Deal or No Deal: Commercial & Operational Due Diligence on a Rs.2,800 Crore Generic Pharma Acquisition

M&A Due Diligence + 100-Day Plan | Industry: Pharma | Client: Mid-Market PE Fund (hypothetical) | Timeline: 8 weeks | Date: April 2026

Cut the EBITDA forecast by 22% after a channel-dilution and USFDA-warning-letter analysis, renegotiated the valuation down Rs.310 crore, and built a 100-day integration plan that protected the acquisition thesis.

Frameworks: Adjusted EBITDA Normalisation . Bottom-Up Revenue Bridge . Scenario & Sensitivity Analysis . 100-Day Integration Plan

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Challenge

A mid-market PE fund had a letter of intent on a Rs.2,800 crore Indian generic pharma company - a strong domestic chronic-care portfolio with a small US generics export business. The seller's EBITDA projection implied a 9.1x entry multiple, justified by a claimed 18% revenue CAGR from the US pipeline and domestic chronic growth.

The fund's investment committee had been burned twice before by India-pharma deals where "the pipeline was the story." Their question to us: **"What is the *true* maintainable EBITDA - and what breaks between signing and day 100?"**

Approach

We ran a three-track diligence over eight weeks:

Track 1 - Commercial diligence. Bottom-up revenue bridge for the domestic portfolio: molecule-level growth rates, price erosion (NLEM/DPCO impact), prescription analytics (IQVIA/EPRX-style data), and doctor-level share-of-voice analysis for the top 60 molecules (which comprised 68% of domestic revenue). For the US business: ANDA pipeline status, first-to-file opportunities, and channel concentration (wholesaler + GPO customer mapping).

Track 2 - Operational & regulatory diligence. Plant-level capacity and utilisation, cost-of-goods benchmarking, and a deep dive on regulatory history - including a USFDA warning letter at the flagship plant and two import alerts in the last 36 months.

Track 3 - Financial & tax diligence. Normalisation of one-offs, related-party transactions, channel inventory (secondary sales vs. primary), and contingent liabilities (litigation, export penalties).

Track 4 - 100-day plan build. We ran integration-scenario workshops with the target's CFO and plant heads to pressure-test synergy assumptions and identify day-1 risks.

Analysis

The domestic story was real - but softer than presented. Chronic therapy growth of 14% was genuine (diabetes, cardiac, respiratory), but the seller's forecast assumed zero NLEM price erosion on 40% of the portfolio; our base case applied 3.2% annual erosion on those molecules, cutting domestic EBITDA by Rs.38 crore by year 3.

The US business was the valuation fulcrum. The seller's deck priced the US pipeline at Rs.540 crore of forecast revenue by year 4. Our molecule-by-molecule screen found:

- 7 of 22 ANDAs were for molecules with 4+ competitors already - commodity pricing;
- the flagship plant's warning letter meant no US product launches from that site until remediation - a 14-20 month delay;
- one "anchor" product - 38% of the US forecast - faced a first-filer challenge with an 8-month exclusivity window that the seller's model had overstated to 18 months.

Net effect: **US revenue forecast cut 41%, and total EBITDA forecast cut 22%** (year-3: Rs.412 crore vs. seller's Rs.528 crore).

Working capital had a landmine: channel inventory at the distributor level was 11.2 weeks vs. 7-week industry norm - suggesting the seller had been "stuffing" the channel to hit the trailing EBITDA number. Adjusting for the pull-back, trailing EBITDA was ~9% lower than presented.

Findings

1. True maintainable EBITDA was Rs.238 crore vs. the presented Rs.262 crore - an 9% adjustment before any growth debate.
2. The US pipeline was an option, not an asset - worth 30-40% of the seller's ascribed value, with a remediation-linked trigger.

3. The 100-day risk register surfaced three deal-breakers-in-waiting: key-man dependence (two R&D heads held the ANDA knowledge), a Rs.62 crore related-party receivable that needed haircutting, and plant-level culture clash flagged by 60% of target middle managers in confidential interviews.
4. The deal still worked at a revised price - at <=8.2x adjusted EBITDA, the domestic chronic franchise alone supported the return thesis.

Recommendation

We recommended the fund **renegotiate on the adjusted numbers, with structure**:

- Price at <=8.2x adjusted EBITDA (Rs.1,950-2,050 crore) - a Rs.310 crore reduction from the LOI;
- A remediation escrow tied to the USFDA warning-letter closure (Rs.90 crore released on plant re-inspection);
- Vendor financing on the related-party receivable with 24-month repayment;
- A 100-day plan sequenced as: day 0-30 cash control & channel-inventory normalisation; day 30-60 KPI reset and R&D retention letters; day 60-100 plant remediation governance and synergy execution (procurement + back-office consolidation worth Rs.24 crore annually).

Outcome

The fund went back to the seller with the adjusted case; after two rounds, they signed at 8.0x adjusted EBITDA - **Rs.310 crore below the original LOI** - with the remediation escrow in place. Twelve months post-close, the domestic chronic franchise grew 13% as modelled, channel inventory normalised to 7.8 weeks, and the remediation plan was on track for re-inspection. The deal, which would have destroyed value at the LOI price, is on track for a 2.4x MOIC in the fund's base case.

Case study reconstructed for illustration from typical engagement patterns. Client and figures are hypothetical.
