



CLIENT STORY | DUE DILIGENCE OF A CMO PLAYER OF API IN CHINA

**Region :**  
 CHINA

**Consulting Services :**  
 TRANSACTION SUPPORT / DUE DILIGENCE

## CLIENT SITUATION

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- The client, a generic API player, had taken a decision to enter the Custom Synthesis / CMO business through acquisitions
- One of the targets identified was a European CMO with manufacturing facilities in China. This would also provide the generic business access to low cost facilities – critical to its survival in the future
- There was a need for a Business Due diligence on the target

## OUR APPROACH

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- Detailed analysis of trends in the APIs and intermediates being manufactured currently and proposed in the future - across customers and geographies and building bottom up future projections. Highlighting possible revenue and gross margin upsides and downsides in key products
- This involved in-depth analysis of each molecule at the formulation level to understand its growth trajectory in the light of other innovator and generic products, possible price erosions at the retail level, the position of the molecule in the customer's portfolio within the therapeutic category and its implications on future growth, etc.
- The detailed process steps for the synthesis of the key products were understood through interactions with technical experts to arrive at the consumption norms and validate the pricing assumptions on existing and new intermediates and APIs and its implications on the retail pricing
- Customer relationships with the innovator companies were probed to take a view on the future security of the business
- The capabilities of the Chinese team across functions were understood in detail and benchmarked against best in class facilities in India to take a view on the investments and team enhancement required in China
- An overall view of the business portfolio was taken in the context of India vs. China capabilities and costs to conclude on competitiveness of the business

## OUR RECOMMENDATION/ IMPACT

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- The exercise helped the client to develop an overall view on the prospects of the business especially on the following :
- Are the projected volumes and revenues / profits in the stated business plan realistic?
- What is the cost competitiveness of the Chinese facilities?
- Would they be able to make the transition from intermediates to APIs in these facilities with the existing team and scale up the operations 3-4 fold?