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PharmEasy's \$5.5 bn valuation was not wise but acquisitions will bail company out, say experts

PharmEasy has also come under scrutiny for acquiring massive debt. It borrowed \$285 million from Goldman Sachs to pay off an earlier debt incurred from Kotak Mahindra Bank to buy Thyrocare

**Bhavya Kaushal**

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Valuation mark-downs appear to have become the flavour of the season. Amid issues of corporate governance, layoffs and more, the news of another start-up's valuation getting slashed shouldn't be surprising. But in the case of PharmEasy, there has been some unease.

Recently, media reports surfaced claiming that the medtech company was looking at a \$292 million fundraise at a 90 per cent valuation drop. This means that PharmEasy will not just slide out of the unicorn table but its valuation will nosedive to \$500-600 million—which is way lower than its last valuation of \$5.5 billion during the peak of pandemic.

PharmEasy's \$5.5-billion valuation was not wise, says Gaurav Singhvi, who invested in the Mumbai-based company about two years ago. He also told Business Today, "It will take 24 months for the company to bounce back to normalcy."

Singhvi, who is also the co-founder of investment platform WeFounder Circle defends its down rounds and says, "As a patient and long-term investor, I am not worried. Start-up investing is not for those who are impatient. Sometimes it takes four years, sometimes seven years to hit profitability. We are okay with that."

PharmEasy was started in 2015 by Siddharth Shah, Dhaval Shah, Dharmil Sheth, Harsh Parekh and Hardik Dedhia. The company has so far raised \$1.2 billion in funding.

"PharmEasy is a great company. The founders have an understanding of the ecosystem and I want to stay invested," he concludes.

Thyrocare's future in spotlight

In June 2021, API Holdings, the parent company of the medtech start-up acquired a 66.1 per cent stake in Thyrocare Technologies for Rs 4,546 crore. The stake in the diagnostic chain was picked up at Rs 1,300 per share. PharmEasy acquired rival MedLife in 2021.

Experts tell BT that Thyrocare will not be impacted and that its performance will continue to remain "robust." In addition, they also believe that PharmEasy's acquisitions like Thyrocare will bail it out of the current crisis it faces.

"PharmEasy's buy-outs have been good, including that of Thyrocare. Right now, PharmEasy's profits are mainly coming from Thyrocare," says Singhvi.

Anirudh A Damani, Founder of Artha Group, says one should not forget that Thyrocare got acquired for approximately Rs 4,500 crore, which is a significant part of PharmEasy's current valuation.

He adds, "Given that PharmEasy reports itself to be on the path toward profitability, the drastic reduction in valuation does not necessarily reflect on Thyrocare's performance, which we believe continues to be robust."

In November 2021, it filed its draft red herring prospectus with market regulator Sebi. The company planned to raise \$780 million at a valuation of \$9 billion. However, later it shelved its plans citing market conditions as the reason.

Coming back to the point of valuations, industry experts also believe that the investors must be questioned on inflated valuations. "If the performance of the company is flat, then there is no visible reason for the valuation to go up. The board including the VCs need to justify how the valuations have gone up when the growth prospects



have been negative,” argues Sahil Kanuga, Co-head, International Disputes Resolution and Investigations Practice at Nishith Desai Associates.

A risky business

PharmEasy has also come under the radar for acquiring massive debt. The online pharmacy company had borrowed \$285 million from private equity firm Goldman Sachs to pay off an earlier debt it had incurred from Kotak Mahindra Bank to buy Thyrocare. A report by Economic Times last month stated that PharmEasy had breached the loan convent terms after failing to raise equity.

A similar picture played out for edtech major BYJU’S has been hitting the headlines off-late for struggling to pay its \$1.2 billion Term Loan B. The Bengaluru-based company used the loan to make a slew of acquisitions including WhiteHat Jr and Aakash Institute.

Damani says taking debt to fund acquisitions is an extremely risky game. “Notably, around 90 per cent of acquisitions fail, increasing the financial risk. This is especially dangerous for cash-intensive businesses with insufficient operational cash flow for loan repayment,” he says.

He also states that at its core, both the companies (BYJU’S and PharmEasy) are facing “existential crisis” and are yet to be profitable. To top it up, they also have to support the acquisitions.

“Companies must consider the potential risks and have a robust plan to manage debt before making such significant financial decisions,” he said.

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