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MNCs back in control of 50% of Indian pharma market

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NEW DELHI: Foreign drugmakers are poised to regain the supremacy they ceded during the 1970s, thanks to their strategy of gobbling up India's leading pharma companies. The buyouts, including last week's acquisition of Piramal Healthcare's generic medicine unit by USbased Abbott Laboratories for $3.7 billion, have seeded many gains for these companies, notably a market share that has soared to 25% from 15%. Analysts say pharma MNC will continue in the same vein and soon control nearly 50% of the $9.5-billion domestic retail drug market.

"In the next 3-4 years, foreign players' market share should cross 40% in the domestic retail market through the inorganic route," said Yes Bank life sciences & technology vice-president Vishal Gandhi.

The Piramal buyout helped Abbott emerge from oblivion and become the country's top pharma company with a 7% market share.
Likewise, Japan's Daiichi Sankyo, which barely had a presence in India in 2008, ranks third in the drug market sweepstakes with a 4.9% share after it bought Ranbaxy Laboratories for $4.6 billion in June that year.
Cipla is the lone Indian name among the top three pharma companies with a 5.4% market share. UK's GSK is ranked fourth with a 4.3% share.

"Today, three of the country's top five drug firms are foreign MNCs," said PWC India Pharma head Sujay Shetty said, adding that there were hardly one or two MNCs in the top 10 in 2007. MNCs could buy one Indian company a year in a few years, he said.
For pharma MNCs, Indian companies provide a diverse strategic value and entry to lucrative emerging markets. While Daiichi Sankyo gained access to 54 countries and broke into generics through its Ranbaxy buyout, Abbott is due for bumped-up sales from India and other emerging markets.

Likewise, France's Sanofi Aventis gained new products and a flourishing research pipeline by buying Hyderabad-based Shantha Biotech. Rivals Pfizer, GSK and Astrazeneca, meanwhile, have tied up with several Indian firms to sell branded generics in emerging markets.
Global MNCs lorded over more than 75% of the country's drug market before the Indira Gandhi-led government adopted a process patent regime in 1971. It allowed Indian companies to sell generic drugs by tweaking the original process, enabling them to launch an array of products. Soon, even fringe players like Mankind Pharma and Alkem became formidable forces.

And in the late 1990s and earlier this decade, a string of Indian firms led by Ranbaxy, Dr Reddy's Laboratories and Sun Pharma, representing the bold new face of Indian pharma snapped up companies globally to strengthen their presence in the US and Europe.

Foreign players were pushed into a corner. Their market share shrunk to 14-15 % in 2007, said HDFC Securities institutional sales vice-president Ranjit Kapadia.

But global MNCs in the face of shrinking revenues and the prospect of further losses when patents of drugs worth $70 billion expires by 2013 began to amplify their presence in generics from 2008. Generics happened to be a segment they shun till a few years ago.
Through a series of buyouts by companies such as Daiichi Sankyo (Ranbaxy), Abbot (Piramal Healthacre), Sanofi Aventis (Shantha Biotech) and Fresenuis Kabi (Dabur Pharma), the tables seem to have turned on Indian drugmakers.
India's Rs 42,000-crore drug retail market is growing annually at 17%, as per market research firm ORG IMS.

Mr Kapadia said overseas players have also put in place aggressive organic plans. Post-integration , their organic growth coupled with the launch of patented products is expected to vault their market share to 50% by 2015.

Ranbaxy has hired 1,500 people to beef up its sales force and will launch 100 new products in 12 months. Abbott will use Piramal's sales force — at 7,000, it is the country's largest — to sell existing and new products, including patented ones.
"MNCs need to rapidly ramp up their generic business , particularly in emerging markets," CLSA's pharma analyst Hemant Bakhru said. Emerging markets like India with an annual growth of more than 15% are seen as the main drivers of the global $837-billion market, projected to grow between 4-6 % a year.

So analysts say it will not be surprising to see Pfizer getting more aggressive to offset a loss of $13 billion in annual sales from patent expiry of its blockbuster drug Lipitor in November 2011.

For patients, the consolidation spells the prospect of costlier medicines, especially patented drugs. India adopted a new patent regime in 2005, giving patent owners rights to 20 years of exclusive marketing.

"Obviously, Abbot will not sell their drugs at the same price as Piramal did. This should be a matter of concern for the government and civil society," Indian Pharmaceutical Alliance secretary-general D G Shah said.
Currently, only 74 bulk drugs are under the government's direct price control. But responding to industry concerns, the government is examining a proposal to restrict the current 100% foreign direct investment allowed in the sector.
"Such acquisitions will not stop without a law to prevent it. This is a serious matter of concern for civil society," said lawyer Anand Grover, who has long led patent challenges to lower drug prices.

Lawyer-activists like Grover point to India's appaling healthcare system. More than 90% of patients pay from their own pocket for health costs and for a quarter of the population who live below poverty line, healthcare is beyond reach, they say.

But Cipla joint MD Amar Lulla said such deals are choices of individual companies. "This does not in any way set a pattern," he said. The business has merely changed hands and competition remains the same, he said.

Even so, a few billion dollars will not check global majors from scouring for buyouts to save falling sales.

India's pharma market, including exports and institutional sales, is valued at Rs 1,00,000 crore or $25 billion. In contrast, Pfizer paid $67 billion to acquire Wyeth. Likewise, Merck was happy to shell out $41 billion to merge with Schering Plough.