

# Business India

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# Finally in good health



Sushil Suri, CMD,  
Morepen group

## Though not in the big league of Indian pharma, Morepen is headed in the right direction

Through almost half of its three decades of existence, Morepen Labs has been going through a heart-breaking corporate debt restructuring (CDR) exercise and a strategic shift – both running in parallel. Though it began life in 1984 as a pure API (active pharmaceutical ingredients) company, both in India and abroad, a series of setbacks in the global market persuaded the management to begin a major campaign of diversification.

In the pharmaceutical world, companies that buy APIs (also known as bulk drugs) and fashion them into formulations or finished dosage forms (tablets, capsules, injections, etc that a sick person can consume) are at the top of the value chain. Those who produce APIs or their ingredients belong to a few steps below. Morepen Labs is one such, though a sustained thrust towards widening its customer base

has now ensured that APIs account for about ₹340 crore – just 60 per cent of its total revenues (₹587.6 crore in 2016-17, net profit: ₹23.04 crore), while formulations fetch about ₹100 crore (18 per cent.)

More importantly, the company which was weighed down by a debt burden of almost ₹1,000 crore, now has a good chance of becoming totally debt-free by June 2018! It has also left its net losses behind, and recorded a small profit in the past three financial years. The investor community has also taken note of their performance; their share price has nearly doubled in the past 12 months, and currently stands at about ₹38-41 (market capitalisation: ₹1,800 crore; promoter hold- ing: 34 per cent).

“We began diversifying our products quite early, having begun manufactur- ing and sales of our first formulations

way back in 1996, and launched our home diagnostics division in 2001,” says Sushil Suri, CMD, Morepen group. He took over the reins of the company after two of his older brothers passed away relatively early.

Besides making bulk drugs and formulations, apart from some well-known OTC (over the counter) medicine brands such as Burnol, Lemolate, Sat-Isabgol, FeverX, Pain X, the Morepen stable also offers a range of home care products such as Gluco-One (a device to check your own blood sugar) and BP-One (a blood pressure checking instrument), operating under the name Dr Morepen, a division of Morepen Ltd.

One of the most recent additions to Morepen’s portfolio is a series of heart care centres under the banner of Morepen Now. These are designed to offer ECP (external counter-pulsation) therapy for heart patients who are somehow not suitable for the usual forms of treatment like heart bypass surgery or angioplasty. ECP works on the principle that, if the amount of blood pumped back to the heart from all over the body can somehow be increased, then the pumping action of the heart itself can be improved.

The therapy itself has been around in the country for at least a decade and many leading heart care centres have been offering it along with other conventional services. However, Morepen is perhaps one of the first in India to offer it as a standalone facility outside the hospital environment. The company’s first such centre has already opened in Hauz Khas in New Delhi and there are plans to establish 100 more centres over the next three years. Each would involve an estimated investment of ₹1.25 crore, a sharp contrast to top notch quaternary care that need to invest ₹150-250 crore (assuming a capacity of 200-250 beds). For supply of the necessary equipment, Morepen has reached an arrangement with the Singapore-based Renew group of companies, which is one of the largest



Kushal Suri, head, International

suppliers of these equipment in this part of the world.

In a further diversification, the company has made an arrangement with Vesale Pharma, a Belgian company, for the introduction of four major probiotic products: Bacilac Infantis, Bacilac ORS, Bacilac Forte and Cibalax. This would give them an entry into the potentially ₹1,000 crore probiotic market in India. Probiotics are a form of food supplement that replace the ‘good bacteria’ in our bodies, and are often a necessary part of the treatment of antibiotic-induced diarrhea, other kinds of digestive disorders, and a spectrum of irritable bowel diseases.

**Focus on anti-allergy segment**

But for the longest time, Morepen’s product portfolio has concentrated sharply on the anti-allergy segment, two of its largest selling products being Loratadine and Montelukast. They are thus useful in the treatment of bronchial asthma, allergic rhinitis (the commonest cause of a running nose), skin allergies and eczema of different kinds. Hence Loratadine is an important player in the lucrative skin allergies market, all over the developed nations. A number of global leaders in generic (off patent) medicines have a large portfolio of skin treatment products and several of them source

their APIs from Morepen and other similar companies.

Ironically, while Loratadine is among the longest-standing products in Morepen’s basket, it was also the source of its greatest troubles. In March 1999, the company obtained US FDA approval for marketing Loratadine APIs in the American market. The product had patent protection in the US until the following year, and the Morepen management was anticipating a bonanza when the patent expired, because of a peculiar regulation of the American government. According to this, when the patent of any drug expires, the US FDA allows a 180-day period of exclusive sales to the first company whose generic version gets the regulatory authority’s approval. This means only the innovator company and the generic company gets to sell the drug, while everyone else has to wait for six months.

Since this regulation is still in force, there is intense competition among both API manufacturers and formulation companies to become the First-To-File for any drug that is about to lose its patent protection. A number of Indian drug companies have availed this facility in the past and several others would continue to do so in future.

