



## PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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Date : 25-05-2010

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### BY INVITATION: MURALIDHARAN NAIR

#### Winds of change in pharmaceutical industry

Muralidharan Nair

Posted: Tuesday, May 25, 2010 at 2303 hrs IST

Updated: Tuesday, May 25, 2010 at 2303 hrs IST

Direct link to the News/Story:-

<http://www.financialexpress.com/news/winds-of-change-in-pharmaceutical-industry/623064/2>

The interest that big pharma firms have evinced in the Indian pharma market has undergone a sea-change over the years.

Till the late 90s, MNCs including big pharma players were largely indifferent to the Indian pharmaceuticals market. In the 2000s, they focused on leveraging India's potential purely as a geography by off-shoring non-core activities, mainly back office jobs, to capitalise on the cost advantage that was on offer. Over the last 2 years, there has been a marked change with their interest in the domestic formulations market steadily increasing. A testimony to which are the acquisitions of Ranbaxy by Daiichi Sankyo and Piramal Healthcare by Abbott. What is encouraging is not just the fact that there have been buys, but the sheer valuation at which these deals have been made, indicating the long-term value that the MNCs expect the Indian pharma market to yield.

Globally, big pharma has traditionally focused on the tip of the consumer pyramid, which is the affluent consumer class of the developed and regulated pharmaceutical markets in North America, Western Europe and Japan. These markets yielded an ~80% gross margin which fuelled their businesses for a long time. However, future growth in these markets is either stagnating or even de-growing largely on account of aggressive genericisation, measures for the containment of healthcare costs and blockbusters going off-patent. Whereas, emerging markets such as India where a double-digit growth rate over the next 2 decades appears perfectly plausible. This projected growth in the Indian pharmaceuticals market will be driven by a multitude of factors. India's healthcare spend currently stands at 5% of its GDP which is way below even a global average of 9.3%. With economic progress, the spend on healthcare can and will only go up.

The primary reason for the Indian players exiting the market are the extremely good valuations that they are getting which is definitely more than they can potentially create by staying in the market for the next few years. Also with the growth India is seeing, there are opportunities galore in multiple sectors which gives them the option to invest and build on other opportunities.

Several of India's homegrown pharmaceutical businesses are built on the philosophy of reverse engineering and not innovation, and as a result are in the long term not committed to adapt to the patent regime with as much fervor. With India's progression from a 'Roti - Kapda - Makaan' economy to one focusing on 'Sadak - Sehat - Shiksha' the 'sunrise' sectors of healthcare and pharmaceuticals in India will attract further attention. The acquisition of companies such as Piramal may just be the beginning of a trend. Over the last 2 years the presence of MNC players in the top 5 pharmaceutical companies of India has increased from 20% to 60. What remains to be seen is, will this effect trickle down to the rest of the Indian pharma market which till date remains dominated by Indian players.