

**Business Development from Start to Scale**  
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**Week - 12**  
**Business Development Case Studies**  
**Lecture - 58**  
**Business Turbulence**

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 12 with the theme of Business Development Case Studies. In this lecture, the 58th in the series, we discussed the topic of Business Turbulence. So far, we have seen several case studies of companies growing through business strategy and business development.

In this lecture, we will consider the case of a successful company undergoing significant business turbulence, partly due to external factors and partly due to internal management factors and therefore, get into business turbulence. And what happened thereafter as a non-performing asset is also covered in this lecture.

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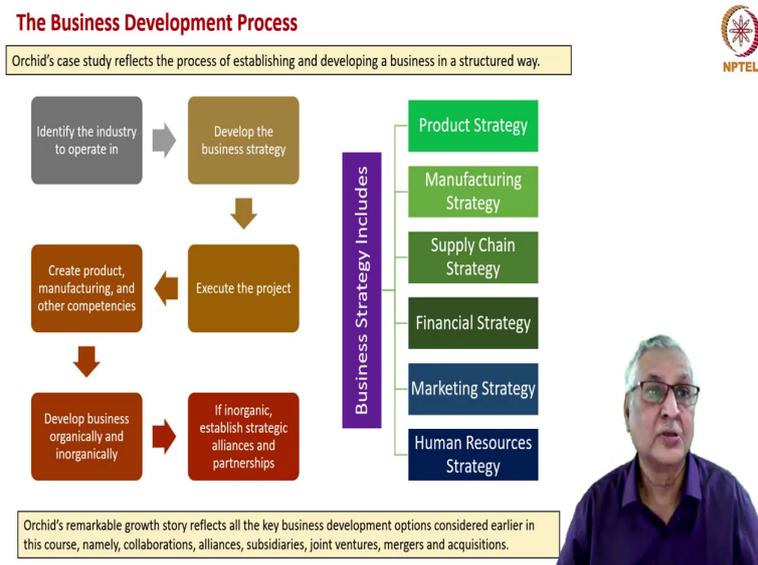
**Orchid's Establishment, Growth  
and  
Strategic Transformation: 1992–2010**

57



This case again is on orchid, Orchid Chemicals and Pharmaceuticals Limited, whose establishment, growth and strategic transformation between the years 1992 and 2010 had few parallels in the pharmaceutical industry of India.

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Orchid case study reflects the process of establishing and developing a business in a structured way. Fundamentally, you have to identify the industry to operate in, develop the business strategy, execute the project, create product manufacturing and other competencies develop business organically and inorganically.

If inorganic established strategic alliances and partnerships, business strategy itself includes all functional strategies including, but not limited to product strategy, manufacturing strategy, supply chain strategy, financial strategy, marketing strategy and human resources strategy. Some of these slides and some of these points would have been seen by you earlier.

However, I am recalling them for cohesion as far as this lecture is concerned. Orchid's remarkable growth story reflects all the key business development options that we have

considered earlier in this course namely collaborations, alliances, subsidiaries, joint ventures, mergers and acquisitions.

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### Why Pharma Industry?

Orchid had a large canvas of pharmaceutical products to choose from, in terms of therapies and products.



	AI	GI	Onco	CNS	CVS	Endo	ENT	Pain	Vits
Sterile API and FDF									
Oral									
Sterile FDF									
Oral									
Sterile API									
Oral									

There were at least 54 ways in which the entrepreneurial start-up could establish itself. The start-up chose anti-infectives (AI). Even within each, several product classifications were possible.



As I said, every industry has to choose its canvas of initial operation. Orchid had a large canvas of pharmaceutical products to choose from in terms of therapies and products from anti-infectives, gastrointestinal, oncology, CNS, CVS to, endocrinology, ENT, pain and vitamins and within each it could get into bulk drugs that is active pharmaceutical ingredients or formulations that is finished dosage forms or be in both.

There were therefore, at least 54 ways in which the entrepreneurial startup could establish itself. The startup chose rightly. So, anti-infectives even within each several product classifications were possible.

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### Which Anti-Infectives?

Within anti-infectives, the choice had to be carefully made given the presence of 9+ types of anti-infective products in use. The choice was betalactam antibiotics, starting with cephalosporins.



	Sulfa	Macro	Pens	Pens + BLI	Cephs	Penems	Mono	Vanco	Others
Sterile									
API and FDF									
Oral									
Sterile									
FDF									
Oral									
Sterile									
API									
Oral									

As the above grid and previous grid together indicate, there were over 100 ways in which the start-up firm could start its journey. However, not all the ways would be equal in growth potential.



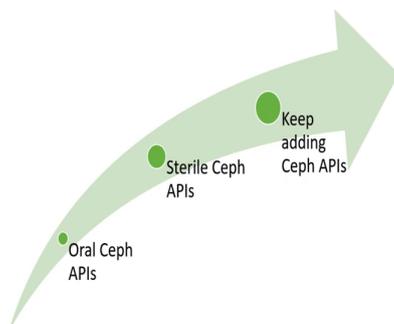
Therefore, the question is which anti-infectives? With the anti-infectives, the choice had to be carefully made given the presence of over nine types of anti-infective products in popular use. The choice betalactam antibiotics starting with cephalosporins and within the APi.

Again, together with the previous grid, this grid demonstrates that there could be over 100 ways of starting the business. However, not all the ways would be equally in growth potential. Every startup has to choose the starting point in an appropriate manner.

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### The First Strategy

The strategy was built around an initial pivot of Active Pharmaceutical Ingredients (APIs) or Bulk Drugs.



Choice of the anti-infective therapeutic group and market segment from the business development perspective laid a solid foundation for the start-up phase, with strong growth potential. The question could still be 'why API?'



The first strategy was built around an initial pivot of active pharmaceutical ingredients that is bulk drugs. Oral Ceph APIs, Sterile Ceph API's and then kept on adding more cephalosporin APIs. Choice of the anti-infective therapeutic group and market segment from the business development perspective, laid a solid foundation for the startup phase with strong growth potential. The question could still be why API?

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**Why API?**

For the pharmaceutical start-up, API as the first strategic entry presented opportunities and challenges.

APIs	Formulations
Technology and Investment Intensive	Simpler Technology and Lower Investments
Complex Chemistry and Chemical Engineering	Simpler but Finer Physico-Mechanical Engg
Many Environmental Issues	Fewer Environmental Issues
Marketable to Many Including Big Pharma	Competition with Big Pharma
<b>High Entry Barriers</b>	<b>Low Entry Barriers</b>

As APIs have high entry barriers, Orchid laid a strong foundation for a technology-driven business.



There are reasons for a company to choose APIs. Similarly, there are reasons why a company could choose formulations at the start of the journey. API's are technology and investment intensive. They have complex chemistry and chemical engineering. They give rise to several environmental issues. And on the positive side, those products are marketable to many companies including Big Pharma.

The features of API business are that they are technology intensive and they are also investment intensive. Therefore, only those companies which would like to build huge entry barriers would like to go to APIs. In respect of the formulations, the technology is simpler. Investments are lower.

The manufacturing process itself is simpler, but finer. Lot of simple, but complex, (Refer Time: 05:00) you may think, but the particle size which is derived through physical and

mechanical properties is so important for the success of the formulation that what is seen to be a simple process will always be complex in formulations.

So, coming back to the point, simpler, but finer physico mechanical engineering, fewer environmental issues therefore, there would be the much scope for many companies to enter even so far, a start up. And the competition with Big Pharma would arise as opposed to lack of competition or non-competition or even collaboration in respect of the APIs. But the main differentiating factors between API's and formulations is high entry barriers versus low entry barriers.

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### Why Cephalosporins?

Amongst the various antibiotics, as the firm reviewed its options in 1992, cephalosporin antibiotics emerged as the most important and viable product group that treats a very wide range of infectious diseases.

- 1 20 plus individual molecules spanning three generations
- 2 Both oral and sterile formulations with a wide therapeutic spectrum
- 3 Relevant for a wide range of clinical settings, from at-home to ICU treatments
- 4 The same molecule in sterile and oral forms enables flexibility of step-down therapy
- 5 High usage in China, the most important market for the firm (and, other markets too)
- 6 Complex to develop and manufacture, with high investment intensity, setting up entry barriers
- 7 A few molecules are also available as veterinary application molecules, adding to market potential

Choice of the therapeutic group and market segment from the business development perspective laid a solid foundation for the start-up phase, with sustainable growth potential.



Within APIs, why cephalosporins? Amongst the various antibiotics as the firm reviewed its options in 1992, cephalosporin antibiotics emerged as the most important and viable product group that treats a very wide range of infectious diseases. 20 plus individual molecules

spanning three generations, both oral and sterile formulations with a wide therapeutic spectrum.

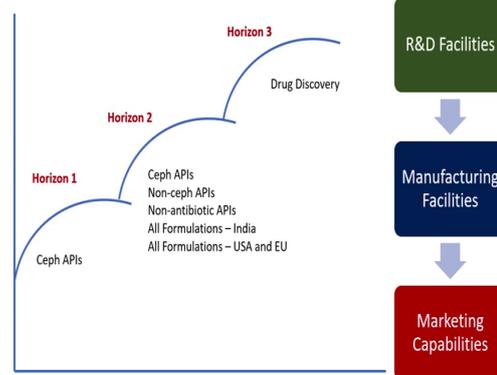
Relevant for a wide range of clinical settings from at home to intensive care unit treatments. The same molecule in sterile and oral forms enabling flexibility of step-down therapy. High usage in China, the most important market for the firm initially. Complex to develop and manufacture with high investment intensity, therefore, setting up high entry barriers.

A few molecules being available also as veterinary application molecules adding to market potential. Choice of the therapeutic group and market segment from the business development perspective laid a solid foundation for the start-up phase with sustainable growth potential.

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### Business Strategy

Starting from the inception in 1992, with a strong product focus, Orchid diversified into a multi-horizon business strategy between 1998 and 2008, well-supported by industry-leading development strategies.



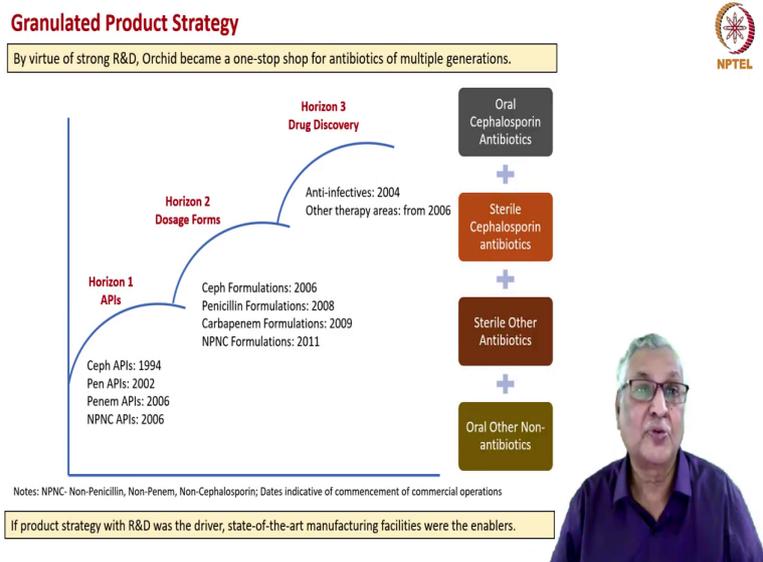
Conceptually and operationally, the company followed a step-ladder growth strategy of rolling out product lines, some sequentially and some in parallel, each duly backed by manufacturing facilities.



The business strategy was to continuously expand and that too meaningfully. Orchid diversified into a multi horizon business strategy between 1998 and 2008 well supported by industry leading development strategies. The horizon 1 from 1992 comprised the cephalosporin APIs. Horizon 2 involved addition of non- cephalosporin APIs, non-antibiotic APIs, all formulations for India and all formulations for USA and EU.

And horizon 2 was between 1998 and 2008. Horizon 3 in parallel, but with much longer-term view was drug discovery. So, R and D facilities, manufacturing facilities and marketing capabilities combined to provide the diversification of business strategy for the company. Conceptually and operationally the company followed a stepladder growth strategy of rolling out product lines. Some sequentially and some in parallel each duly backed by facilities.

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The product strategy was highly granulated. By virtue of strong R and D, Orchid became a one-stop shop for antibiotics of multiple generations. Horizon 1 API's comprised of Ceph API's which were introduced into commercial production in 1994 followed up by pen API's in 2002 Penem API's in 2006 and NPNC API's in 2006.

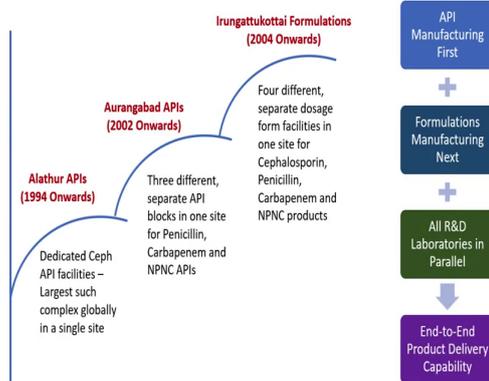
Horizon 2 comprising dosage forms involved cephalosporin formulations from 2006, penicillin formulations in 2008, carbapenem formulations from 2009 and NPNC formulations from 2011. In respect of drug discovery, the journey started with anti-infectives in 2004 and extended to other therapy areas from 2006. So, overall cephalosporin antibiotics together with cephalosporin antibiotics in sterile form.

