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Elusive South

BJP faces serious challenges in South India, which accounts for 130 LS seats and is home to new economic powerhouses

Vitamins giant



SAMIY BORADE

Nagre: ready for the next move

Fermenta is poised to grow bigger than its current revenues

In the past few years, a subtle shift has taken place in the discourse about health and medicines. Both within the healthcare and the pharmaceuticals industry and outside, the focus has moved from medicines to cure or treat a disease, after it has taken root, to products and initiatives that help people stay healthy and well. This has given rise to an entirely new market segment known as nutraceuticals – that is, nutritional substances, including food components, which have a medicinal value.

Recognising this demand from the market, large pharmaceutical companies have opened what they call a Wellness Division. These offer products to be consumed by mouth or applied to the skin to maintain good health. And a clutch of small companies are

serving as suppliers for these giant drug companies. Fermenta Biotech, which is among the world's largest manufacturers of Vitamin D 3, is a shining example.

With a nine-month topline of ₹324 crore (EBIDTA: ₹129 crore) for 2018-19, Fermenta is surely to be placed among India's smaller pharmaceutical companies. But this could also be because it is essentially a supplier to the large drug manufacturers which create the FDF (finished dosage forms) and sell it in the market. On the other hand, more than 80 per cent of its production of Vit D3 is exported, spread across almost 50 countries!

This position of leadership is also the reason for its popularity with the investment community because of which its share price in the past two

years has stayed in the range of ₹700-900, despite a stock split. Also, it has maintained a steady rate of dividends over the past few years, despite the significant regulatory headwinds and its adverse impact on the pharmaceutical industry as a whole.

Bone health

Several types of Vitamin D, including D3, which are needed to keep our bones healthy and strong, are supposed to be made naturally upon exposure to natural sunlight. "In practice, however, almost one billion people across the globe are believed to be suffering from deficiency of Vitamin D, and therefore need supplements through food and medicines," says Prashant Nagre, CEO, Fermenta. "In India, almost 70 per cent of school-going children are likely to be Vit D3 deficient!" This is because people in many Asian and African countries keep most of their skin covered on account of cultural reasons – which is why, Vitamin D3 finds a mention in the WHO (World Health Organization) list of Essential Medicines. The need for Vitamin D3 is not restricted to human beings but also applies to domestic animals such as cattle and other livestock. In the global market, almost 40 per cent of Vitamin D3 is used as animal feed.

Apart from bone health, Vitamin D3 has a number of other applications in human health. New research published in 2007 and 2008 has shown that daily intake of 1,000-2,000 International Units (IU) of Vitamin D3 could lower the risk of cancer of the large intestine. Subnormal levels of Vitamin D3 have also been associated with various other types of cancer, TB, heart disease and diabetes. But scientists are still examining whether adding Vitamin D3 to the diet really reduces the possibility of these ailments.

Another unusual aspect of Vitamin D3 is its effectiveness in killing rodents such as rats and mice. Research has shown that rodents are particularly susceptible to high doses of Vitamin D3, which is therefore used as poison bait for these animals. However, it presents a similar danger to domestic pets including cats and dogs.

Though its flagship product is Vitamin D3, which fetches the company a lion's share of its annual revenues and profits, Fermenta is also involved in the manufacture of some intermediates required for the production of synthetic penicillins, such as amoxicillin, cephalosporins – drugs which play a crucial role in the treatment of many minor and major infections all over the world even today. Besides, Fermenta also facilitates a series of environmental solutions, including biotech products for three specific segments – sewage treatment plants, remediation of lakes and water bodies and management of oil sludge. This happens because of its long standing expertise in enzyme technology, which helps in the biological breakdown of environmental waste materials. Hence the name: Fermenta Biotech.

In its present form, Fermenta Biotech came into existence in 1986. Till then, it was a division of Duphar-Interfran, created in 1951 through a partnership between Crookes Laboratory of the UK, Philips-Duphar, a Netherlands-based pharmaceutical firm and International Franchises Ltd (IFL), which was an Indian company. The Indian entity was set up by D.V.K. Raju, as a toll manufacturing company for pharmaceuticals and cosmetic products. Toll manufacturing, also known as loan licence manufacturing was a by-product of the licence-permit regime of those decades, under which large companies would get their products made by a clutch of smaller businesses. This enabled the bigger company to expand its capacity without increasing its licensed manufacturing capacity, and the smaller partner to obtain access to technology and markets, which could otherwise be impossible for it.

