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Report from India

As generic divisions become the most-wanted acquisitions of Big Pharma, India's domestic industry may be thinning out.

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Just as the Indian drug industry was spreading its wings on the world stage and ruling the roost at home, came the news that the generic arm of Piramal Healthcare (Mumbai) was leaving the nest. One of India's longest reigning pharmaceutical manufacturers and owner of a significant portion of the domestic industry's wealth, Piramal decided to sell its generic division to Abbott Laboratories (Abbott Park, IL) for \$3.72 billion.



The agreement, announced in May 2010, was not the first sale of its kind. In June 2008, Daiichi Sankyo (Tokyo) acquired top generic-drug manufacturer Ranbaxy Laboratories (Gurgaon, Haryana) for \$4.6 billion. The megamerger involving Piramal set off alarm bells throughout India that major drug firms were selling out to multinationals. India's Health Ministry called an urgent meeting of domestic drug manufacturers to discuss the changing sector in May.

Domestic possibilities

Sushant Dalmia, pharmaceutical industry analyst at Mumbai-based Angel Securities, a brokerage firm, believes that the time is ripe for Indian drug companies "to monetize their decades-old generics model. The Piramal deal signifies the highest unlocking of value in the Indian pharma industry," he said.

Abbott's Senior Vice-President Michael Warmuth concurs. "One can't be taken seriously without having a dominating presence in India. We have been there for 100 years, and now we are in the top slot," he said.

With emerging markets set to account for 70% of the growth in the global pharmaceutical industry, according to an Abbott press release, and India promising to be an important and crucial part of that growth story, multinationals have been making a beeline to the country.

Indian generic-drug companies have provided the domestic market with lower-priced pharmaceuticals, which provided an alternative to higher-priced innovator drugs from multinational companies. Many consumers and industry members are concerned about the affordability of drugs with increased penetration

of global firms in the Indian market and therefore disapprove of domestic firms transferring their generic assets to larger global firms. Others believe that the series of ongoing mergers and acquisitions may soon leave India without any large domestic pharmaceutical companies.

Abhinavaya Bhaduri, an analyst with the global markets research team at Elara Capital in the United Kingdom, offers a slightly different perspective. "India sits at the top of the emerging-market basket, roughly worth \$81 billion. Multinationals have been looking to India to buy out home-grown firms as a means to capitalize on growth here. The Piramal–Abbott deal has catapulted Abbott India to assume the number-one rank [in India]." He adds that the deal may make other global firms, such as sanofi-aventis (Paris), GlaxoSmithKline (London), and Pfizer (New York) that are looking to expand their Indian footprint, willing "to pay a lot more for local assets."

Would price, then, be the only deciding factor for such acquisitions? Ajay Piramal, chairman of Piramal Healthcare, insists that making money was not his sole intention when selling the firm. "The idea here was to create maximum value for my investors, my shareholders. No promoter has sold their stake," he adds.

Amar Lulla, joint managing director at Cipla (Mumbai), adds, "Commercially, it is a fantastic, awesome deal. However, Piramal has always been the all-conquering Indian hero and, one would have thought it should have been the last man standing instead of capitulating so easily. This one is a huge positive for Piramal, but a major negative for Indian pharma," he says.

Of note, Cipla is among a host of domestic majors that analysts speculate will soon boast a for-sale sign.

The long-term view

Overall, the Indian pharmaceutical market is set to outshine the global market, growing at a compounded annual rate of 12–15% compared with a predicted global average of 4–7% between 2008 and 2013, according to a January 2010 report from market research firm IMS. The report adds that, in 2010, the pharmaceutical market in India is likely to grow 12–14%, while the global pharmaceutical market is likely to grow only 4–6%.

Lulla contends that multinationals can no longer ignore India's pharmaceutical industry, especially its generic-drug sector. Given recent business activity, generic-drug divisions seem to have become the new battleground for large pharmaceutical firms around the world. With this in mind, India has a lot to offer.

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