Together with sterile antibiotics in other therapeutic areas plus overall other non-antibiotics constituted a complete product basket. If product strategy with R and D was the driver, the state of the art manufacturing facilities were the enablers.

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### Dedicated Manufacturing Strategy

Because of the non-contamination requirement of betalactams, each facility had to be a dedicated facility.



Notes: NPNC- Non-Penicillin, Non-Penem, Non-Cephalosporin; Dates indicative of commencement of commercial operations

The Company also set up smaller dosage form plants for cephs and non-cephs for less regulated markets.



The manufacturing strategy was also dedicated. Each of the betalactam antibiotics had certain risks of anaphylactic shock in very very minute set of population. Therefore, every betalactam antibiotic has to be produced in dedicated separate lines with no crisscrossing of men and material movement, that is person and material movement. Therefore, each facility had to be dedicated and separate.

So, in the Alathur Mother Plant, API's belonging to the cephalosporin range were produced from 1994 and eventually starting with the 5-acre site and becoming a 55-acre site, Alathur facility became the largest such complex globally in a single site. In Aurangabad, three different separate API blocks were constructed in one site and these three were for penicillin, carbapenem and NPNCs.

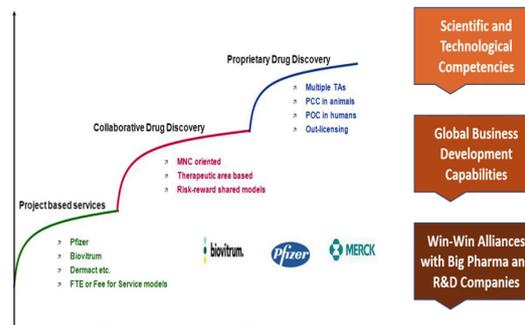
The Irungattukottai formulations facility near Chennai was started from 2004 onwards. Four different separate dosage form facilities were constructed in that single site, but completely different and dedicated for each product group. One for cephalosporins, other for penicillins, another for carbapenems and the last one for NPNC products and the way it started was the approach which is both sequential and step ladder.

API manufacturing first followed by formulations manufacturing, all R and D facilities in parallel and end to end product delivery capability as a result. The company also set up smaller dosage form facilities for cephs and non-cephs for less related markets.

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### ORLL's Product and Services Strategy

Orchid Research Laboratories (ORLL) began focusing on contract and collaborative development as short/medium term value developers while conducting proprietary drug development as long term value driver.



All the three streams of drug discovery were carried out in partnership with Big Pharma or niche R&D companies. These activities required extensive business development to structure win-win arrangements.



ORLL, the drug discovery subsidiary began focusing on contract and collaborative development and short medium-term value developers while conducting proprietary drug development as long-term value driver. So, the first horizon for ORLL was project-based

services, the second one collaborative drug discovery and the third one proprietary drug discovery.

You can see the clarity in the strategy focus along with diversification that has been the mantra for Orchid. Scientific and technological capabilities, global business development capabilities, Win-Win Alliances with Big Pharma and R and D companies, the kind of multinationals have been illustrated here. All the three streams of drug discovery were carried out in partnership with such Big Pharma or niche R and D companies. These activities required extensive business development to structure win win arrangements.

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### Orchid Chemicals & Pharmaceuticals by 2009-10

With the new strategy, Orchid became a fully integrated and diversified global pharmaceutical corporation, covering both APIs and Dosage Forms, in multiple therapeutic areas, catering to both regulated and less regulated markets.

<b>Integrated and Diversified Business</b>	<ul style="list-style-type: none"><li>Vertically integrated global pharmaceutical company</li><li>Robust research, manufacturing and marketing capabilities</li><li>Multi-therapeutic, multi-product global business</li><li>Active pharmaceutical Ingredients (API), finished dosage forms and drug discovery</li></ul>
<b>Multiple Product Offerings</b>	<ul style="list-style-type: none"><li>Fully integrated API and Finished Dosage Form product offerings</li><li>Oral and sterile antibiotics (Cephalosporins, Penicillins and Carbapenems)</li><li>Diverse (oral) multi-category, non-antibiotic product range (Non-Penicillin/Non-Cephalosporin)</li></ul>
<b>Advanced Facilities</b>	<ul style="list-style-type: none"><li>2 API manufacturing sites in India and 1 API manufacturing site in China</li><li>3 formulations manufacturing sites in India, and 3 research campuses in India</li><li>Manufacturing facilities approved by US FDA, UK MHRA, EDQM, DMA, MCC and TGA</li><li>R&amp;D facility accredited by National GLP Authority of India (aligned to OECD principles of GLP)</li></ul>
<b>Large Employee Base</b>	<ul style="list-style-type: none"><li>Human resources base of 4,000 plus – includes over 700 scientific &amp; technical manpower in R&amp;D and manufacturing, and around 1,000 field personnel in domestic formulations</li></ul>
<b>Financials*</b>	<ul style="list-style-type: none"><li>FY10 turnover: Rs 13,435 Mn (US\$ 298 Mn)</li></ul>

\*USD figures based on exchange rate of Rs 44 = 1\$ (Q2FY11 & H1 FY11) / Rs 45 = 1\$ (FY10); Financials are on consolidated basis

The combination of the entrepreneurial passion of the founder, the zeal of the leadership team and the sage counsel of the Board constituted a powerful combination to position the company globally.

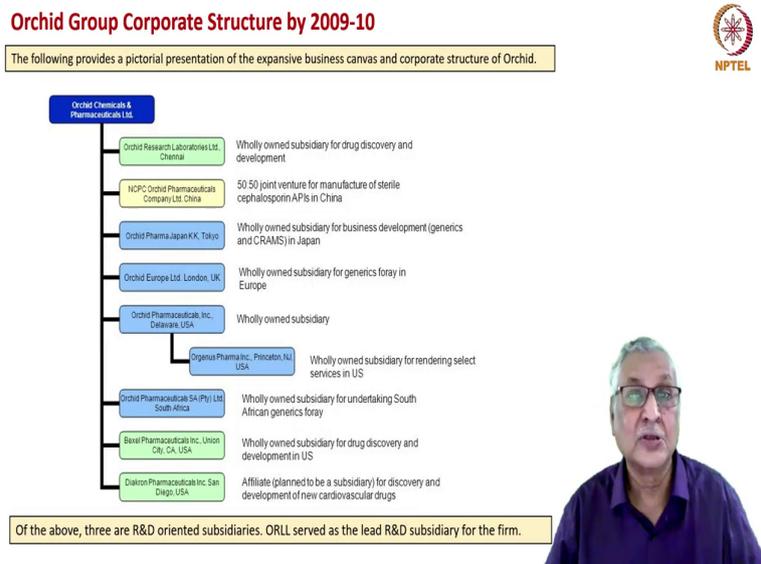


As a result of all of these actions that were taken with the diligence and with passion, by 2009-10, Orchid Chemicals and Pharmaceuticals became a fully integrated and diversified level pharmaceutical cooperation, covering both API's and dosage forms in multiple

therapeutic areas, catering to both regulated and less regulated markets. It had a large employee base and out of that employee base over 700 people were scientist and technologist. And they covered R and D manufacturing quality and various other technical disciplines.

And we also had 1000 field personnel in domestic formulations in terms of financials. The company touched 300 dollars million by that particular year, Fy-2010. The combination of the entrepreneurial passion of the founder, zeal of the leadership team and the sage Council of the Board constituted a powerful combination to position the company globally.

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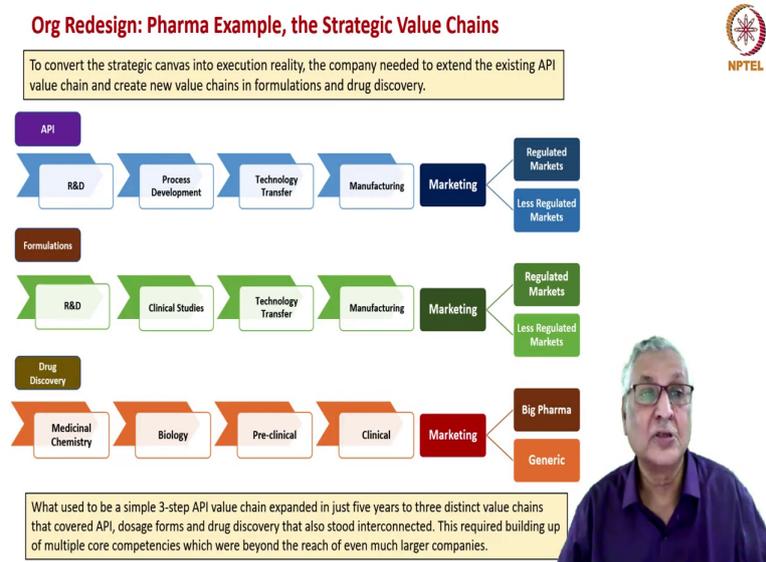


The group structure itself was very elaborate and very imposing. This is a pictorial presentation of the expansive business canvas and corporate structure of Orchid. The three R and D oriented subsidiaries were also unique for their positioning in different therapeutic

segments. Bexel Pharma focused on the metabolic diseases. Diakron focused on the cardiovascular diseases and ORLL focused on the number of multiple therapeutic areas.

ORLL served as the lead R and D subsidiary for the firm and it had sophisticated equipment and because of the equipment it could support the other two joint ventures in terms of their activities also. Because Orchid had end to end R and D and manufacturing capability it could also produce products for clinical trials.

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To convert the canvas into execution reality the company needed to extend the existing API value chain and create new value chains in formulations and drug discovery. As you can see here the three value chains represented the beginning to the end of pharmaceutical development in the respective domains and culminating finally, in either regulated markets or regulated markets based on the product markets strategy chosen.

Similarly, in respect of drug discovery, the journey started with medicinal chemistry trying to find out a chemical molecule that could tackle the disease pathway. And finally, end up in clinical studies and final marketing into Big Pharma or generic companies.

What used to be a simple three step API value chain expanded in just 5 years to 3 distinct value chains that covered API, dosage forms and drug discovery and they also stood interconnected with each other. This required building up of multiple core competencies which were beyond the reach of even much larger companies during that period that is in the early 2000s.

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**Orchid Mega Business Development Approach**

Orchid adopted multiple business development approaches, from inception, to drive business growth.

- Orchid acquired Ajanta Pharma's API facility in Aurangabad in 2002 to develop a new base for manufacture of non-cephalosporin APIs
- Orchid acquired the domestic formulations business of Mano Pharma in 2003
- Acquired controlling interest US drug discovery and development entity, Diakron Pharmaceuticals in 2008
- Acquired US based marketing company, Karalex Pharma for direct generics sales in 2010
- Orchid entered a 50-50 joint venture with NCP of China in 2004 to manufacture Orchid's Cephalosporin APIs in China.
- Also formed a 50-50 joint venture with Bexel Biotechnology Inc of California, USA for drug discovery in 2002
- Established subsidiaries in USA, Europe and Japan for regulatory development and local marketing knowhow
- Orchid Healthcare was formed in 1998 as a Division of the Company to conduct formulations business
- Collaboration with Sintofarm, Italy for technology in 1992
- Collaborations with SBD Laboratories, Italy for sterile production (1994) and certain sterile products (1997)
- Signed co-marketing agreements with 4 Indian companies to boost domestic sale of formulations (2003)
- Multiple alliances with multiple partners in US and Europe for distribution of products from 2004 and discovery of new chemical entities, from 2006 onwards
- Orchid Research Laboratories Limited was created as a wholly owned subsidiary of the Company for conducting NCE research in 2004

The strategic blueprint was executed with passion and diligence to accomplish the business transformation.

**NPTEL**

Orchid mega business development approach reflected several business development approaches from inception itself until 2010 in terms of driving business growth. The first was setting up the base with some meaningful collaborations. Sintofarm in 1992 SBD laboratories

in 1994 again in 1997. Then after setting up the healthcare unit Orchid healthcare as a division of the company to conduct formulation business.

Then embark upon a number of strategic alliances with both generic companies as well as the Big Pharma as the product canvas and as well as the business canvas expanded. Setting up the joint ventures in China, 50 50 joint venture with NCPC of China and 50 50 joint venture with Bexel Biotechnology for Drug Discovery.

Then having subsidiaries in USA, Europe and Japan and expanding the domestic formulations business through a major and acquisition and adding more capabilities in drug discovery area through the joint ventures stake in Diakron. The strategic blueprint was executed with passion and diligence to accomplish the business transformation.

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### Orchid Mega Business Development Approach

Orchid adopted multiple business development approaches to drive business growth, from inception.