This continued merrily until 1980, when Philips-Duphar was taken over by Solvay Pharmaceuticals, another leading MNC of that time. Along the way, Duphar bought out the UK partner and the JV became known as Duphar-Interfran. In the 1970s, Duphar also launched Crocin, the well-known painkiller and Lacto Calamine lotion, which was sold as an OTC (over-the-counter) product. In 1976, Duphar-Interfran got itself listed in the Bombay Stock Exchange. A decade later, Fermenta Biotech was founded as a separate company under the Duphar umbrella and, a few years later, its management decided to divest the two main brands – Crocin and Lacto Calamine.

The flagship company

At the turn of the century, Solvay merged with Abbott Pharmaceuticals, currently among the top pharmaceutical companies in India (after its 2009 acquisition of Piramal's domestic pharma business) and they decided to demerge their pharmaceuticals business. Soon after Solvay became a part of Abbott, Duphar-Interfran changed its name to DIL Ltd, and made the suitable modifications in its BSE listing. Today, DIL is the listed entity, while Fermenta Biotech is its subsidiary. DIL holds a 91.2 per cent shareholding of Fermenta, and considers the latter its flagship company.

At present, at the helm of affairs are the grandchildren of Raju, the original founder. They include Rajeshwari Datla, a non-executive director with both DIL and Fermenta, Krishna Datla, MD, DIL, and a non-executive director with Fermenta, and Anupama Datla Desai, an executive director with both companies. Interestingly, there are almost an equal number of non-family

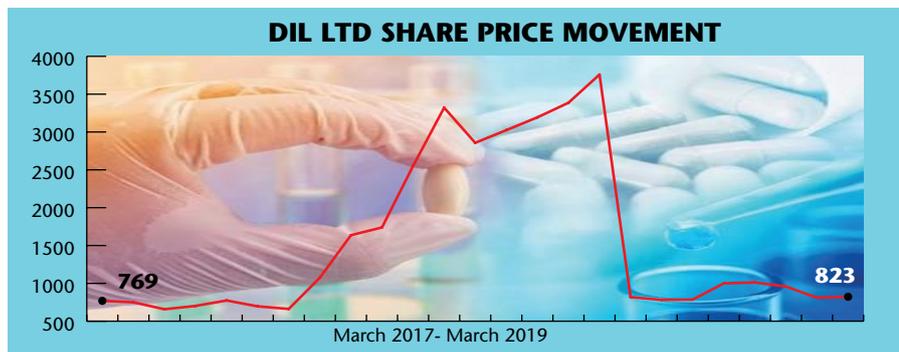
members on the board of directors – such as Satish Verma (MD, Fermenta), Gopakumar Nair (a leading authority on Intellectual Property issues and a past president of Indian Drug Manufacturers Association, as an independent director) and Sanjay Buch (a partner with the law firm Crawford Bayley, as non-executive chairman, with DIL and Fermenta).

While maintaining its pole position in the worldwide Vitamin D3 market, Fermenta and DIL have also made excellent moves to take advantage of new opportunities. "Our next big move will be in the area of micronutrients and nutraceuticals," says Nagre. As doctors and dieticians have known quite well, the human body requires a number of metals and other elements in absolutely microscopic quantities, including manganese, zinc, copper, etc. But their absence or deficiency can often lead to serious medical conditions.

As in the case of Vitamin D3, and even other vitamins like the B-complex group, the micro-nutrients and trace elements are supposed to enter the body through the food that we eat every day. However, on account of processing and preservation of food, or incorrect methods of cooking, these are sometimes not present in adequate quantities and have to be supplemented. This is where companies such as Fermenta play an important role.

To help the company to grasp new opportunities in its chosen segment DIL and Fermenta have taken a series of steps towards expansion of manufacturing facilities. In addition to its current production facilities in Dahej, which is focussed on Vitamin D3 and related products, and Kullu, which was set up way back in 1986, it was acquired a 45 acre parcel of land in Takawe near Pune, and a new 10 acre plot in Bharuch not far from its existing factory.

With its proprietary technology for manufacturing and global market leadership in Vitamin D3 and its systematic forays into the Wellness market, Fermenta is clearly well-placed to grow much bigger than its current revenues.



♦ SUMIT GHOSHAL

feedback@businessindiagroup.com