



## PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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Date : 27-05-2010

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### **Abbott-Piramal in the spotlight**

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Posted: Thursday, May 27, 2010 at 2214 hrs IST

Updated: Thursday, May 27, 2010 at 2214 hrs IST

Direct link to the News/Story:-

<http://www.financialexpress.com/news/Abbott-Piramal-in-the-spotlight/624094/>

Global pharmaceutical companies have increased their focus on high-growth emerging markets as a consequence of severe pricing pressures faced. This is due to escalating R&D costs, drying up of pipelines for new drugs and increasing pressures from payers and providers to reduce healthcare cost. Pharmaceutical companies are looking for new ways to increase revenues, boost drug discovery potential, diversify risk, reduce time to market and squeeze costs along the value chain.

The social, demographic and economic context within which the pharmaceutical industry operates is changing dramatically. The population is growing and ageing, new areas of medical need are emerging and the diseases in developing countries are increasingly similar to those that affect people living in the developed world. These changes will generate some huge opportunities for pharmaceutical companies across the globe.

In PricewaterhouseCooper's latest report, Global pharma looks to India, we examine the opportunities available in India. Given the current rate of growth, India should be among the top 10 pharmaceutical markets by 2020. Tapping into the potential of the Indian pharmaceutical market will become important for global pharmaceutical companies.

India's population is growing rapidly, as is its economy—creating a large middle class with the resources to afford Western medicines. Further, India's epidemiological profile is changing, so demand is likely to increase for drugs for cardiovascular problems, disorders of the central nervous system and other chronic diseases.

Further, health insurance and government spending is set to increase. Together, these factors mean that India represents a promising potential market for global pharmaceutical manufacturers. India's domestic pharmaceutical industry, which was worth around \$11 billion in March 2009 is expected to rise to \$30 billion by 2020. The domestic market is very fragmented; more than 10,000 firms collectively control about 70% of the market. These are early days of consolidation.

US pharma major Abbott has valued domestic formulations business of Piramal Healthcare at more than nine times its sales. Abbott will make an upfront payment of \$2.12 billion plus \$400 million annually for the next four years. The acquisition has given the US major immediate market leadership with 7% market share in India, the world's second fastest-growing emerging market. Strategic acquisition will propel Abbott's annual sales to grow at 20% in India and is expected to exceed \$2.5 billion by 2020.

The sale includes 350 brands and trademarks and a plant at Baddi. It also entails the transfer of employees in the domestic formulations business of Piramal Healthcare. Piramal will retain its custom manufacturing, over the counter consumer products, active pharmaceutical ingredients, vitamins and fine chemicals, diagnostic services and devices business. The company has entered into a non-compete clause for eight years from the closing date of the deal. This means that it will not enter the domestic formulations business till 2018.

Post 2005, India has been working on Trips compliance and moving towards a products patent regime. Indian companies will need to discover newer drugs to climb the innovation curve. In a scenario like this, Indian companies will have to decide whether they should exit or realign their businesses with a strategic partner. The Indian pharmaceutical industry, over the past two years, witnessed significant M&A activity. Recent M&As have had high premiums. Year 2008 saw India's largest pharmaceutical company, Ranbaxy Laboratories, being acquired by Japan's Daiichi Sankyo. This was a landmark deal in the Indian pharmaceutical history, where Ranbaxy's promoters relinquished their entire stake to the acquirers for \$4.6 billion. This acquisition demonstrated the strong interest global companies have in the Indian pharmaceutical market and their willingness to pay high valuations for established Indian businesses. Other big deals in the sector are Fresenius Kabi acquiring Dabur pharma for \$220 million. Mylan buying Matrix labs for \$736 million and French major Sanofi Aventis acquisition of India's leading vaccine market Shantha Biotech for \$781 million. As more MNCs enter the Indian pharmaceutical market, Indian players will have to grow fast, organically or inorganically, to compete.

Global pharma is realising new opportunities are now emerging economies like Brazil, China, India, Indonesia, Mexico, Russia and Turkey. Global players in the pharmaceutical industry cannot afford to ignore India. India, many predict, will be the most populous in the world by 2050. India will make its mark as a growing market, potential competitor to global pharmaceuticals in some key areas and a potential partner in others. Going forward, we will continue to see consolidation in this area and increased M&A.

*The author is the India leader for pharma & life sciences at PricewaterhouseCoopers. Views are personal...*