Year	Nature of Tie-up	Description
1992	Technical collaboration	Tie-up with Sintofarm, Italy for technology
1994	Technical collaboration	Tie-up with SBD Laboratories, Italy for sterile production
1998	Own Division	Established internal division, Orchid Healthcare, for formulations business
2002	Joint venture	50-50 joint venture with Bexel Biotechnology Inc of California, USA for drug discovery (called Bexel Pharmaceuticals Inc)
2002	Acquisition	Acquired Ajanta Pharma's API facility in Aurangabad to develop a new base for manufacture of non-cephalosporin APIs
2003	Acquisition	Acquired the domestic formulations business of Mano Pharma
2003	Co-marketing agreement	Signed co-marketing agreements with 4 Indian companies to boost domestic sale of formulations
2004	Subsidiary	Established Orchid Research Laboratories Ltd (ORL) as a wholly owned subsidiary for undertaking new drug discovery
2004	Strategic Alliances and Subsidiaries	Multiple strategic alliances with generic partners in US and Europe for distribution of products and with Big Pharma for discovery of New Chemical Entities and R&D services; Established subsidiaries in US, EU and Japan
2004	Joint venture	50-50 joint venture with NCPC of China to manufacture Orchid's Cephalosporin APIs in China
2008	Equity Acquisition	Acquired controlling interest in Diakron Pharmaceuticals engaged in drug discovery and drug delivery
2010	Acquisition	Acquired US based marketing company, Karalex Pharma for generics sales



You can also see the kind of chronological progress that has happened as part of the Orchid mega business development approach. In that particularly establishment of drug discovery activity in 2004 and a string of strategic alliances and subsidiaries that were put in place from 2004 again were the highlights of Orchid's business diversification.

Multiple strategic alliances with generic partners in US and Europe for distribution of generic pharmaceutical products and with Big Pharma for discovery of new chemical entities and providing R and D services constituted the leading part of this strategy. Establishment of subsidiaries in the US, EU and Japan was also a highlight of this strategy.

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**My Stint in Orchid as a First Generation Pharmaceutical Enterprise**

Starting from the incorporation (July 01, 1992) as a non-executive board member and from August 1998 as a fulltime deputy managing director, I could lead the transformation from a bulk drug-China based company into a fully integrated and diversified pharmaceutical corporation, oriented towards sterile injectables and regulated markets.

**Big Pharma Alliances**

**Generic Alliances**

**2006: FDF and API, NDD and NDDS: RM and LRM**

**2000: API and LRM and RM**

**1994: API and LRM**

Subsidiaries in US, EU and Japan

Manufacture of Sterile and Oral FDF in Chennai

New Advanced R&D and Manufacturing Facilities

India Marketing Business

Manufacture of API in Anangabad

Alliances with Global Generic Companies

R&D of API in India

Manufacture of API in Chennai

Selling in China

**Legend:** API – Active Pharmaceutical Ingredient; FDF – Finished Dosage Form; LRM – Less Regulated Market; RM – Regulated Market (US, EU, Japan); R&D – Research & Development; NDD – New Drug Discovery; NDDS – Novel Drug Discovery

**Strategy and structure combined to power relentless business integration and diversification at Orchid Pharma between 2002 and 2010, a period of transforming a first-generation enterprise into a global pharma company.**

Starting from incorporation on July 1, 1992 as a non executive board member and from August 1998 as a full-time deputy managing director, I could lead the transformation from a

bulk drug China based company into a fully integrated and diversified pharmaceutical cooperation oriented towards sterile injectables and regulated markets.

You can see the generic alliances made with the world's leading generic companies. Similarly, you can see the Big Pharma alliances made with the global leaders in pharmaceutical industries such as Merck, Pfizer, Forest, Astellas and Zoetis.

Strategy and structure combine to power relentless business integration and diversification at Orchid pharma between 2002 and 2010. A period of transforming a first-generation enterprise into a global pharma company with few parallels in the Indian pharmaceutical industry.

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### **The First Turbulence at Orchid: 2008-2010**

74



But Orchid encountered the first air pocket in its business growth journey in 2008 and that lasted up to 2010. I would call this the first turbulence at Orchid 2008 to 2010.

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**Orchid's Structural Turbulence: 2009-2020**

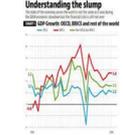
The company which seemed to have no threat ever to its enviable global growth had a series of major setbacks starting from 2008. The strategy of leveraged accumulation of shares by the promoter was derailed suddenly.

Personal debt-leveraged purchase of shares and convertible warrants by the promoter

Global liquidity crisis caused by Bear Stearns and Lehman collapse spooked the markets

Orchid shares took a deep plunge, bringing the promoter to a point of losing control

However, that was part of the problem. The real problem was that Ranbaxy tried to destabilise the company and the promoter and take over the company. There probably was a plot behind Orchid's adversity that was never known.



The company which seemed to have no threat to its enviable growth, had a series of major setbacks starting from 2008. The strategy of leveraged accumulation of shares by the promoter was derailed suddenly. Personal debt leveraged purchase of shares and convertible warrants by the promoter was one of the features of this turbulence.

Global liquidity crisis caused by bear Stearns and Lehman collapse spooked the markets. Orchid shares took a deep plunge bringing the promoter to a point of losing control. However, that was only part of the problem. The real problem was that Ranbaxy, a leading Indian pharmaceutical company, tried to destabilize the company and the promoter and take over the company. There probably was a plot behind Orchid's adversity that was never known.

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**Owner's Pride – Neighbour's Envy?**

Ranbaxy, arguably India's largest pharmaceutical corporation in India in the 2000s, was in 2008-09 negotiating a sell-out to Daiichi Sankyo of Japan for an astronomical valuation. There was, however, a spanner in the works.



<b>API</b>	<b>Lack of sustainable API base</b> <ul style="list-style-type: none"><li>Ranbaxy's cephalosporin API base at Mohali was under threat of closure</li></ul>	Ranbaxy's raid on Orchid's shares apparently took place against this background
<b>US</b>	<b>Lack of viable generic pharma contracts</b> <ul style="list-style-type: none"><li>Ranbaxy had a US business but it was nowhere near Orchid's high-scale lucrative multi-therapeutic sterile injectable business</li></ul>	Ranbaxy sought control over Orchid's US FDA approved facilities and US generics contracts
<b>Compliance</b>	<b>Ranbaxy to face adverse FDA actions</b> <ul style="list-style-type: none"><li>Known only to its promoters, Ranbaxy key plants in India, including those specialising in sterile injectables, and the US plants and office were going to face serious quality and compliance issues.</li></ul>	Ranbaxy imagined this hostile acquisition would future-proof its business and increase Ranbaxy promoters' own divestment value

When this destabilisation happened, Orchid's bankers and investors wanted to know who was in real control of the company. Orchid, sitting on a huge debt pile and needing continuous working capital, faced a crisis of financing.



Orchid's pride is specified in terms of its global capabilities. But is it a case of owner's pride becoming neighbour's envy? Ranbaxy, arguably India's largest pharmaceutical corporation in the 2000s was in 2008-9, negotiating a sellout to Daiichi Sankyo of Japan for an astronomical valuation.

There was; however, a spanner in the works in terms of three factors. API, lack of sustainable API base. Ranbaxy's cephalosporin API base at Mohali was under the threat of closure. The US market was characterized by lack of viable generic former contracts. Ranbaxy had a US business, but it was nowhere near Orchid's high-scale lucrative multi-therapeutic sterile injectable business.

Compliance: Ranbaxy had to face or was likely to face adverse FDA actions. Known only to its promoters, Ranbaxy key plants in India including those specializing in sterile injectables

and the US plants and office were going to face serious quality and compliance issues. Ranbaxy's rate on Orchid shares apparently took place against this background. Ranbaxy's sought control over orchids US FDA approved facilities and US-generics contracts.

Ranbaxy imagined that this hostile acquisition would future-proof its business and increase Ranbaxy's promoters' own divestment value. When this destabilization happened, Orchid's bankers and investors wanted to know who was in real control of the company. Orchid's sitting on a huge debt pile and needing continuous working capital faced a crisis of financing.

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**Rolling Back the Hostile Bid**

Orchid did not take the hostile takeover bid lying down. It mounted a spirited defence advocacy with all its stakeholders. More importantly, I as the Deputy MD took on the responsibility of stopping the bid in its tracks.



<b>Articulation</b>	<ul style="list-style-type: none"><li>Ranbaxy was educated on the futility of taking over the company for the sake of contracts, that cannot be reneged upon</li></ul>	Ranbaxy was determined and aggressive in its bid
<b>Collaboration</b>	<ul style="list-style-type: none"><li>Ranbaxy was offered API supplies to tide over its potential shortages through a long-term supply contract</li></ul>	High-pressure and intense negotiations at New Delhi with Ranbaxy
<b>Resolve</b>	<ul style="list-style-type: none"><li>Ranbaxy was told in no unclear terms that Orchid was not a pushover and the founder will not let go of his company whatever be the price of exit and the cost of staying on</li></ul>	Finally, truth and justice that were in favour of Orchid prevailed.

Rolling back the Ranbaxy hostile bid was a watershed moment in the company's entrepreneurial journey. It also probably taught the promoter the perils of keeping the wrong company (the pledge was undertaken through a group company of Ranbaxy, in an ironic twist in the tale).



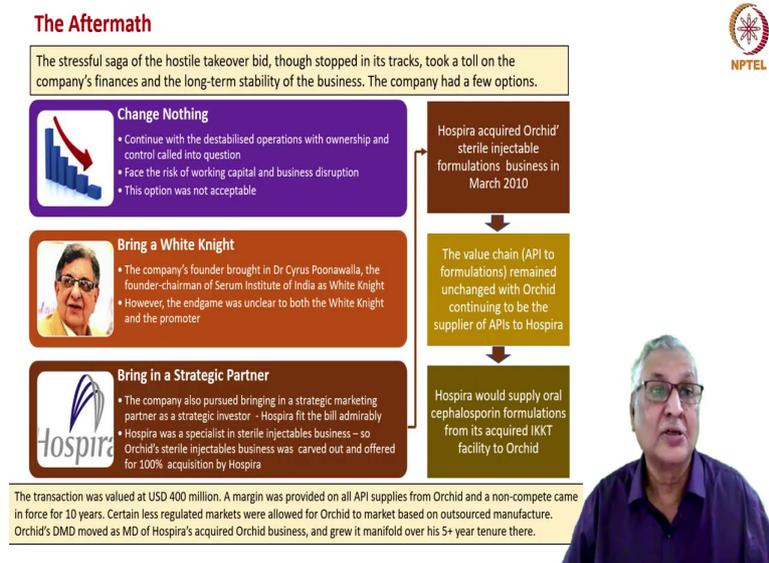
But we did not stop there. I was assigned to roll back the hostile bid of Ranbaxy. We mounted a spirit-defense advocacy with all the stakeholders. More importantly, I as the deputy managing director took on the responsibility of stopping the bid in its tracks. There were three

aspects to this rolling back of the hostile bid, one articulation. Ranbaxy was educated on the futility of taking over the company for the sake of contracts that cannot be reneged upon.

Collaboration: Ranbaxy was offered API supplies to tide over its potential shortages through a long-term supply contract, which it could show to die a chief it wanted to. Then resolved, Ranbaxy was told in no unclear terms that Orchid was not a pushover and the founder would not let go of his company whatever be the price of exit and the cost of staying on. Ranbaxy was determined and aggressive in its bid. High pressure and interest negotiations happened at New Delhi with Ranbaxy. Finally, truth and justice that were in favour of Orchid prevailed.

Rolling back the Ranbaxy hostile bid was a watershed moment in the company's entrepreneurial journey. It also probably taught the promoter the perils of keeping the wrong company. The pledge was undertaken through a group company from Ranbaxy in an ironic, unknown twist until then in the tale.

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What happened aftermath? What happened after the takeover saga which ended in the truth being laid out? The stressful saga of the hostile takeover bid, those stopped in its tracks, took it all on the company's finances and the long-term stability of the business.

The company had a few options onward. One, change nothing. Continue with the destabilized operations with ownership and control being called into question from time to time because if some company has been able to do this, another company also may be tempted to do this.

Face the risk of working capital and business disruption as a result, this option clearly was not acceptable. The second option was to bring a white knight. The company's founder brought in Dr. Cyrus Poonawalla, the Founder Chairman of Serum Institute of India as the White Knight. However, the endgame was unclear to both the white knight and the promoter. I

brought in a strategic partner. The company also pursued bringing in a strategic marketing partner as a strategic investor.

Hospira fit the bill admirably because the products that were signed for distribution with Hospira were yet to be put into the marketplace. Hospira was a specialist in sterile injectables business. So, Orchid's sterile injectables business was carved out and offered for 100 percent acquisition by Hospira. So, what happened thereafter? Hospira acquired Orchid's sterile injectable formulations business in March 2010.

The value chain API to formulations remained unchanged with Orchid continuing to be the supplier of API's to Hospira and Orchid continuing to do its formulations that were not covered by the carve out. Hospira would supply oral cephalosporin formulations from its acquired IKKT facility to orchid.

