to look at what the investor expectations are. Is it about quarterly growth or new announcements? We have to be very sensible and mature about the announcements that we make. For instance, I don't think, I want to get into that quarterly guidance and forecast kind of profile. That is the worst thing to do. In the biotech sector, one should not attempt to do so as the sector is too dependent on the regulatory approvals. But we need to be very clear in our mind as to how we want to be perceived," commented Kiran. Biocon certainly will be making quarterly announcements of its financials. Besides, it also will announce from time to time about the exciting things happening at Biocon. The company also intends to encourage the investors to visit its facilities to see what Biocon is doing. For instance, this year itself it would be inaugurating three new facilities. These are the kind of things that Biocon hopes will give the investor confidence.

The people behind the scene Ã¢â?¬Â¦

The entire management did a great job, said a beaming Kiran. Murali Krishnan, president, finance, and MB Chinappa, general manager, finance, did not sleep for days. Then Shrilumar Suryanarayan, president, R&D, Ajay Bhardwaj, president, marketing, Dr Arun Chandavarkar, president, operations & technology, Dr Gautam Das, COO, Syngene and Dr AS Arvind, COO, Clinigene, all did a fantastic job. And outside the company, the merchant bankers, the legal advisors, the board, every one did things in a time-bound fashion and all took it as a personal commitment. The team is very important and increasingly they would be talking to investors and analysts.

What would change for Kiran after the listing?

All these years Kiran had no one to contend with except her board of directors and colleagues. She had a limited number of people to convince before taking any decision. A lot of things she would automatically have done in the past would not be done. She may not be able to do things mid-term. "We have to wait for AGM. May be some speed of doing things may be lost. I do realize that I am answerable to lot more people. But having said that the opportunities for the company will be much larger than before. Hopefully we can create a big global name for ourselves," believes Kiran.

Now, it is about allocating the stocks and the listing. The listing will hopefully take place between 7 April and 10 April. Then, it is back to business and not to be carried away by the stock fluctuations. And then prepare for a global listing.

N Suresh & Ch. Srinivas Rao