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Why ain't biotech IPOs happening in India?

15 January 2010 | News

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IPO in India

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Five summers ago, Biocon, one of the most keenly watched life sciences company in India then, went public. Its shares were oversubscribed and the company received overwhelming response from the investors. When the company listed on Indian bourses, it made Dr Kiran Mazumdar-Shaw, founder of Biocon, a billionaire and for the first time an Indian women became a dollar billionaire.

Between then and now, biotech IPOs in India have been almost nil. Experts attribute this to the small size of Indian biotech companies and low awareness amongst investors about companies.

IPOs in biotechnology started in the US when the stock regulator allowed Amgen and Cetus to raise money from the publicin the early 1980s. Today the US has the largest number of publicly traded biotech firms while in Asia, with the exception of Australian companies, there are few success stories. In others Asian countries, there are only a handful of biotech companies whose shares are traded.

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Wockhardt, one of India’s top tier pharma company and hospitals chains too aborted its plans to list to raise money to clear its debts after a bad market dampened its interests. The company later sold its 10 hospitals chain to Fortis Hospitals, owned by the family that previously owned Ranbaxy, India’s top pharma company by revenues, for Rs 909 crore.

Analysts tracking the biotechnology companies believe that the investors in India are “more cautious,” to invest especially in biotech firms as it is better and easier to invest after observing the proof of concept of the company, its clinical development and launch of the product.

But that might change now. Avesthagen, a Bangalore-based biotechnology company, with an interesting pipeline ofproducts, is planning to hit the stock market in March 2010. The company, promoted by Villoo Morawala-Patell, aborted its IPO plans twice in 2008 and once in 2009.

Sujay Shetty, the Mumbai-based associate director, Pharma Life Sciences Advisory, Pricewaterhouse Coopers (PwC) feels that last year’s global meltdown coupled with financial turmoil in the country weren’t conducive enough for the new IPOs to emerge. “Money has been declining and investors are getting burnt. In the US, the liquid market is well-established and the eco-system is much developed, but in Europe and Asia, the eco-system is different.” Further, he adds that it is difficult to churn out money in biotech companies. In fact, the R&D is uncertain in the life sciences sector, due to which the investors shy away from the industry.

The biotechnology industry on the whole has been severely impacted as new investments are not coming in and valuationsof the companies have also plummeted. In such a gloomy scenario, earlier forecasts of the Indian biotech industry becoming a $5 billion market and employing one million people will be a challenge and difficult to meet.

Experts view that most of the regional biotech companies at present have a business model based on private funding due to the long gestation period, due to which investors shied away from this industry. “Biotech companies are high risk, complex businesses. There are hardly any benchmark for valuation because most of these have no balance sheet and cash flow. US is a matured market and hence it works over there but not here,” says Jigar Shah, investment advisor, KR Choksey Securities, Mumbai.

John Powath, CEO, Inventive Business Partners, a Bangalore-based company, believes that biotech companies are no stranger to risk. The business of developing drugs is a high risk (and for those who succeed high reward) undertaking and that’s the reason biotech companies are not resorting to IPO.

Powath who earlier worked as a partner in Ernst & Young, says that there is a lack of understanding of how this sector operators amongst most public investors. “Typically, the funding is required for R&D which may or may not be successful. Given this risk parameter, investors are likely to stay away. Funding using the IPO route for biotech companies make sense where there is one or two blockbuster development and funds are required for production and commercialization or have some sort of proven cash flow and revenues,” says Powath.

“Most biotech companies’ revenues are typically small and hence are not attractive enough for listing — which is why we see strategic investor or VC funding as the preferred investment mode.”

According to Murali Nair, partner,Advisory Services, Ernst & Young, typically, evolution of companies follow a path involving three stages.

One, the basic idea is supported by limited capital from the promoter or the Venture Capitalist (VC), secondly once the business develops to a certain critical mass and can demonstrate a sustainable model and management, the next growth phase is funded by a PE or group of investors known to the promoters. And the third phase is when the company goes for larger funding for expanding a business that has already demonstrated a healthy top line, bottom line and sustainable cash flow, and the business model is understood by a larger community. IPO is a tool for funding at this stage.

“The US biotech industry has evolved in a similar way along with government funding. However, in India, the crucial VC funding for early knowledge business has sadly been lacking. Hence, there are only a very few companies who today are in a stage to successfully conduct an IPO. In addition, a general lack of understanding of biotech business coupled with a perception of high risk has not helped the industry in its early scale up,” says Nair.

Indian markets have always been highly sensitive towards cashflow and any business which needs significant investments with a high risk future cash flow potential does not lend itself well for IPO in India.

Nair says, “Biotech is a victim of this syndrome and I would believe we need more of VC and private equity funding here than an IPO considering the stage of business that is prevailing in India.”

Whether or not that happens,biotechnology companies are keen to raise money and will look up to Biocon or just about any other successful listing of a biotech company as a beginning of end to a bad patch in the market.

Anjana Pradhan and Sanjeev Jain in Bangalore