The transaction was valued at 100 million US dollars. A margin was provided on all APIs, supplies from Orchid and a non-compete came in force for 10 years. Certain less regulated markets were allowed for Orchid to market based on outsourced manufacture. Orchid's d MD that is myself moved as MD of Hospira acquired Orchid business and grew it manifold over my 5 plus year tenure there.

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**Sterile Injectables Growth as Hospira India:  
2010 to 2015**



79

What happened at Hospira India during this period of 2010 to 2015 is an instructive lesson of how things could go right if the strategy is correct and if the finances are appropriate.

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### Hospira: Global Pharma Company, but India Start-up



Hospira restructured its business approach and redesigned the organisation structure to derive full benefits from the acquisition in India while simultaneously de-risking its global business.



The global MNC thus started with the simple strategy of acquiring the sterile injectables business (R&D and manufacturing infrastructure in India, with drug filings and pipeline with US FDA approval for the facilities and ANDAs).



Hospira was a global pharmaceutical company getting all of its turnover from all markets other than India. Hospira was also a global company which had manufacturing facilities in several parts of the world, but none in India. However, when Hospira took over the sterile injectables business of orchid, the idea was to shift the center of gravity to India.

When so many other generic companies could have distribution alliances or some kind of partial manufacturing arrangements, why cannot we thought Hospira? So, the acquisition took place, but I was able to advocate a much deeper and much wider presence in India than what Hospiras leadership team envisaged at the time of purchase of this sterile injectables business.

So, the global sterile injectable corporation that is Hospira became an India centric R and D and manufacturing corporation. Antibiotic sterile formulations R and D, antibiotic sterile

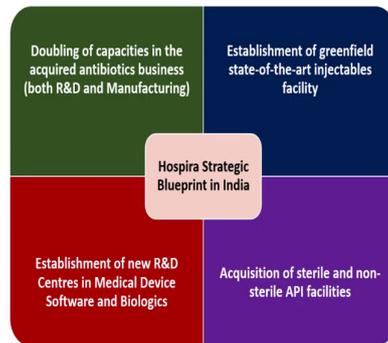
formulations manufacturing and capable of being exported to parent corporation were the three drivers of the initial phase of Hospira.

As the MNC started with the simple strategy of acquiring the sterile injectable business R and D and manufacturing with drug filings and pipeline, having the US FDA approvals the core or the seed of this business expansion out of India started.

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### Organizational Redesign: Global Pharma, India Ramp-up

Once the initial objective was achieved, the Indian subsidiary and the global parent began drawing up major strategic expansion and diversification blueprint for the Indian operations, advocated by the local leadership.



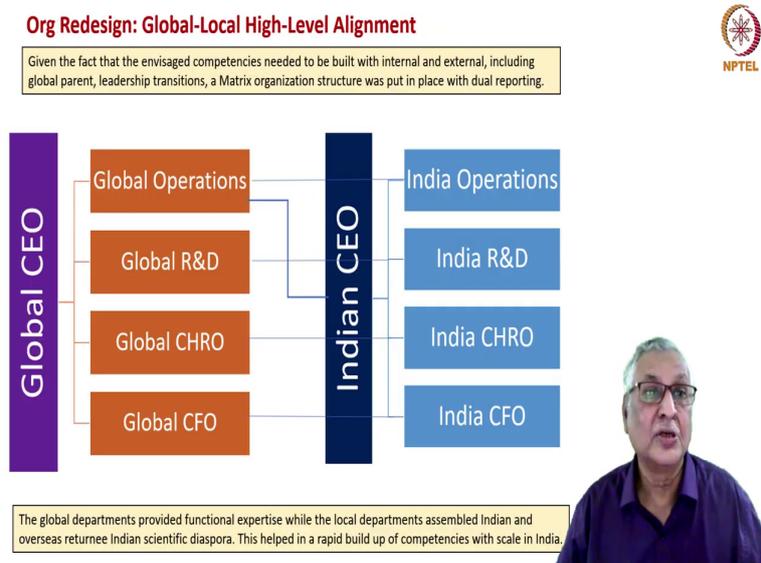
The strategic blueprint required that the acquired core competencies are leveraged for the new greenfield project and new skills are acquired for the new R&D Centres.



However, once the initial objective was achieved, the Indian subsidiary and the global parent began drawing up major strategic expansion and diversification blueprint for the Indian operations duly indicated by the local leadership. It had four components. The doubling of capacities in the acquired antibiotics business both R and D and manufacturing. Establishment of Greenfield state of the art injectables facility in Vizag.

Acquisition of sterile and non-sterile API facilities and establishment of new R and D centers in medical device, software and biologics. The strategic blueprint required that the acquired core competencies are leveraged for the new Greenfield project and new skills are acquired for the new R and D centers.

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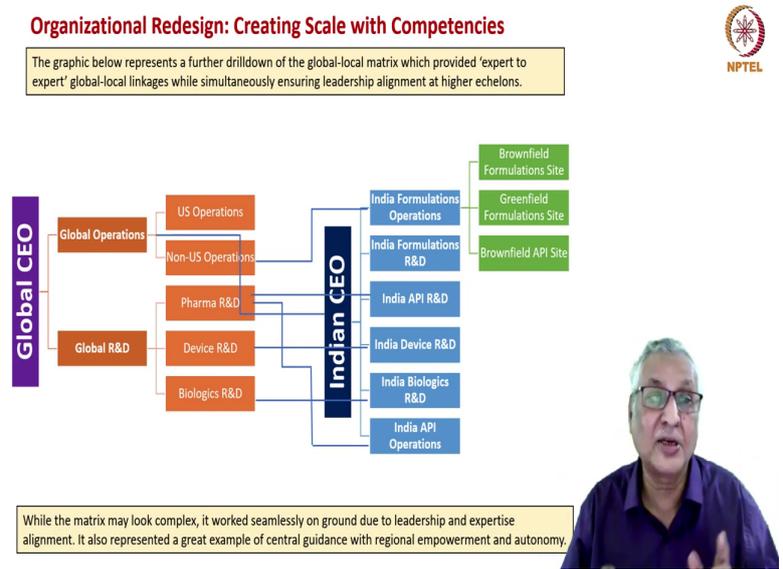
The organization redesign involved having a good balance of global and local with high level of alignment. The way it was done was through a matrix organization. There is a global CEO, Mike Ball for the Hospira global corporation and four verticals can be thought about for this particular discussion.

Global operations, global R and D, global human resources and global finance. Indian CEO that is myself had similarly four critical verticals under me Indian operations, Indian R and D,

Indian human resources and Indian finance. There were of course, various other requirements like regulatory affairs, information technology.

Similarly, they were there at global level as well. The global departments provided functional expertise while the local departments assembled Indian and overseas returnee Indian scientific Diaspora. This helped in a rapid buildup of competencies with high scale in India.

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The graphic below represents a further drill down of the global local matrix which provided expert to expert global local linkages while simultaneously ensuring leadership alignment at higher echelons of the organization. So, you can see the entire operation reporting to global operations, but individually each subsequent of the Indian operations had a global expert to advise and help.

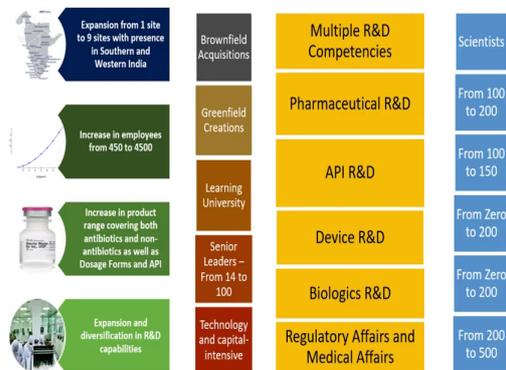
While the matrix may look complex, it worked seamlessly on the ground due to leadership and expertise alignment. It also represented a great example of central guidance with regional empowerment and autonomy. This is what every global corporation would aspire for, but not many would be able to achieve the way we could achieve in Hospira, global and Hospira India interface.

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### Organizational Redesign: Global with Local Scale-up



The organizational redesign ensured significant scale-up and skill accumulation on a scale rather unprecedented in the generic pharmaceutical industry. Several first-in-class achievements were notched up in a short span of 4 years.



Organizational redesign was the foundation of business transformation. Skill build-up and employee scale-up were the twin drivers of phenomenal growth in scientific, technological and business base.



As a result of this significant scale up and skill accumulation on a scale rather unprecedented in the generic pharmaceutical industry could be achieved. Several first-in-class achievements were launched up in a short span of four years, expansion from 1 to 9 sites with presence in southern and western India, Brownfield acquisitions, increase in employees from 450 to 4500 Greenfield creations, increase in product range covering both antibiotics and non antibiotics as well as dosage forms under API, expansion and diversification R and D capabilities.

Most importantly, the count of senior leaders which was 14 at the time of acquisition of the sterile injectable business from Orchid in 2010 rose to 100 by the time I laid down my office in a formal manner. So, this kind of technology and capital industry growth was unprecedented and was also responsible for shifting the center of gravity of Hospira to India in a manner of speaking.

Multiple R and D competencies were institutionalized. The number of scientists in pharmaceutical R and D increased from 100 to 200. Scientists in API R and D increased from 100 to 150. Scientists in device R and D from a 0 base increased to 200. Biologics R and D increased from 0 base to 200. Regulatory affairs and medical affairs increased from 200 to 500. Organization redesign was the foundation of business transformation.

Skill buildup and employee scale up were the twin drivers of phenomenal growth in scientific, technological and business space. That is how the organizational redesign took place.

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### Organizational Redesign: Global with Local Scale-up

In 2013, McKinsey conducted a survey on large-scale organizational change, surveying nearly 800 executives. Eighty-two percent of all respondents say they have experienced a redesign—significant changes in organizational structure at either the corporate, functional, or business-unit level—at their current companies.

#### Levers in Organizational Redesign

Performance Management	Business Processes	Roles	Governance	Culture
Management Processes	Reporting Lines	Span of Control	Geographic Footprint	Systems and Technology
Talent	Decision Rights	Linkages	Products	Processes

Source: <https://www.mckinsey.com/business-functions/organization/our-insights/the-secrets-of-successful-organizational-redesigns-mckinsey-global-survey-results>

Nearly two-thirds stated that their most recent redesigns sought to facilitate the organizations' focus on strategic priorities, and more than half say their redesigns aimed to improve the focus on growth.



Similarly, the levers in organizational redesign reflected what any other world class management consultant would advocate global with local scale up. In fact, in 2013, McKinsey conducted a survey on large scale organizational change, surveying nearly 800 executives. 82 percent of all respondents say that they have experienced a redesign.

Significant changes in organizational structure at either the corporate, functional or business unit level at their current companies. So, what are the typical levers of organizational redesign? Performance management, business processes, roles, governance, culture, management process, reporting lines, span of control, geographic footprint, systems and technology, talent, decision rights, linkages, products and processes.

Nearly two-thirds stated that their most recent redesign sought to facilitate the organization's focus on strategic priorities and more than half say their redesigns aimed to improve the focus on growth. And that is what we did without any referring to the survey or its results.

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**My Stint in Hospira, the Global Pharmaceutical Company (2010 to 2015)**

Starting from the acquisition of sterile injectables business of Orchid in 2010, I headed the establishment and growth of Hospira's India business until end-September 2015 as managing director/executive chairman. From one site to 10 sites, and from 450 employees to 4500, growth of Hospira India in just over 5 years has been phenomenal.

Legend: API – Active Pharmaceutical Ingredient; FDF – Finished Dosage Form; R&D – Research & Development

From an initial concept of limited competitive advantage in antibiotic cephalosporin injectables manufacture, Hospira footprint rapidly expanded to cover other sophisticated injectables with massive state-of-the-art capacity building in R&D and Manufacturing.

My stint in Hospira, the global pharmaceutical company between 2010 and 2015 was notable for these kinds of expansive and diversifying business moves and infrastructure creation. Starting from the acquisition of the sterile injectables business of Orchid in 2010, as I said, I headed the business establishment and business expansion till end September 2015 as managing director and executive chairman.

(Refer Time: 32:46) second appointment being for the last 6 months from 1 site to 10 sites and from 450 employees to 4500. The growth of Hospira India in just over 5 years has been phenomenal. 2010 sterile injectables acquisition doubling of capacity. 2013 more R and D,

API and injectables, Greenfield injectables facility at Vizag, device software and biosimilar R and D facilities in Chennai expansion of R and D capacity in Chennai.

2015, it became a multi-site multi-product footprint and was acquired by Pfizer in part for the kind of value that existed in India apart from the global value. Doovertailing with global R and D manufacturing and marketing network integrated antibiotic value chain API to dosage forms, Aurangabad API acquisition for penicillin, penems and others.

From an initial concept of limited competitive advantage in antibiotic cephalosporin injectables manufacture, Hospira footprint rapidly expanded to cover other sophisticated injectables with massive state-of-the-art capacity building in R and D manufacturing. That was made possible by advocacy at India organization level in active collaboration with global leadership and the forward-looking nature of both the Indian and global leadership teams.

