

Interview: Mohal Sarabhai – Managing Director, ASENCE Group, India



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Mohal Sarabhai, a serial entrepreneur and grandson of the illustrious scientist and industrialist Vikram Sarabhai, provides insights into the eye-catching group of companies he has been developing over the past 15 years, ranging from the effervescent products specialist Vovantis to the fermentation-focused API manufacturer Synbiotics. He also documents his two-fold partnership vision, which aims at bringing new technologies to India for the benefit of the larger population while partnering with international companies with no operations in India to establish the country as these companies' manufacturing hub.

Your grandfather Vikram Sarabhai is widely regarded as the father of India's space program and as a key contributor to the development of nuclear power in the country, as well as the initiator of many significant social programs. As he was no stranger to the pharmaceutical sector either, could you provide insights into the key milestones that led Sarabhai Group to become India's first and most prominent pharmaceutical group in the 1980s?

Our family's links with the pharmaceutical sector indeed go back to my grandfather, Vikram Sarabhai, an Indian scientist and industrialist who considered that India should also hold its own manufacturing basis, especially with regards to highly-needed products. In the '50s, India was exclusively dependent on MNCs' products in many crucial therapeutic areas, which prompted my grandfather to approach the American inventor ER Squibb, whose company eventually became

part of the modern pharmaceutical giant Bristol-Myers Squibb. Although our family was already well established as a major textile manufacturer in India, Vikram Sarabhai was more inclined to venture into high-technology sectors. The newly created Sarabhai Chemicals became the exclusive distributor of ER Squibb and Sons' products in India, therefore marking a first-of-its-kind international partnership for a domestic pharmaceutical company.

Sarabhai Chemicals subsequently entered into agreements with other leading international companies, including Germany's Merck KGaA and Swiss-based JR Geigy [*which, after mergers with other Swiss-based companies CIBA and Sandoz Laboratories, gave birth to Novartis – Ed.*]. Year after year, the company founded by Vikram Sarabhai continued to grow at a rapid pace and the Sarabhai Group eventually emerged as one of the first integrated pharmaceutical giants in India, holding a ten percent market share in the 70s. By comparison, this is twice the market share held by the current market leader in India.

My grandfather unfortunately passed away in 1971, and the company entered into a rapid decline under the combined pressure of various dynamics, which included the increasing difficulty to distribute innovators' products in a market that did not grant patents on medicines prior to 2005. Although Sarabhai Chemicals was still India's market leader until the mid-80s, the company had started dangerously stagnating since the end of the 70s. Fast-growing domestic players in the likes of Torrent, Cipla, Zydus Cadila, Wockhardt and others were steadily but surely overtaking the Sarabhai Group, which – in the late 90s – was almost gone. Despite its indisputable prestige and unrivalled brand reputation, most companies of the group had to file for bankruptcy through a set up similar to the US Chapter 11 bankruptcy status, and a large share of the group's brands were sold to pay back its debts.

At that time you were working in the US, where you also completed your education as a mechanical engineer. When did you enter the picture?

My father Kartikeya Sarabhai, a Padma Shree awardee [*one of the highest civilian awards in the Republic of India – Ed.*] for his work in environmental education, was asked to become the Chairman of the group in the mid 90s, though he had never been directly involved in the Sarabhai Group. I was personally living in the US at that time and he convinced me to come back to India and evaluate how I could revive some of my grandfather's legacy along with him. I made this decision at the end of the 90s, and – from 2000 to 2010 – my first and foremost objective was to reorganize some of group's remaining companies while creating new business ventures in the meantime. Rather than building a monolithic organization, I preferred creating independent, specialized companies gathered together under a new umbrella – the Ambalal Sarabhai Enterprises

(ASE) Group while my father continued to strengthen this umbrella and shield it from difficult creditors and other potential threats, thereby allowing these newer ventures to grow properly.

As per newly created companies, the first one to see the light was the trading company Asence, headquartered in New York and set up in 2002, whose business model is to import pharmaceutical products from China and India to US market. When developing Asence, I moreover realized that there was no contract manufacturer dedicated to effervescent products based out of India or the US, which prompted me to found Vovantis in 2008.

This India-based CDMO focus on effervescent products was initially set up through a co-investment with a French company, before the latter eventually exited this venture as part of the strategic reorganization of its activities. Today, Vovantis' manufacturing plant is US FDA approved and 50 percent of our revenues come from the US, where we manufacture private labels for the main retail chains. Overall, we can produce all effervescent products commercialized in the US market.

What rationales motivated you to focus on the US effervescent market, which is still very fragmented and slightly niche compared to countries like Germany and France where these products are very mainstream?

Whether it relates to paracetamol, multi-vitamins, cold and cough products or many others, effervescent products have indeed been widely adopted by European consumers and patients. On the other hand, the US market stands at a fast-growing but still nascent stage – to give you an idea, French-speaking African markets probably comprise a larger number of effervescent products than the US.

As a matter of fact, large European markets were our first targets, which notably explains why we initially forged a partnership with a French company. Nevertheless, when the latter left our joint venture, I decided to center Vovantis' focus on the US to leverage my business connections.

Although it stands as a promising, fast growing market driven by the increasing popularity of effervescent products among children and senior people, some intrinsic specificities of the US effervescent market cannot be overlooked. For example, chances to see US consumers and patients embracing effervescent generics or private labels are extremely low if the given molecule has never been promoted as an effervescent product by a large, marketing-driven innovator beforehand. As the US effervescent market further gains in maturity, we however expect that the opportunity to bring first-to-market effervescent dosage forms will become increasingly attractive in the coming years.

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In the meantime, we just started registering our effervescent products in the UK and expect to have our facility inspected by the MHRA shortly; once approved, we will use this UK basis to expand into other European markets, while we are about to double our production capacity to sustain this vision.

