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Ranbaxy, Lupin to benefit most from Japan's push for generics

The firms will have an edge over their Indian counterparts that do not have a Japanese parent or subsidiary

Direct link to the News/Story:-

<http://www.livemint.com/2010/05/16204742/Ranbaxy-Lupin-to-benefit-most.html>

Mumbai: Two of India's top drug makers, Ranbaxy Laboratories Ltd and Lupin Ltd, would reap the maximum benefits from a significantly large generic drug opportunity opening up in Japan, the world's second largest single drug market.

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The direct link that these two firms have established in the Japanese market through cross-border equity deals will likely help them gain a significant market share in the emerging cheap drug segment in that country.

Daiichi Sankyo Co. Ltd, Japan's third biggest drug maker, acquired a 34.8% controlling stake in Ranbaxy in 2008 in a \$4.6 billion (around Rs20,750 crore today) deal. Lupin acquired 80% of Kyowa Pharmaceutical Industry Co. Ltd in 2007.

Many other Indian companies including Dr Reddy's Laboratories Ltd, Torrent Pharma Ltd and Cadila Healthcare Ltd are still struggling with their marketing set-ups and business strategies in Japan's tightly regulated, \$80 billion drug market. Ahmedabad-based Cadila Healthcare and Dishman Pharmaceuticals Ltd have set up subsidiaries in Japan.

The Japanese government is encouraging the use of cheap generic drugs as a large population of the elderly strains public finances by causing it to spend more on social security. The government plans to convert at least 30% of the country's drug prescription to low-cost generics by 2012. Currently, generic or off-patent drugs have only a 17% market share in Japan.

"The Japanese market holds immense potential for global generic pharmaceutical companies like ours," said Nilesh Gupta, group president of Lupin, who expects the generic drug market in Japan to grow at a "very fast clip". "The Japanese market is a market of strategic focus for Lupin and we are the only Indian company and one of the few global generic pharma companies to have built significant on-shore presence in Japan through our subsidiary, Kyowa Pharmaceuticals, which is now the fastest growing (among top 10 generic companies) in the Japanese market," Gupta said in an email response to a query from *Mint*.

Email queries sent to Ranbaxy were not answered over the weekend. Pankaj Patel, chairman and managing director of Cadila Healthcare, could not be contacted because he was travelling.

According to a report prepared by **Elara Securities (India) Pvt. Ltd**, while the new generic drug focus of the Japanese government is expected to bolster Indian generic drug firms in general, the Daiichi connection

and Kyowa's established network would ensure easier market access for Ranbaxy and Lupin. A pharma analyst associated with a foreign brokerage present in India said that the help of a locally established parent or a subsidiary is very important for a foreign drug maker in the Japanese generics market as drug regulations continue to be stringent. "Low-cost generic drugs are still considered inferior in this strictly regulated, patented and branded drug market," said this analyst, who didn't want to be identified.

According to Elara, while the Japanese government plans to encourage the use of generic drugs, regulations have not been changed to speed up their approvals.

Currently, Indian drug makers' revenues from the Japanese market are tiny compared with their sales in other regulated markets such as the US and Europe. The strict regulatory regime and a low level of trust in foreign generic drugs among patients and doctors have been key obstacles for Indian pharmaceutical firms in penetrating the Japanese market.