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**Orchid's Deep Business Turbulence: 2012  
Onwards**



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### Orchid and NCLT Resolution

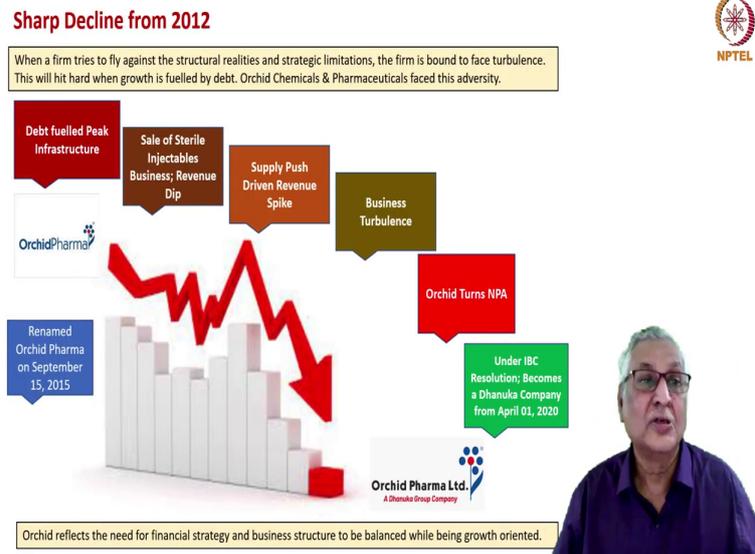
Disclaimer: This does not purport to be an accurate descriptor of the Orchid resolution process. Broad contours are presented for educative purposes.



88

Now, let us come back to Orchid's deep business turbulence which started happening simultaneously under the continued Orchid ownership. From 2012 onwards, Orchid hit a tough spot and Orchid had eventually go in to resolution under the insolvency and bankruptcy code of India through the national company law tribunal activities. I must say that this does not purport to be an accurate descriptor of the Orchid resolution process. Broad contours are presented for educative purposes again, no judgments.

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Orchid witnessed sharp decline from 2012. When a firm tries to fly against the structural realities and strategic limitations, the firm is bound to face turbulence. This will hit hard when growth is fuelled by debt. Orchid chemicals and pharmaceuticals faced this adversity unfortunately. Four principal causes debt fuelled peak infrastructure.

Sale of the crown jewel sterile injectables business therefore, a revenue dip. Supply push driven revenue spike compensate for the revenue dip. Therefore, sort of build up of the operational credits and business turbulence due to a variety of external and internal factors and as a result, the company turned a non-performing asset. The company was renamed as Orchid Pharma on September 15, 2015 and by 2017, the company went into IBC resolution and finally, became a Dhanuka company from April 1, 2020.

Orchid reflects the need for financial strategy and business structure to be balanced while being growth oriented. But it also has some lessons how business development develops not merely business, but lays down important infrastructural and institutional strengths in a company that could help the company tied over some of the most difficult and some of the most adverse environmental setbacks too.

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### Continuing Decline

The Orchid-Hospira transaction of March 2010 was a win-win transaction. However, Orchid was beset by several issues and the company accumulated new debt. Orchid had to do another carveout.

	<p><b>Intended Carveout of Aurangabad API Unit</b></p> <ul style="list-style-type: none"> <li>• Orchid's Aurangabad API plant supplied premium APIs - Piperacillin-Tazobactam and carbapenems-to Hospira</li> <li>• Given the importance, Hospira proposed to acquire Aurangabad Unit and related R&amp;D facilities for a consideration of USD 217 M</li> </ul>	<p>Orchid got into a new debt spiral post-2010, possibly due to excessive sales at liberal credit terms</p>
	<p><b>Protracted Legal Tangle</b></p> <ul style="list-style-type: none"> <li>• The transaction proposed in 2012 ran into protracted legal tangle with IDBI Bank filing a case against any asset sale by Orchid.</li> <li>• The stalemate had to be resolved within the framework of RBI's Corporate Debt Resolution (CDR) mechanism in 2014</li> </ul>	<p>Possibly, Orchid dealt in complex derivative instruments</p>
	<p><b>Orchid Left with Ceph APIs</b></p> <ul style="list-style-type: none"> <li>• As a result of Aurangabad API and Chennai API R&amp;D campus carveout and sale, Orchid returned to where it started almost!</li> <li>• NPNC APIs and NPNC formulations and Ceph formulations along with drug discovery remained as Orchid's businesses</li> </ul>	<p>The Zero Coupon GDRs pressured Orchid for an aggregated single bullet repayment</p>

Strangely, the decline continued even after the second transaction of USD 217 million dollars with Hospira (both the 2010 and 2014 transactions amounting to USD 617 million). Between 2016 and 2018, more debt got accumulated.





The Orchid-Hospira transaction of March 2010 was a win-win transaction. However, Orchid was beset by several issues and the company accumulated new debt. Orchid had to do another carve out. The carve out of Aurangabad the API unit was intended in 2012, but could take place only in 2014 because of the opposition by one leading banker in the Indian courts.

This API plant supplied premium APIs, piperacillin tazobactam and carbapenems to Hospira which were being manufactured as formulations in the acquired IKKT facility. Given the

importance, Hospira proposed to acquire Aurangabad unit and related R and D facilities for a consideration of 270 million dollars.

Then a protracted legal tangle happened. With IDBI bank filing a case against any asset sale by Orchid until its dues were cleared. This stalemate had to be resolved within the framework of RBI's Corporate Debt Resolution Mechanism in 2014. As a result, Orchid was left with only cephalosporin APIs. In a way, Orchid returned to where it started almost. NPNC API's and NPNC formulations and ceph formulations along with drug discovery remained as Orchid's other businesses.

But unfortunately, Orchid also got into a new debt spiral post 2010, possibly due to excessive sales at liberal credit terms to compensate for the revenue dip of the carve out of formulations. Possibly, Orchid also dealt in complex derivative instruments. The zero-coupon GDRs pressured Orchid for an aggregated single bullet repayment during this period. Strangely, the decline continued even after the second transaction of 217 million US dollars with Hospira.

Both the 2010 and 2014 transactions provided a saga in the financial terms of 670 million US dollars. Between 2016 and 2018, more debt seems to have got accumulated.

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### Starting from 2010, Orchid had to Restructure itself

After the Ranbaxy and Global meltdown triggered destabilisation, Orchid tried to restabilise but to little avail. Key assets were sold to Hospira but the financial pressures continued, pointing to relentless performance decline.

In March 2010, OPL sold its sterile injectables business comprising sterile formulation facilities at KKKT and formulations R&D Centre at KKKT for a consideration of USD 40million.

In August 2012, OPL agreed to sell its Aurangabad API unit and Sholinganallur API R&D facility to Hospira for USD 217 million but the deal could be consummated only in July 2014 due to objections raised by a Bank; the delay increased pressures on Orchid finances

OPL entered into Corporate Debt Restructuring (CDR) scheme in 2014 (with Hospira sale as a part) but eventually turned into Non Performing Asset (NPA) in 2017; Bankers brought the Company under the NPA resolution process in August 2017

There have been two rounds of Offer for Sale under the legally mandated insolvency resolution process for stressed assets; the second round has resulted in Dhanuka Group putting in a winning bid, that got approved in March 2020.

The bid process was managed by the Resolution Professional (RP) from E&Y and the Committee of Creditors (CoC), with Alvarez and Marsal joining in the second round

The timeline of Orchid resolution was long and the resolution went through a rollercoaster journey



Starting from 2010, Orchid had to restructure itself and I have discussed some of the aspects of such restructuring. Entry into the CDR scheme in 2014 was one momentous occasion. It had the opportunity; it had the challenge of redefining its position in a more realistic terms.

But I do not think the company took that option. It tried to expand its sales even with a high debt load. As a result, the company turned into a non-performing asset in 2017. Bankers brought the company under the NPA resolution process in August 2017. There were two rounds of offer for sale under the legally mandated insolvency resolution process. For stressed assets. The second round has resulted in the Dhanuka group putting in a winning bid and that got approved in March 2020.

The bid process was managed by the resolution professional from E and Y and the Committee of creditors with Alvarez and Marsal joining in the second round. The timeline of Orchid resolution was long and resolution went through a roller coaster that is up and down journey.

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### Compulsions and Missed Opportunities Too...



#### Business Transfer Agreement (BTA) Related Compulsions

OPL used to get its oral cephalosporin formulations manufactured by Hospira in its IKKT facility under the BTA arrangement valid up to March 2020 – this got paused due to Hospira IKKT plant closure

#### Missed Business Opportunities due to the BTA

Orchid was allowed to re-enter the sterile formulations and sterile penicillin and penem API businesses from April 2020 but the facilities could be established and DMFs/ANDAs filed even earlier, from Day 1 of the Business Transfer Agreement – however, Orchid did not attempt that route. This was a lost opportunity.

OPL also used to receive NPNC APIs for its IKKT NPNC formulations unit from the Aurangabad API unit of Hospira under annual contract, set to end in June 2018 – this also paused due to Hospira Aurangabad plant closure

OPL was free to enter the vaccines business from Day 1 of BTA to Hospira. However, OPL did not opt for that route. In the context of what happened to humanity due to vaccines in the wake of Covid-19 pandemic, the importance of vaccines is now well-known. Ignoring vaccines was a great lost opportunity for Orchid.



There were also certain compulsions and missed opportunities too. The first carve out or the formulations business was under a business transfer agreement. Under that, the formulations had to be obtained from Hospira because the formulation facility for cephalosporins was an integral part of the acquired IKKT complex. And that got paused due to Hospira IKKT plant closure for a while. OPL that is orchid, pharma limited also used to receive NPNC API's for its IKKT NPNC formulations unit.

And those were being supplied from Aurangabad the API unit where also the production was halted. This also resulted in a pressure on Orchid. However, there were opportunities for

Orchid under the BTA the which the company never utilized. Orchid was allowed to re-enter the sterile formulations and sterile penicillin and penem API business from April 20.

But had the freedom to start developing the products, to start constructing facilities and be completely ready for launching to the market by 2020. But the company took no action whatsoever in that direction. That was a last opportunity. Similarly, while non-compete was there in respect of sterile injectables, there was no non-compete at all in respect of the vaccines business. Orchid Pharma could have undertaken vaccines business from day 1 of the business transfer agreement that is from 30 March 2010.

We all know what happened in terms of the importance of vaccines post-COVID-19. If only Orchid undertook vaccine development and vaccine manufacture, Orchid would have really turned around and would never have had the necessity to face an IBC proceeding. This was a missed opportunity of a different kind, although the BTA provided the facility for developing such businesses.

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### The Insolvency Proceedings

On a reference by Lakshmi Vilas Bank, NCLT admitted Orchid Pharma under insolvency proceedings as an NPA. After many rounds of bidding, the ownership of Orchid Pharma passed to Dhanuka Group in March 2020.



#### Orchid IBC Saga

In the initial bidding, renowned PE Blackstone participated but did not submit a final bid

Why did Orchid fail to attract good bids?

In the second round, reputed sterile injectables company Gland Pharma participated but withdrew

Unexplained legacy issues of mismanagement from 2014-15 eroded the value.

In the third round, Dhanuka Group succeeded in its bid, despite some legal challenges by the Accord Group.

From a turnover of Rs 1200 crore per annum in 2017-18, Orchid's performance declined to Rs 600 crore per annum.

Over the three years of the NCLT bidding processes, the value of bids steadily declined. The performance of the company declined. The promoter lost his position and all of his shareholding. Dhanuka had a sweet deal in the end.



On a reference by Lakshmi Vila's bank, NCLT admitted Orchid Pharma under insolvency proceedings as an NPA. After rounds of bidding, the ownership of Orchid Pharma passed to Dhanuka Group in March 2020. In the initial bidding, the renowned PE private equity investor, Blackstone participated, but did not submit a final bid.

In the second round, reputed sterile injectables company, Gland Pharma participated, but withdrew. In the third round, Dhanuka Group succeeded in its bid and despite some legal challenges posed by the Orchid group, which was also competing in the round. Why did Orchid failed to attract good bids, unexplained legacy issues of management from 2014-15 possibly eroded the value.

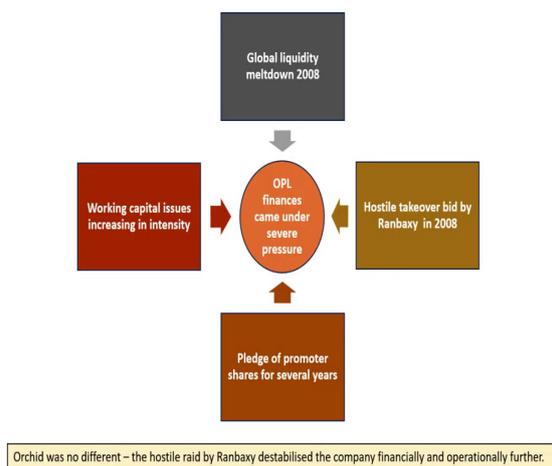
Also, the natural decline that happened during the insolvency process also made the company less attractive. From a turnover of 1200 crore per annum in rupees in 2017-18, Orchid's

performance declined to 600 crore per annum. Over the 3 years of the NCLT bidding process, the value of bids therefore, steadily declined. The performance of the company declined. The promoter lost his position and all of his share holding. Dhanuka had a sweet deal in the end.