The other side of the story is that the innovator company that holds the patent for a medicinal product struggles as hard as it can to have the patent extended, so that it can continue its monopoly in the marketplace. Sometimes, they succeed, and the wait grows longer for the prospective

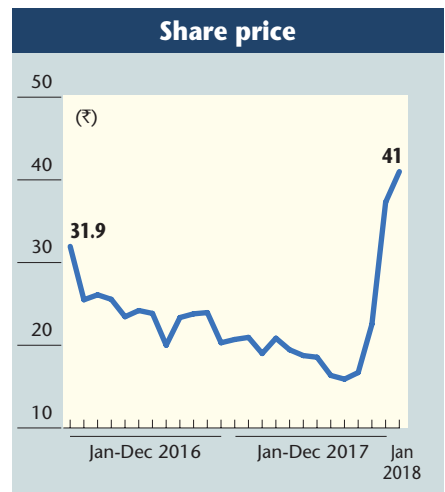


Varun Suri, business head

generic challenger. This is what happened with Morepen’s plan for Loratadine. In June 2000, Shering-Plough, which held the patent for Loratadine, managed to persuade the US Patents Office to extend the patent protection, first by two years till June 2002, and then by another six months. To add to Morepen’s woes, the health insurance company, Anthem, persuaded the US FDA to shift Loratadine to the OTC category, which at that time meant that the insurance companies would not have to reimburse the costs. In the American market, any medicine, the costs of which are not covered by the health insurance companies, is quite unable to build a significant market share.

However, in anticipation of a rapid growth in US sales of Loratadine, Morepen made substantial investments in plant and machinery during 1995-2000. By that time it was already listed on the stock exchanges, having gone public in 1993, it was able to leverage its balance sheet to raise a substantial amount in loans. By 2004-05, the loans had ballooned to ₹790 crore, which entailed an interest outgo of ₹60 crore (that is nearly 50 per cent of its annual revenues!). That year, the company recorded a net loss of ₹34 crore.

In March 2003, to tide over the sudden financial crisis, the company issued global depository receipts (GDR)



Face value: ₹2 / Mkt cap: ₹1,900 cr / Free float: ₹1229 cr

to foreign investors and raised \$15.25 million. Even before the proceeds of the GDR issue could be remitted to India, Bank of Nova Scotia secured an injunction against the utilisation of proceeds of the GDR, thereby adding to Morepen's financial troubles.

While the injunction obtained by Bank of Nova Scotia was still in force, the other creditor banks also obtained a similar injunction order from the Debt Recovery Tribunal. The outstanding debt, as on 30 September 2003, payable to banks and financial institutions and small depositors rose to ₹927.66 crore. This was the lowest point, but also the stage at which the promoters decided to go in for a CDR.

This was a start of a long process of rehabilitating the company, using the investments already made in manufacturing facilities to launch a wide spectrum of products in bulk drug form. Among the products that Morepen launched from 2005-06 onwards are: Olmesartan and Candesartan for blood pressure, Linagliptin, Vidagliptin and Alogliptin for treatment of diabetes, and a group named 'frozins', which are another class of anti-diabetes medicines. In additions, they are building up a position in the anti-cholesterol drugs such as Atorvastatin (originally Lipitor, the Pfizer drug) and Rosuvastatin.

### Upward climb

Morepen has also developed the blockbuster proton pump inhibitor drug Esomeprazole Magnesium (used along with other medicines for the treatment of hyperacidity). Besides, the development of other complex molecules, like the anti-clotting medicine Dabigatren Etexilate Mesylate and Urdodeoxy cholic acid (UDCA) for liver disease, Selexipag for pulmonary arterial hypertension and Lesinurad for control of uric acid formation in gout patients, are also being considered for development.

The company's finances soon began to recover, with the debt on the books coming down to ₹340 crore in 2006-07 and then to ₹126.81 crore in 2010-11. Along the way, the net loss on the books came down from ₹42.9 crore in 2010-11 to ₹22.6 two years later. From there, the upward climb continued till the company recorded a tiny profit of



Morepen Lab plant in Baddi

₹58 lakh for the first time in 2014-15, after a full decade or more of continuous losses! Compared to that, the net profit of ₹23.04 crore in 2016-17 seems almost like a miracle!

From here on, the next two-three years or perhaps even more, look promising. Its main production facilities are in Baddi, where 10 units are located in a common premises and Masulkhana (both are in Himachal Pradesh). Both Baddi and Masulkhana have been approved by various international drug regulatory authorities including the European Union, US FDA and the Therapeutic Goods Agency of Australia. Masulkhana has gone through US FDA audits successfully in 2010 and 2015, while Baddi had received the approval of the Slovenian drug regulators as well.

Towards the end of 2017, the company received another boost in its fortunes when the US FDA accepted its Drug Master File (the dossier that bulk drug manufacturers are supposed to file) for Montelukast, thus giving the product an entry into the ₹2,000 crore US market. The product had been a prominent part of Morepen's portfolio since the past many years and this made things a little easier with the new application.

"Montelukast is one of our most

important products, and second only to Loratadine," says Suri, adding that their current production capacity of 30 tonnes per annum places them among the world's largest manufacturers of Montelukast in bulk form. The expectation is that in the next 3-4 years, the revenue from this product alone would be about ₹500 crore, compared to Morepen's consolidated revenue of ₹587 crore in 2016-17.

There is also another aspect to the Morepen story. Of the five Suri brothers who promoted the company back in 1984 (their father had a business background), two had passed away quite early, but the remaining three – Sushil, CMD; Sanjay Suri, head, API business; and Varun Suri, head, OTC, home diagnostics & heart care divisions; are in full control. In addition, Kushal Suri, Anubhav Suri, Rajas Suri – the children of the two deceased family members – have also taken up significant positions in the management. This means that, as the company expands further, there will be no dearth of management expertise within the family itself.

While they are not quite in the big league of Indian pharma, Morepen is clearly headed in the right direction.

♦ SUMIT GHOSHAL

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