

PE firm Multiples in talks to invest Rs275 crore in Encube Ethicals

Encube Ethicals is a contract development and manufacturing firm for topical semi-solid formulations such as gels and ointments



If the deal goes through, this will be Renuka Ramnath-led Multiples's first investment in the pharma sector. Photo: Hindustan Times

Mumbai: Mumbai-based Encube Ethicals Pvt. Ltd is in advanced talks with Renuka Ramnath-led private equity firm Multiples Alternate Asset Management Pvt. Ltd to raise around `275 crore (approximately \$41 million), said two people aware of the developments.

"The transaction has been in the works for a couple of months now and the talks are at an advanced stage. The deal is expected to be closed shortly," said one of the persons mentioned above, requesting anonymity as the talks are private.

Encube Ethicals is a contract development and manufacturing firm for topical semi-solid formulations such as gels and ointments. The company serves pharma and cosmetic companies in the US, Europe and India. It was founded by Mehul Shah in 1998.

Contract research and development (R&D) organizations offer outsourced services to support discovery and development for R&D-driven companies across sectors like pharmaceuticals, biotechnology, biopharmaceuticals, nutraceuticals, animal health,

agro-chemicals and cosmetics.

"Encube has been growing at over 30%-plus over the last few years and the business is highly profitable, which makes it an attractive asset. Additionally, the company is focused significantly on dermatological products, which is also a niche and profitable market segment" said the second person cited above, also requesting anonymity.

According to data available from the company's filings with the Registrar of Companies (RoC), its revenue grew by 31% to `222.24 crore in financial year 2014-15, from `169.9 crore the previous year.

The same year, the company's profit grew by 38.5% to `49.6 crore, from `35.8 crore in the previous financial year.

The funds will be utilized by the company to increase its manufacturing capacity and add to its research and development capabilities, the second person added.

Multiples declined to comment on the development.

"Encube Ethicals being a privately owned organization would not like to comment on any such market news," said Shah, managing director of the company.

Encube currently has a single manufacturing facility in Goa, spread over 45,000 sq. metres. The company has the capability of producing different ointments, gels, creams, solutions and lotions. The Goa plant also has research and development facilities for assisting customers with drug and cosmetic research.

Last year, another contract research services firm, Biocon Ltd's subsidiary Syngene International Ltd, went public with an initial public offering that was subscribed almost 32 times. In 2014, India Value Fund Advisors, a home-grown private equity fund, had picked up a 10% stake in Syngene, through its fund Silver Leaf Oak (Mauritius) Ltd for about `380 crore.

Growth of contract research and manufacturing firms is closely linked to the growth in global pharma R&D spending.

According to a February 2015 report by Frost & Sullivan, the global R&D expenditure for the pharmaceutical industry in 2014 was approximately \$139 billion, of which \$105 billion could have potentially been outsourced.

The global contract research and development market, in terms of value, was approximately \$28.8 billion in size in 2014 and is expected to reach \$44.6 billion in 2018, reflecting a growth rate of 11.6%, according to the report.

However, according to industry experts, differentiating one's offering in the market is key as the space has seen strong commoditization of business.

"The contract research and manufacturing space has gone through some difficult times, with the business getting severely commoditized. However, some players have been able to focus on difficult-to-make products with low volumes but higher margins. Of late, there has been some revival of interest," said Utkarsh Palnitkar, partner and head-infrastructure, government and healthcare at consulting firm KPMG.

If the deal goes through, this will be Multiples's first investment in the pharma sector. The Encube Ethicals investment will come from the PE firm's \$600 million fund, its second, which is currently raising money.

From its second fund, the PE firm has already invested in a housing finance company, *Mint* reported in June 2015. The housing finance company will target lower income groups, catering to the needs of customers in metros and smaller cities.

Multiples had raised its maiden \$405 million fund in 2011.

The firm has invested in companies such as logistics firm Delhivery, farm equipment manufacturer Milltec Machinery, multiplex firm PVR Cinemas and healthcare firm Vikram Hospital, among others.