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### Orchid's Phenomenal Asset Growth was Funded by High-Cost Debt

Whenever a company builds a huge infrastructure with high cost debt, it will be vulnerable to external macro shocks.

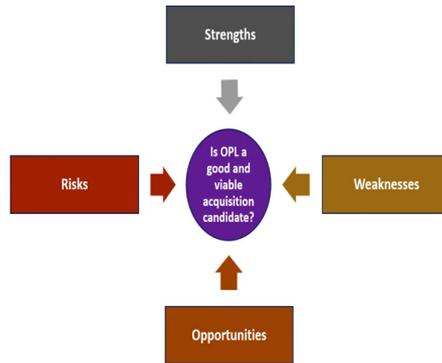


Orchid's phenomenal asset growth was funded by high cost debt. OPL finances came under severe pressure because of the global liquidity meltdown in 2008. Hostile style takeover bid by Ranbaxy in 2008. Pledge of promoter shares for several years and working capital issues increasing in intensity.

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### SWOT Analysis of OPL

The structural foundations laid by Orchid and the strategic canvas worked on by Orchid were so extensive that even after selling the cream of businesses, Orchid had certain core businesses. Yet, Orchid had a different SWOT profile.



In the context of Orchid becoming a corporate debtor under the IBC proceedings, its asset profile became relevant.



But the strengths and opportunities of Orchid changed as well. The weakness and risk also changed. Therefore, when the company went into the IBC proceedings, the question in everybody's mind was whether Orchid Pharma was still a good and viable acquisition candidate.

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### OPL Strengths – 1

On the positive side, asset based companies will have durable assets that can be leveraged in the case of difficulties.



#### The Company retained the following assets and attributes (1/2)

- A well-established facility infrastructure, with Alathur API unit and IKKT formulations unit having retained USFDA and UK MHRA approval status through multiple periodic inspections
- A global leadership position in cephalosporin APIs (oral and sterile) and formulations (only oral) businesses with 28 DMFs and 11 ANDAs, respectively covering all products that matter
- A limited position in multi-therapeutic non-penicillin, non-cephalosporin (NPNC) API and Formulations businesses with 48 US DMFs and 27 ANDAs respectively (4 ANDAs under approval)
- An extension of the above products, both cephalosporins and NPNC, into the EU and less regulated markets
- A history of collaboration arrangements in different regions, and a front-end in the US, Japan, and in Europe (both strengths significantly whittled down)

The assets include both physical assets and intellectual assets that can be monetised when in difficulty.



Let us look at whether it was a viable and attractive proposition. The positive side of asset based companies is that they would have durable assets that can be leveraged in the case of difficulties. In the case of orchid, due to the extensive business development and due to the extensive infrastructure development for the business, the company established a very broad spectrum of assets and owned a vast spectrum of intellectual property.

The company retained the following assets and attributes despite the two carve outs that were made to Hospira. One a well-established facility infrastructure with USFDA and UK MHRA approval catering to the residual businesses of cephalosporins and oral formulations. A global leadership position in cephalosporin API's oral and sterile formulations only oral businesses with 28 DMFs drug master files and 11 ANDAs abbreviated new drug applications.

Covering all products that matter reasonably limited, but important position in multi therapeutic non penicillin non cephalosporin API and formulation business with 48 US DMFs and 27 ANDAs respectively. An extension of the above products, both cephalosporins and NPNC into the EU and less regulated markets. A history of collaboration agreements in different regions with a front-end in the three important developed markets. The assets include both physical assets and intellectual assets that can be monetized when in difficulty.

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**OPL Strengths – 2**

While some assets help in keeping up the production throughput, some others provide intellectual and real value.

- Strong R&D process chemistry capabilities and unique (paused) enzymatic biotechnology R&D
- A competent technical team which has endured with the company all through the crises
- A land bank for new green-field projects (45 acres in Vizag Pharma City) and 5.5 acres in Roorkee
- Four New Chemical Entities (NCEs) based on years of development, with some limited PoC
- A large multi-storied Corporate Office (55,000 sq. ft.) in the heart of the city
- A resilient brand value which could attract additional customers and home-coming/new talent if the company gets into stride with better financials, new ownership, and new leadership

The futuristic investments made by the company in good times help a company to some extent in difficult times.



Other strengths strong R and D process chemistry capabilities, competent technical team which stood up and which stood with the company all through the crisis. A land bank for new Greenfield projects, 45 acres in Vizag Pharma city and, 5.5 acres in Roorkee, 4 new chemical entities which could be further developed if desired. A novel antibiotic beta lactam molecule

licensed company at the time called (Refer Time: 45:38) and a large multi-storied corporate office in the heart of the city.

A resilient brand value which could attract additional customers and homecoming new talent if the company gets into stride with better financials, new ownership and new leadership. The futuristic investments made by the company in good times help a company to some extent at least in difficult times, even after the carve outs, even after the sell-offs.

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### OPL Weaknesses

As a company accumulates non-performing debt, the company's weaknesses increase exponentially.

- Declining market presence due to disrupted production and supply situation, and increasing cost issues. Heightened pricing and debtor pressures, coupled with working capital constraints
- The core cephalosporin business has no new products; despite the complex technology, it is a commoditised business. NPNC business is also subject to intense price pressures
- A dislocated process and biotechnology R&D that needs urgent rehabilitation (hence new investments)
- An aged API plant in sections, requiring additional investments
- Low employee morale due to increment freezes and delayed salary payments for years – yet, high staff costs relative to low revenue base
- Lack of leadership that can drive business growth and operational excellence simultaneously
- Closure of Hospira plants that manufacture oral cephalosporin formulations at IKKT and NPNC APIs at Aurangabad, severely curtailing businesses that were previously assured

Any rehabilitation of the company depended on the strengths overcoming the weaknesses.

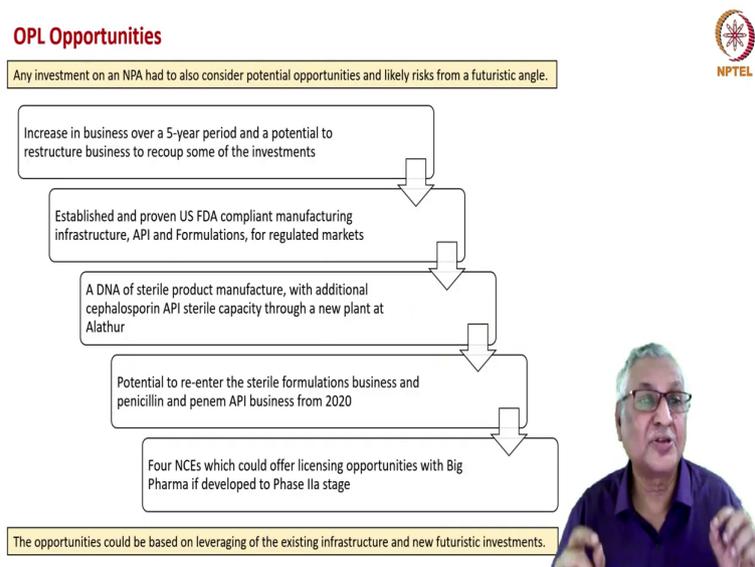


But the weaknesses due to the non-performing debt continue to increase exponentially. Working capital constraints, high-gen pricing and debtor pressures, lack of new products in the core cephalosporins business, a commoditized business and commoditized technology despite the complexities involved serious and severe price pressures in the other NPNC business.

A process and biotechnology R and D that has been paused an aged API plant in sections requiring additional investments, low employee moral due to increment freezes and delayed salary payments for years as part of the IBC activities. Lack of leadership that can drive business growth and operational excellence simultaneously and closure of certain plants by Hospira for its own reasons of becoming asset-light and that curtailing businesses that were previously issued.

And in such circumstances, any rehabilitation of the company depended on the strengths overcoming the weaknesses of the company.

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What were the opportunities for Orchid as an NPA? Increasing business over a 5-year period because the bottom has been met. Established and proven US FDA compliant manufacturing infrastructure, in fact, there is no other pharmaceutical company which probably had such a

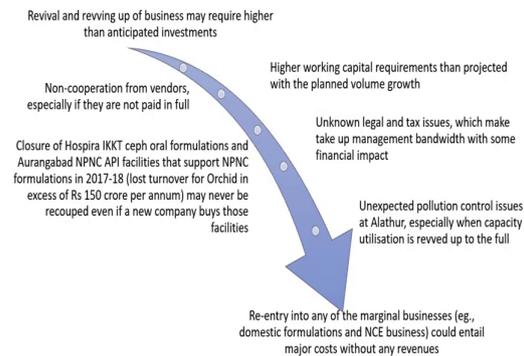
financial distress despite being the best in terms of US FDA compliance and technological competence.

That is the paradox of the situation. A DNA of sterile product manufacture with additional cephalosporins API sterile capacity through a new plant at Alathur. Potential to re-enter the sterile formulations business and penicillin and penem may be a business from 2020. Four NCEs which could be developed further to phase 2A and monetized if successful. The opportunities could be based on leveraging of the existing infrastructure and new futuristic investments.

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### OPL Risks

Every business comes with its risks – more so a business that has turned non-performing under IBC.



Loss of people, loss of markets and collaborative arrangements constitute key risks while the time taken and investment required to rebuild the business could be a common risk.



But every business comes with its risk more so, a business that has turned non-performing under IBC. Revival and reviewing up of business may require higher than anticipated investments. Non-cooperation from vendors especially if they are not paid in full. Higher

working capital requirements than projected with the planned volume growth. Unknown legal and tax issues which may take up management bandwidth with some financial impact.

Closure of IKKT's cephalosporin oral formulations and Aurangabad NPNC API facilities contributed to a loss of about 150 crore of revenue per annum. Unexpected pollution control issues may arise at Alathur which is near the sea shore especially when capacity utilisation is revved up to the full despite having the zero discharge facilities of the highest order.

Re-entry into any of the marginal businesses, example domestic formulations and NCE business could entail major costs without any revenues. Loss of people, loss of markets and loss of collaborative arrangements constitute key risks while the time taken and investment required to rebuild the business could be a common risk.

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#### OPL Owned Regulatory Filings

The Drug Master Files (DMFs) and Abbreviated New Drug Applications (ANDAs) of a pharma company represent solid intellectual capital for a pharma company.



OPL's Regulatory DMF and ANDA filings and approvals cover multiple countries; principal tracking is in terms of the base approvals from US FDA	
Cephalosporin APIs	28 US DMFs (OPL Alathur API plant)
NPNC APIs	48 US DMFs (Hospira India Aurangabad plant)
Oral Ceph Formulations	11 US ANDAs (Hospira India IKKT plant)
Oral NPNC Formulations	27 US ANDAs and 4 US ANDAs under review (OPL IKKT plant)

Orchid thus built up valuable intellectual capital that provides a ready base for immediate build-up of business.



The regulatory filings that are owned by the company represent solid intellectual capital for any pharma company. Orchid does build up valuable intellectual capital that provides ready base for immediate build up of business.

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### Way Forward

Orchid Pharma had a new hope under the Insolvency and Bankruptcy Code (IBC) proceedings.

OPL was a business that could be revived with infusion of funds under an IBC/NCLT-approved financial restructuring – unfortunately, the Company lost several months in the earlier phases of resolution process

This led to fall of business to record low levels; the closure of Hospira IKKT plants which supply API oral formulations and NPNC APIs for the last few months was a setback (Rs 150 crore loss of turnover combined, indicatively)

The final selection of Dhanuka for resolution at an investment of Rs 500 crore plus offered scope for economic revival of the Company. The restructured accounts hold the key to the revival of the Company and viability of the investment.

With the resolution-friendly financial package under IBC, and some additional investments post-IBC, the business could be brought to an even keel, and market capitalisation significantly improved

After several rounds of bidding and despite dilution of value over time, Dhanuka emerged as the successful bidder.



What is the way forward? Infused funds under the IBC NCLT approved financial restructuring despite the loss of several months this process. Arrest the fall of business from the record low levels and ensure that there are alternative avenues for the businesses that have been lost. The final selection of the Dhanuka for resolution at an investment of 500 crore offered enormous scope for economic revival of the company when the company had no other option.

The restructured accounts hold key to the revival of the company and viability of the investment. With the resolution friendly financial package under IBC and some additional

investments post IBC the business could be brought to an even keel and market capitalisation significantly improved. After several rounds of bidding and despite dilution of value over time the Dhanuka emerged as the successful bidder as I have already informed you.

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#### For Dhanuka, Four Options to Consider

Every revival project has many options – in the case of Dhanuka-Orchid there were four options to consider.

