RFCL on an acquisition spree

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RFCL on an acquisition spree

Gurgaon-based RFCL is on acquisition mode again. In January 2008, it acquired Godrej Medical Diagnostics to enter the point-of-care diagnostics business. In the same month, it acquired Chennai-based Alved Foods and Pharma to consolidate the veterinary business. In March it has picked up a European animal health care company. What else is the company up to?

What started as a disinvestment from Ranbaxy with a four-year goal of taking RFCL revenues from about $37 million (Rs 150 crore) to over $87 million (Rs 350 crore), today, boasts of a consistent double-digit growth in all its business segments.

Led by managing director Sushil Mehta and his team, the 100 percent ICICI venture-owned Gurgaon-based RFCL covers the whole expanse of life sciences industries including pharmaceuticals, biotechnology, R&D laboratories, food processing, in vitro diagnostic facilities in clinical labs, hospitals, nursing homes and animal healthcare through its four strategic business units: Rankem (lab solutions), Diagnova (diagnostics), Vetnex (animal healthcare) and Neosynth (chemistry-based R&D).

It has tasted such success with acquisitions in India that the company is now looking at closing acquisitions in the US and European markets. The aim is to cross at least $125 million in revenues by 2010. While acquiring mid-sized firms valued at $40-50 million is on RFCL radar, the company is also looking at tapping the capital market to fund its expansion.

In the last eight months RFCL acquired three companies, Wipro Biomed and Godrej Medical Diagnostics in the diagnostics space and Chennai-based Alved Pharma and Foods Pvt Ltd in the animal healthcare space.

According to Mehta, RFCL has a formidable market presence with Rankem, Diagnova and Vetnex in the respective segments with the company ranking either in the top three or top five. The lab solutions market in India is growing at 15 percent, diagnostics at 17 percent and animal healthcare business at 8-10 percent and the company is growing at 30 percent, 35 percent and 16 percent in the three respective segments. "In the lab solutions market, we are focused in chemicals and consumables which roughly make for 40 percent of the lab solutions market. We don't have a presence in the instrumentation market that already has big market leaders in the business. We are however evaluating entering the market for tabletop equipment with our experience in after sales service," said Mehta.

According to Mehta, the company is likely to close financial year 2007-08 with over $80 million in revenues, annualizing RFCL current businesses and the three companies that RFCL has acquired.

The company is continuously outperforming itself. This apart, RFCL is also significantly progressing towards manufacturing excellence with one plant in Haridwar in Uttaranchal State and another for lab chemicals to come up at Panoli in Gujarat by 2009. Also RFCL has been ranked in top 25 percentile companies, globally, in terms of employee engagement, in a survey done by Mercer and Business Today magazine in late 2007.

Mehta's vision is to make RFCL largest service provider in the country in life sciences sector. That precisely, is the reason why RFCL is looking at consolidating its position in the Indian market and increasing presence in the global market by looking for strategic inorganic opportunities in Europe and US.

However, the company will have to wait and watch the impact of the recent US meltdown for India because it might lead to a slight dip in the GDP and consequently affect the market as well, as predicted by some leading bankers. But he is optimistic, "I don't think it will last longer than six months or a year because India is a long term growth story," he said.

Inorganic Growth Strategy

- In July 2007, RFCL acquires Wipro Biomed- biomedical, health and life science service (Diagnostics).
- In January 2008, RFCL acquires Godrej Medical Diagnostics and Alved Foods and Pharma (Veterinary Healthcare).
- In March 2008, RFCL acquires an animal healthcare company in Europe.

How does RFCL acquire!

In April 2007, RFCL started looking for inorganic opportunities. So it created an internal team and appointed an investment banker to do a search and scout mandate for it.

For the Wipro acquisition, RFCL were helped by a banker involved in its own disinvestment process from Ranbaxy and hence knew RFCL as a company and found Wipro a good fit for it. Godrej came next.

The Alved acquisition is also interesting. During the Ranbaxy disinvestment process Ernst & Young (E&Y) was working with RFCL to help identify a buyer for its animal health business and now it was representing Alved from the seller's side. Since E&Y knew RFCL, they approached it and the rest is history.

All said and done, RFCL is working through a focused approach and YES bank is helping it to identify the right strategic partners for inorganic growth.

RFCL's Globalization Plans

RFCL has four SBUs namely Diagnova (diagnostics), Rankem (lab solutions), Vetnex (animal healthcare) and Neosynth. All businesses contribute significantly to its revenues.

Lab solutions: "Europe and the US account for 75-80 percent share of the global lab solutions market. So we have been evaluating acquisitions in Europe and analyzing ways to enter the US. We will also focus on exports to the Middle East."

Animal health business: "The global market is $16 billion. We have a team of scientists with organic chemistry background that is developing APIs. We do gram scale-synthesis of products in our product and development lab, which would then be taken to the kilo-scale level and finally up-scaled at our plant in Dera Bassi. The required formulation is developed again in the lab, analyzed, and followed by production at the Haridwar facility. This is our plan for an integrated veterinary pharma value chain."

Diagnostics: "Here 70 percent of our revenues come from imports and 30 percent from our own products because it is more principal dependent. But we have started looking at niche opportunities and we will be looking at companies having a technological capability to acquire and bring a technology here and translate that to product introduction in that particular segment."

Shalini Gupta