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India Big pharma's new battle field

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Global pharmaceutical companies are living in an era of change. Their most successful products are losing patent protection and their pipelines have not been able to fill the gap—eating away at the revenues, cash flows and margins. It is obvious that these are not small changes for the likes of Pfizer, Novartis, Astra Zeneca, GlaxoSmithKline, Sanofi-Aventis, Merck and Roche. They are not taking them lightly and are responding in all sorts of ways—acquiring to add new capabilities, outsourcing to tap efficiencies, diversifying to boost flagging revenues and divesting to focus on core businesses.

India, one of the world's fastest-growing pharmaceutical markets generating nearly \$8 billion in drug sales this year and expected to more than double by 2015, is emerging as the new battle ground for global pharmaceutical companies. The recent acquisition of Piramal's healthcare solutions business by Abbott adds credence to the emerging trend—global pharmaceutical companies are working overtime to reinvent their business models and emerging markets such as India and China are the key focus areas for them. Piramal's healthcare solutions business has a formidable presence in the Indian branded generics market. Therefore, the acquisition by Abbott aptly fits in its scheme of things.

Miles D White, chairman and chief executive officer, Abbott, says, "This strategic action will advance Abbott into the leading market position in India, one of the world's most attractive and rapidly growing markets. Our strong position in branded generics and growing presence in emerging markets is part of our ongoing diversified pharmaceutical strategy. This complements our market-leading proprietary pharmaceutical offerings and pipeline in developed markets."

Healthcare analysts say that the acquisition further accelerates Abbott's emerging market growth following the recent acquisition of Solvay Pharmaceuticals and Abbott's collaboration with Zydus Cadila as well as the creation of a new stand-alone established products division to focus on expanding the global markets for its leading branded generics portfolio. "Emerging markets represent one of the greatest opportunities in healthcare—not only in pharmaceuticals—but across all of our business segments. Today, emerging markets represent more than 20% of Abbott's total business," says White.

According to Ranjit Shahani, vice-chairman and MD, Novartis India, the pharmaceutical industry in India is highly fragmented so it is quite logical to see this period of change where collaborations, partnerships, mergers and acquisitions will happen. The current deal is aimed at inorganic growth and has propelled Abbott to no. 1 position in the Indian market. It provides portfolio and distribution reach which would have taken Abbott many years. "How far it will take them in the emerging markets is to be seen, since we understand the acquired business portfolio does not have dossiers for other Asian or developed countries," he says.

Such acquisitions and collaborations are driven by certain key factors. For instance, the R&D pipelines of global pharmaceutical companies are drying up and many blockbuster drugs are expected to go off-patent in the near future. There is increasing demand for generics in order to contain healthcare costs. In such a scenario, the fact that India already produces 20% of the global requirement for generic drugs increases the attractiveness.

Ramesh Adige, president, Ranbaxy, says, “Today we see the development of the emerging model that is resulting in strategic and deeper partnerships between leading innovator and generic companies. The Daiichi Sankyo-Ranbaxy combination has set the trend in this regard. The compelling rationale of cross functional benefits and the need to add missing components of the pharmaceutical value chain to the portfolios of individual companies, is paving the way for such alliances.”

According to Shahani, Indian companies will continue to play a crucial role in the branded generics space as global pharma companies try to consolidate and strengthen their position in the emerging markets. Over 95% of medicines sold in India are branded generics and domestic companies have the dominant slice of that pie. India will remain a dominant branded generics market and as per McKinsey study by 2025, only 10% will be patented products with 90% continuing to be branded generics, he informs.

In the past too, deals such as Matrix Labs-Mylan, Daiichi Sankyo-Ranbaxy and Shantha Biotechnics-Sanofi Aventis have demonstrated global pharmaceutical companies’ growing appetite to transform their businesses with an aggressive generics strategy and foray into fast-growing emerging markets such as India and China. With the alarming rise in the healthcare cost globally, various reforms and efforts are being undertaken to promote generics usage that would benefit the consumers at large and facilitate the availability of high quality drugs at an affordable price.

Not surprising, alliances between global pharmaceutical companies and their Indian counterparts are in top gear too. For instance, Pfizer has acquired the rights to sell 75 drugs as pills and 12 injectable products of Aurobindo in the US and Europe. This alliance is expected to strengthen Pfizer’s generic product portfolio and reduce dependence on brand name prescription medicines. Pfizer is expected to get marketing rights for 15 injectable products from Claris in therapeutic areas like anti-infectives and pain in order to broaden its generic drugs portfolio. Pfizer is expected to sell Claris’ products in western markets under its own brand name.

In an earlier interaction, David Simmons, president and general manager, Pfizer’s established products business unit had said that the company’s growth strategy is not contingent upon acquisitions. “It is rather we have created a small number of targeted agreements with partners like Aurobindo to achieve overall business growth. Generally speaking, we are not looking to manage a complex web of partnerships— and instead we are developing just a few, very strong partnerships,” he said.

Among others, GSK is expected to gain exclusive access to Dr Reddy’s pipeline of over 100 branded products for sale in the emerging markets. This partnership is expected to strengthen GSK’s portfolio in the emerging markets. A point to be noted here is that while the global generics market continues to provide a vital business opportunity for Indian pharmaceutical companies, on their part, the home-grown drug companies are looking at niche segments such as dermatology, ophthalmology, oncology etc.

Uday Baldota, vice-president (investor relations), Sun Pharmaceuticals, says, “Most of the deals are largely supply arrangements for the big pharma participant to launch in emerging markets around the globe. Some are also to own distribution capabilities created by Indian companies.” However, PV Appaji, executive-director of pharmaceuticals industry body, Pharmexcil, says, “While the present trend of acquisitions of big Indian pharmaceutical players by MNCs opens new opportunities for mid-sized Indian companies to enhance their market share due to their cost advantages, domestic companies are now faced with a tough battle ahead of them due to the large balance sheets of multinationals, marketing and IPR strengths. Majority of domestic companies may have to finally settle by offering production services to domestic and

international MNCs.”

According to Krishna M Ella, chairman, Bharat Biotech, while deals such as Abbott-Piramal talk about globalisation of the pharmaceuticals culture in the regulated markets, it also means that emerging markets like India are getting recognition. However, this also sends a wrong signal to Indian R&D companies. While the bigger domestic pharmaceutical companies are being attracted by MNCs, the smaller companies are heading towards closure due to stricter FDA norms and GMP norms. The middle-level companies are being squeezed and are unable to sustain the market pressures of marketing. “The need of the hour is to build a supportive ecosystem by the government, both in terms of R&D and price controls. R&D support by government and increasing healthcare budget can fuel more innovation among Indian companies and this would lead to improved valuations,” he says.

Interestingly, the spate of acquisitions and alliances are happening only for existing pharmaceutical products. “This means that the R&D or innovation by home-grown companies is still intact and there is room to grow as well,” says Ajit Mahadevan, partner, health sciences practice, Ernst & Young. “India is perfectly positioned to be a preferred destination for global pharmaceutical companies to outsource R&D as well as manufacturing.”

Today, branded generics account for 25% of the global pharmaceutical market. Indian pharmaceutical companies have a strong foundation in generics. Their growing significance in the global value chain is evident in the strategic alliances between Indian companies and MNCs, which have chosen India to pursue their generic ambitions.