Based on different sets of assumptions	
<b>Option 1</b>	Business model continues as it is, with Hospira (or a new owner of IKKT) supporting the ceph orals contract manufacture and NPNC API supplies for Orchid for a few more years (beyond March 2020)
<b>Option 2</b>	Business model continues as it is, but with Hospira (or a new owner) not supporting the ceph orals and NPNC API supplies, alternatives will need to be found by Orchid (site transfers or new facilities)
<b>Option 3</b>	Business model is restructured and simplified, to focus only on end-to-end cephs (API and Formulations) and NPNC business is sold off
<b>Option 4</b>	Shut down the entire formulations business (ceph and NPNC) on the ground that it may not be supported by Hospira (or new owner), and sell off the closed business to other formulators

Amongst the four options, Options 2 and 3 are appropriate for the way forward. Option 1 is unrealistic and Option 4 is pessimistic. Eventually, Dhanuka chose Option 3.

When business strategy is sound and business model robust, it is possible to rebuild with minor modifications.



However, as the Dhanuka planned its business model before coming into Orchid it had four options to consider. Again this is my estimation not the true understanding of the facts of the case. Option 1 business model continues as it is with a new owner for the other IKKT facilities or Aurangabad facilities supporting continued oral cephs and continued NPNC API supplies that is option 1.

Option 2 business model continues as it is, but with Hospira or a new owner not supporting the ceph orals and NPNC API supplies. Alternatives will need to be found by Orchid through

site transfers or new facilities. Business model is restructured and simplified to focus only on end to end cephs API and formulations and NPNC business is sold off.

Shout-down the entire formulations business on the ground that it may not be supported by Hospira or new owner and sell off the closed business to other formulations. Obviously, each of the options comes with its own pessimistic or optimistic assumptions and a choice has to be made. Finally, the Dhanuka made the choice in terms of option 3 that is restructuring and simplification of the business model.

Focusing on only end to end cephalosporins business, API and formulations and selling off the NPNC business which eventually was sold off as a joint venture. When business strategy is sound and business model robust it is possible to rebuild with minor modifications.

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**Under all the Options**

Regardless of the route taken, any revival has to recognise and respect some basic principles that are common.

**There would need to be some specific actions**

- The loss-making low-scale domestic formulations business will be shut down or sold off
- And importantly, capital expenditure and working capital would be needed to strengthen the core businesses
- The NCE business, including NCE-specific subsidiaries will be reconstituted into another entity and spun off, along with IP assets
- The pros and cons of re-entering the sterile formulations and sterile API businesses (post-2020) require detailed studies
- The US front-end will continue until more remunerative alliance situation emerges
- A major talent induction and organisational reinforcement will be required
- Biotech research and Process chemistry research will need to be supported to ensure cost-competitiveness and environment-friendliness of cephalosporin API manufacture

Once the base business is stabilised and made remunerative, future growth can be planned with new investments.

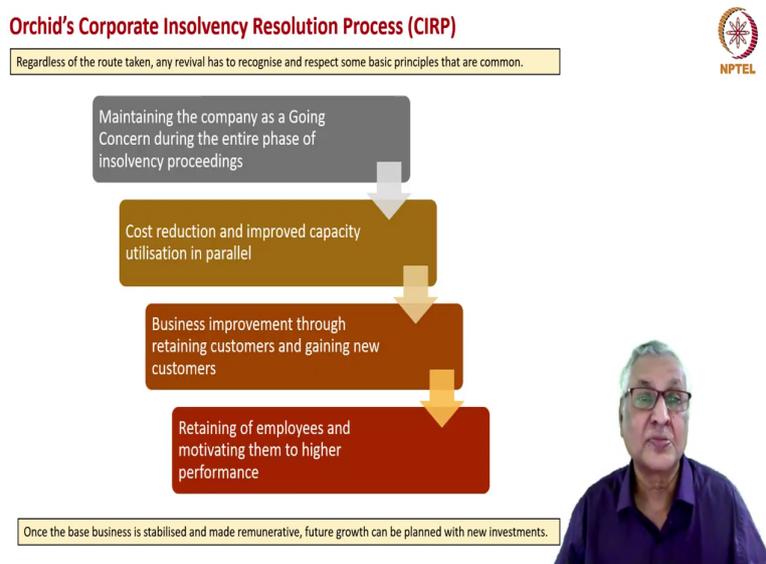


Regardless of the route taken, any revival has to recognize and respect some basic principles that are common. The loss-making, low-scale domestic formulations business will be shut down or sold off NCE business has to be reconstituted, external investment brought in and spun off along with the IP assets.

The US front end will continue until more remunerative alliance situation emerges. Bio-tech research and process chemistry research will need to be supported to ensure operational cost economics. A major talent induction and organisational reinforcement will be required.

The pros and cons of re-entering sterile formulations and sterile API businesses post 2020 will require detailed studies and importantly capital expenditure and working capital would be needed to strengthen the co-businesses. Once the base business is stabilized and made remunerative future growth can be planned with new investments. That is how revival of the business would take place.

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Regardless of the route taken, any revival has to recognize and respect some basic principles that are common. Orchid's corporate insolvency resolution process CIRP focused on this maintaining the company as a going concern. During the entire phase of insolvency proceedings that is important to avoid the risk of liquidation.

Two, cost reduction and improved capacity utilisation in battle. Three, business improvement through retaining customers and gaining new customers. Four, retaining of employees and motivating them to higher performance. Once the base business is stabilised and made remunerative future growth can be planned with new investments.

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### Orchid's Performance Deterioration

The Company's performance steadily deteriorated from 2012 onwards, when it got admitted under the CDR process.



Particulars	2013-15 (18 Months)	2015-16	2016-17	2017-18
Revenue (Rs Crores)	1,736	879	755	649
Operating Expenses (Rs Crores)	1,416	705	663	635
EBITDA (Rs Crores)	320	174	92	14
EBITDA %	18	20	12	2

Sales reduced by 168% while EBITDA margins drastically declined from 18% to 2%

Despite the declining business and operating levels, costs have been escalating, squeezing margins to record lows

Companies may sell parts of businesses under financial duress but they must use the proceeds judiciously to lift themselves up to superior performance. In the case of the Company, the reverse has been the case, it appears.



You can see here Orchid's performance deterioration from 2003-15 -18 month period to 2017-18. The year it got admitted under the IBC. Revenue declined by 50 percent, 1736 crore rupees to 649 crore is operating expenses declined, but not in the same proportion.

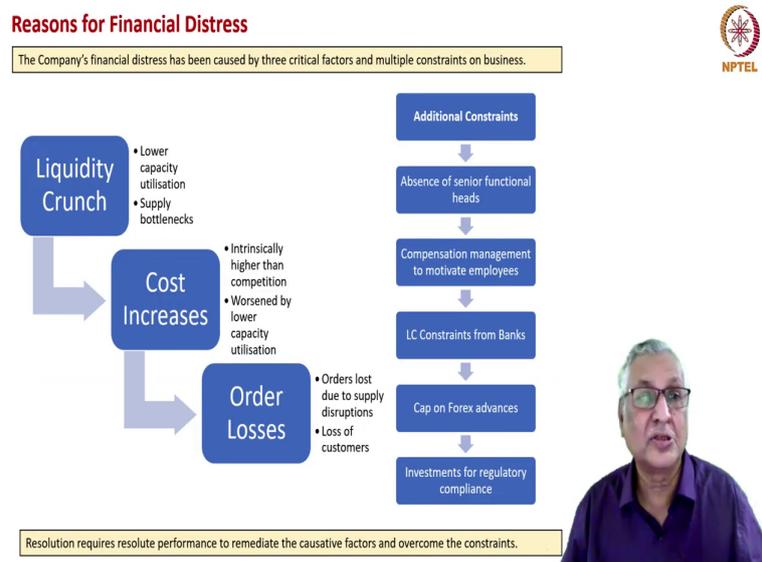
EBITDA Endings Before Interest, Taxes and Depreciation reduced from 320 crores to 14 crores. EBITDA percentage had a steep fall from 18 percent to 2 percent. And that has been one of the reasons why Orchid found it difficult to support itself except through the IBC process.

The capital structure had to be reconstituted with a large proportion of debt being written off and the equity capital restructured to allow a favorable entry by the EBITDA. Companies may

sell parts of businesses under financial duties, but they must use the proceeds judiciously to lift themselves up to superior performance.

In case of the company, the reverse has been the case it appears and that explains why Orchid went through the resolution processes under IBC even though it had two good deals in terms of monetization. Of the best possible assets in the company's infrastructure.

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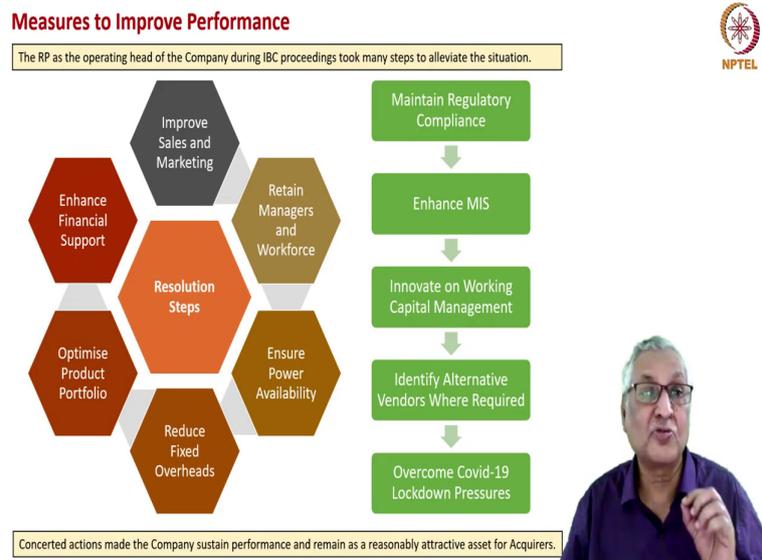


The company's financial distress, I am repeating this too. The company's financial distress has been caused by three critical factors and multiple constraints on business. First liquidity crunch due to lower capacity utilisation and supply bottlenecks. Cost increases because the original cost itself has been higher than competition.

When lower capacity utilisation worsened it, the company was completely uncompetitive and losses of orders, orders lost due to supply disruptions, working capital disruptions and loss of customers. There were additional constraints to absence of senior functional heads, compensation management being on hold and therefore, there was an impact in terms of the motivation of employees.

Letter of credit restrictions from banks caps on forex advances and investments for regulatory compliance. Resolution requires resolute performance to remediate the causative factors and overcome the constraints.

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And that is what the resolution professional Mr. Ram Kumar did as the operating head of the company during IBC proceedings. He took many steps to alleviate the situation, improve

sales and marketing, retain managers and workforce, ensure power availability, reduce fixed costs, optimise product portfolio and enhance financial support.

Maintained regulatory compliance, enhanced MIS, innovate on working capital management, identify alternative vendors where required and overcome COVID-19 lockdown pressures. All of these considered actions made the company sustain its performance albeit at a low level and remain as a reasonably attractive asset for the acquirers.

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### Improved Operational Performance

The various steps have helped the Company to regain some of the lost ground, though still far off from the mid-peak.

Particulars	2017-18	2018-19	2019-20
Revenue (Rs Crores)	649	555	485
Operating Expenses (Rs Crores)	563	499	440
Operating EBITDA (Rs Crores)	86	56	45
EBITDA %	13.3	10.2	9.3

Supply of high-margin products to customers and products with minimal credit products, all through the CIRP period.

Also, a sum of Rs 1,100 Crores, representing 31% of the claims admitted, was paid to the vendors.

As a result of various actions, the Company ended up with surplus cash of Rs 440 Crores with a new working capital of Rs 56.35 Crore as on the date of the Supreme Court order

Given that at the time of initiation of CIRP, the Company had only a cash balance of Rs 2.94 Crores and a net working capital of Rs 180.82 Crore, the above represented a major business turnaround for the Company.



The various steps have resulted in some level of improved operational performance for the company. Although still far from the mid peak, the company could regain some lost ground, supply of high margin products to customers and products with minimal credit products all through the CIRP period helped.

A sum of 1,100 crore rupees representing 31 percent of the claims admitted was paid to the vendors during the CIRP. As a result of various actions, the company ended up with a surplus cash of 440 crore rupees with a new working capital of 56.35 crore rupees as on the date of the Supreme Court order putting its stamp of approval on the NCLT's decision.

Given that at the time of initiation of CIRP, the company had only a cash balance of rupees 2.94 crores and a networking capital of only rupees 180.8 crore, the above represented a major business turnaround for the company.

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**Best Practices for Business Turnaround**

Orchid's resolution process and the successful outcome guide us to important best practices for business turnaround.

A thorough desk research on the Company	Immediate engagement with all employees	Defining an organisation structure for turnaround
Retaining key talent and motivating as required	Robust cashflow management	Comprehensive Business Plan
Memorandum for takeover by a new investor	Business Execution for better results	Investment into the Company by the new investor

Company resolution must be accompanied by steadfast business turnaround to make the asset attractive.