Many successful India-based CDMOs are currently diversifying their operations with the development of their own product portfolios. To what extent does Vovantis fall within this trend?

We do not want to limit ourselves to the CDMO business model and we are also developing our own portfolio, which will be marketed under our own brand name. We just developed a product using curcumin that holds both immunity and anti-tumor properties, and we plan to market it as a support therapy for oncology patients. Although we can register Curcumin in the US as a nutraceutical product, our objective is to produce as much clinical data as possible to sell it on a prescription basis.

This product is already marketed in India, where we decided to revive the Sarabhai brand to accelerate our market penetration. Moving forward, our priority is to continue expanding our portfolio; for example, we just developed an effervescent form of sildenafil *[sold as the brand name Viagra among others – Ed.]*.

On the API side, we see that Chinese competition has somewhat destroyed India's fermentation capacity, but ASE Group's Synbiotics has proudly emerged as one of the few survivors. What are your plans for this eye-catching company?

India's fermentation capacity is today clearly underdeveloped, as a large share of domestic companies could not sustain the downward price competition triggered by China-based companies over the past two decades. To give you an idea, India's power cost for the manufacturing of fermentation products was roughly equal to the final selling price of Chinese fermentation APIs, until the strengthening of China's pollution norms drove the prices up again a few years ago. However, India's stringent environmental framework for fermentation-centered API companies has so far prevented new player from entering this business again, leaving Indian "survivors" with a true competitive advantage.

Fermentation-focused, API manufacturer Synbiotics was a legacy company of the Sarabhai Group under the protection of a bankruptcy court *[similar to the US chapter 11 – Ed.]* when we decided to

revive it. Our objective was to leverage this company's technology basis to foster the production of an antifungal antibiotic which was no longer produced in India. This kind of antifungal – the most powerful antifungal available on the market – is used worldwide, especially for diseases of the immune system, and our factory is approved by the most stringent regulators worldwide, including the US FDA. Furthermore, the small number of competitors left in this product category allows us to vie for a large share of the global market. We are now about to enrich our offering with the production of another fermentation-based API product.

After years spent on restructuring and setting up new verticals, what is the vision driving the development of the ASE Group?

Our vision is to give justice to these companies, which all have their own COOs and management teams. In terms of partnerships envisioned, there are two main development avenues that we are envisioning.

First, we want to bring new technologies to India and be helpful to the larger population, following the path paved by my grandfather few decades ago. For example, we just set up a joint venture with an American diagnostic company, with the objective to bring molecular tests to India, where this great technology is still not widely available. This all in one instant kit will specifically targets diseases like chikungunya, dengue, Zika, and drug-resistant TB, while enable us to become the first Indian company to domestically manufacture this technology. As a matter of fact, we expect our plant to be ready before the end of 2018.

Another priority is to leverage our companies' differentiated offering – for example in the effervescent or fermentation arenas – to partner with international companies that are not yet present in the country. In the grand scheme of things, our vision will be to turn India into a major manufacturing hub for these international companies. We are already discussing this plan with some potential partners that have no operations in India; although some of them may be somewhat weary to partner with India-based manufacturers with regards to patent protection issues and India's intellectual property framework, Sarabhai's long-standing relationship with MNCs stands as an eye-catching differentiator and a great asset to build trust with these companies.

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In the grand scheme of things, we have built over the past decade a sound, multifaceted basis throughout a diverse set of specialty companies – and we are now ready to fully leverage this basis through an ever-increasing number of partnerships.

Given the multiple-company model you have embraced, do you consider growing the ASE Group through acquisitions?

The huge size of the Sarabhai Group was one of the reasons for its fall, so we will be extremely careful with regards to inorganic growth. The ASE Group is now in an interesting position and we could undoubtedly access external financing to grow inorganically, but I do not foresee to conduct any acquisitions within the next two years.

This doesn't mean that we will not grow our business through acquisitions in the mid term. We are currently setting up a new tablet-focused formulation manufacturing facility in India, which will be finished by September 2018. Moving forward, we consider acquiring brands from an existing pharmaceutical company, while the following step would be to embark on an immediate expansion plan into the US. In the meantime, this formulation arm will also cater to the Indian market, where the Sarabhai brand remains extremely strong.

Very few people outside India know that the state of Gujarat - where most of your companies are located - actually accounts for over 33 percent of India's pharmaceutical turnover and 28 percent of the country's pharmaceutical exports. What makes Gujarat such a great place to set up and grow a pharmaceutical business?

First and foremost, Gujarat holds extremely good universities (especially in the pharmaceutical and medical fields) and infrastructure as well as a great labor force, while it has become increasingly difficult for companies' owners to bolster a healthy dialogue with labor unions in the state of Maharashtra [*where Mumbai is located*] and in Northern India [*where Delhi is located* - Ed.]. Furthermore, land is easily available and reasonably priced in Gujarat, which marks a true advantage in comparison to the aforementioned states.

In the meantime, Gujarat had between 2001 and 2014 a very dynamic Chief Minister - Narendra Modi - who has been serving as India's Prime Minister since 2014. The latter has contributed to raise the state's international profile and attractiveness through the biennial investors' summit *Vibrant Gujarat*, which makes it easier for Gujarati entrepreneurs and CEOs to convince international partners.

Finally, one cannot overlook the fact that Gujaratis are great entrepreneurs - and from my perspective this aspect has been nurtured by historical factors: most of North Gujarat is very arid, to the difference of the rest of the country where the wonderful climate has favored the development of agriculture. This scarcity of natural resources in that part of our state has historically strengthened the importance of trade as a mean of survival, forcing Gujaratis to

become entrepreneurs and outstanding businessmen to sustain their families.

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