The case study of Orchid provides several lessons on the best practices for business turnaround. A thorough desk research on the company, immediate engagement with all employees, defining an organisation structure for turnaround, retaining key talent and motivating as required, robust cash flow management, comprehensive business plan,

memorandum for takeover by a new investor which brings out all the strengths, which brings out how the weakness will be addressed, which details the opportunities and provides a (Refer Time: 58:38) plan.

All of this will be a part of a good memorandum. Business execution for better results and investment into the company by the new investor company resolution must be accompanied by steady business turnaround to make the asset attractive.

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### The Investor May Have Options to Develop the Business

Each option will have different investment levels and maintenance expenditure levels, based on business strategies.



...There would need to be some specific investments (Estimated)

Item	Option 1	Option 2	Option 3	Option 4
Ceph API Sterile Expn				
Ceph API Oral Expn				
Ceph Oral Formulations and NPNC Oral API Site Transfers				
Ceph Oral Formulations				
Annual Maintenance Expenditure				

In each case, base investments are unavoidable, and marginal changes are required for businesses based on emphasis



And as we said, the investor may have options to develop the business. I talked about four different options and the investor would look at certain specific investments that are required for each of the options. And although the base investments are unavoidable and marginal changes may be required based on the emphasis under different options, care has to be taken to see that no additional surprise investments exist.

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### Estimated Revenue and EBITDA Projections (Rs Crore)



...Template to be used for Option Comparison

	2018-19 (Estimated)	2019-20 (Projected)	2020-21 (Projected)	2021-22 (Projected)	2022-23 (Projected)
API Revenue					
Formulations Revenue					
Total Revenue					
EBITDA					
EBITDA %					



Estimated revenue and EBITDA projections even at a very gross level are important to see which option would be better and that should cover revenue expenses, EBITDA and EBITDA percentage at the minimum.

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### Assumptions

In most cases, the success of a decision depends on the quality of the decision, which in turn depends on the quality of assumptions.

- The Company's plants are operating at very low capacity utilisation; the API plant at 40% of the rated capacity of 900 MTPA while the formulation plant at 10% of 658 million units due to WC constraints, and IKKT/Aurangabad business/supply losses
- If higher capacity utilisation levels are achieved, and are backed up by additional business arrangements, the above terminal targets for any of the business models should be achievable
- When benchmarked against other API manufacturers such as Covalent, Neuland, and Nektar, OPL EBITDA margins are lower and achievable, with cost-optimization
- The above assumes that the availability and prices of key intermediates such as 7-ADCA and 7-ACA would continue to be supportive of business continuity
- Equipment transfers and site transfers will be smooth and seamless with early regulatory approvals and minimal business disruptions
- There will be no need for surprise investments, beyond those projected.

Some of the assumptions also happen to be execution related; hence an acquisition tends to be as good as the execution, post-acquisition.



As with any other exercises of business development, the success of a decision in terms of the takeover of an NPA depends on the quality of the decision, which in turn depends on the quality of assumptions. In this case, plants are operating at very low capacity utilisation and therefore, the plants are capable of rising up to the higher capacity. If the higher capacity is backed up by additional business arrangements, the terminal targets can be achieved.

When benchmarked against other API manufacturers that operate in India, API is margins on lower for Orchid Pharma. Therefore, it should be possible to improve the margins based on cost optimization and technological optimization. Any revival also assumes that key intermediates such as 7-ADCA and 7-ACA would continue to be available and supportive of business continuity.

Any equipment transfers and site transfers to cover up for the lost businesses will be smooth and seamless with early regulatory approvals and minimal business disruptions. There will be no need for surprise investments beyond those projected. Some of the assumptions happen to be execution related hence an acquisition tends to be as good as the execution post acquisition.

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#### Caveats

An IBC acquisition decision cannot be only technical and financial. Many legal, taxation and commercial loose ends need to be tied up.

**...A detailed technical, commercial, legal and financial study is required to establish the starting base for the post-IBC life of a Company**

- The gross margin and capacity details need detailed study, product-wise; the debtor and payables details as well as loans and advances and related party transactions need to be examined
- All contracts need to be studied for the warranties, reps, CIC and non-performance clauses
- The tax implications on OPL and the acquirer entities need to be studied and quantified
- The implications of several direct and indirect tax cases need to be quantified with risk levels
- The acquirer must have immunity under NCLT umbrella for all the past actions of the Company that could have adverse business and financial impact
- Assuming that performance pans out as projected in the model, there could be many options to bring in additional growth options such as buy-back of facilities and entry into new business lines – for now, they should remain as possibilities for the future

Many IBC cases have seen huge delays due to non-technical reasons. In fact, technology keeps a case alive.



The caveats an IBC acquisition decision is not only technical and financial. Many legal taxation commercial loose ends need to be tied up. The gross margin and capacity details will need detailed study product wise.

The debtor and payables details as well as loans and advances and related party transactions need to be examined in detail. All contracts need to be studied for the warranties,

representations, CIC and non-performance clauses. The tax implications on the Orchid Pharma and the acquirer entities need to be studied and quantified.

Implications of several direct and indirect tax case need to be quantified with risk levels. The acquirer must have immunity under the NCLT umbrella for all the past actions of the company which could have adverse business and financial impact. Assuming that the performance plans pan out as projected in the model, there could be many options to bring in additional growth options such as buyback of facilities and entry into new business lines.

For now, they should remain as possibilities for the future. Many IBC cases have seen huge delays due to non-technical reasons. In fact, technology keeps a case alive.

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### Tentative Improvement in Operational Performance

The various steps have helped the Company to regain some of the lost ground, though still far off from the mid-peak.

Particulars	2019-20	2020-21	2021-22	2022-23
Revenue (Rs Crores)				
Operating Expenses (Rs Crores)				
Operating EBITDA (Rs Crores)				
EBITDA %				

The financials of the Company post-acquisition in April 2020 indicate that it is not possible but not easy to maintain turnaround momentum

The new owners Dhanuka Group seem to have commenced disposal of non-core businesses. An example is the transfer of NPNC IKKT formulations site to a US based company

The Company is hopeful of enhancing its growth by entering into new generation cephalosporins as potential Para IV opportunities and deriving benefit from contract manufacture of licensed NCE.

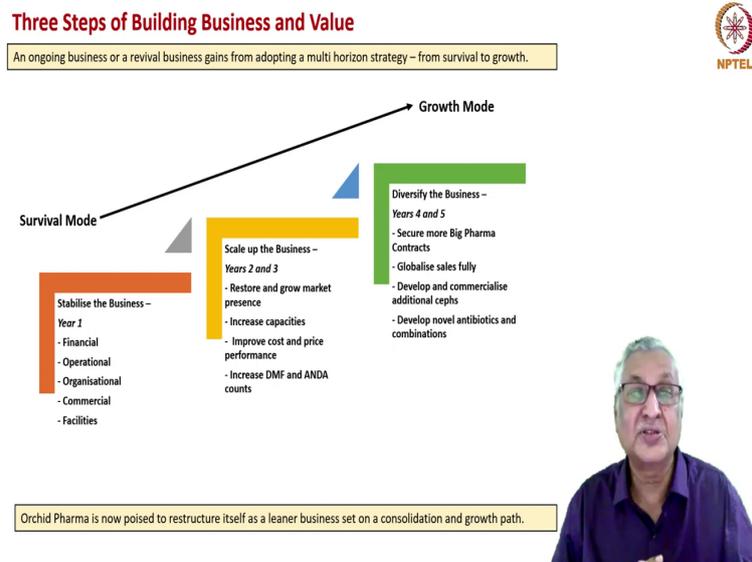
Business turnaround is only the first step for a company that faced turbulence, most of it self-made. It requires consistent and persistent business development, backed by strategy and execution to reach full potential.



There has been a tentative improvement in operational performance. And this demonstrates that turnaround is suddenly possible even after the worst business setback. However, it is not easy to maintain the turnaround momentum. The new owner's Dhanuka Group have commenced disposal of non-core businesses. An example is the transfer of NPNC IKKT formulation site to a US-based company.

The company is hopeful of enhancing its growth by entering into new generations of cephalosporins as potential para four opportunities and delivering benefit from contract manufacture of licensed NCE. Business turnaround is only the first step for a company that has faced turbulence. Most of it self-made it requires consistent and persistent business development backed by strategy and execution to reach full potential.

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There are three steps of building business and value. An ongoing business or a revival business gains from adopting a multi-horizon strategy from survival to growth this time. In the survival mode, stabilise the business in terms of financial, operational, organisational, commercial and infrastructure-related domains.

Second, scale up the business, restore and grow market presence, increase capacities, improve cost and price performance, increase the regulatory submissions. In the third stage, that is the growth mode diversify the business, secure more big pharma contracts. Globalise sales fully, develop and commercialise additional molecules, develop novel molecules and combinations for licensing.

So, stabilisation of the business should ideally occur in the first year, scaling up for the business in the second and third years and diversification of the business in the fourth and fifth years. Orchid Pharma in the second year is now poised to restructure itself as a leader business set on a consolidation and growth path.

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### Orchid: Multi-Year Financial Profile: Stand-alone P&L and BS

Profit and Loss Account Summary (Rs Crore); All values for year ending March 31 in each case; 12 Months unless otherwise mentioned

Item	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	Ext FY 15 (18 Months)	Ext FY 13 (18 Months)	2011-12
Revenue	565.98	457.17	529.94	600.57	664.04	782.67	903.94	1778.57	1946.35	1792.14
Expenses	618.75	553.04	679.77	726.56	1065.51	1233.29	1142.92	2274.72	2540.99	1708.52
PAT	-4.81	-117.15	-149.84	-101.05	-355.28	-488.54	-274.27	-191.04	-530.23	103.11

Item	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Revenue	1792.14	1712.14	1197.91	1245.43	1284.21	928.99	888.37	676.86	686.97
Expenses	1708.52	1559.03	1733.54	1282.28	1045.67	818.39	797.75	647.96	653.99
PAT	103.11	159.48	333.81	-42.54	195.83	99.31	82.90	31.01	31.03

Balance Sheet Summary (Rs Crore); All values for year ending March 31 in each case; 12 Months unless otherwise mentioned

Item	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	Ext FY 15 (18 Months)	Ext FY 13 (18 Months)	2011-12
SHs	677.95	681.34	1056.20	-754.99	-674.13	-342.92	171.13	439.40	488.17	1194.55
c&L	1094.19	1224.47	1711.74	2993.25	3210.76	3358.34	3962.53	4156.02	4723.21	3946.90
Contingent Liabilities	24.87	45.31	0.97	143.87	178.39	194.78	248.25	282.32	250.57	617.45

Item	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
SHs	1194.55	1134.02	997.25	586.64	688.10	501.24	785.03	471.27	418.70
c&L	3946.90	3888.39	3788.01	4138.33	3469.11	2858.91	2134.04	1789.29	1422.53
Contingent Liabilities	617.45	525.60	301.85	334.01	353.77	288.77	249.32	211.33	216.58



I have given here a multi-year financial profile of standalone profit and loss account and balance sheet of Orchid. This is not the best way of detailing all the financial parameters, but for the purpose of our lecture, it is important that you have a bird's eye view and no more than that for understanding how pocket went through its saga.

The second blue table below has the details from 2003, 04 to 2011, 12 and the top blue table has from 2011, 12 to 21, 22. You can see that the revenues continuously grew from 2003, 04, which was at 686.97 rupee crore to 1946.35 crores in the 18 month period of FY13 and 1792.14 crores in the 12 month period of 2011, 12.

However, from then onwards, the turnover decline sharply the worst being in 2020-21 into of 457 crores. The pat, which was a healthy 31 crores in 2003-04, continued to increase from time to time, touched a peak of 333.81 crore rupees in 2009-10, thereafter, it started declining

and faced the worst level of pat in 2016-17 at with the loss of 488.54 crores. The balance sheet summary also traces similar decline.

The shareholder funds, which increased from 419 crores in 2003-04 to, as much as 1195 crores in 2011-12, saw the shareholder funds being wiped out because of the losses. And by 2018-19, one year before the CIRP conclusion, the shareholder funds represented a negative net worth of 755 crore rupees. The total capital and liabilities, which were 1422.53 crores in 2003-04, shot up to 3947 crores in 2011-12 and remained at such high levels until the IPC processes resolved the balance sheet issues.

Another factor is that the contingent liabilities and off-balance sheet item ballooned from 217 crore rupees in 2003-04 to 617.45 crore rupees in 2011-12. This has also been one of the causes for the financial stress of the company. So, an excellent business strategy and outstanding execution also got derailed by financial mismanagement so, to say, of the overall finances.

Part of the financial management could be due to extensive aggression in terms of pricing of the products, trying to spike up the revenues or having liabilities that were not exercised or impaired at the right time or paid back at the right time example, the GDR. So, those are the kinds of things which impact and otherwise technologically competent, strategically forward looking organization and bring it down to a situation where it had to become a non performing asset.

It is to be hope that the company under a new group with more prudent financial management see better success again in the years to come and we will get back its lost glory. With this, we come to the end of this lecture.

Thank you very much for your kind attention.