

R&D costs pinch pharma cos in novel drug quest

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Mumbai: Higher spends in research and development may impact margins of many pharma companies in the near term, say experts.

Top companies such as Lupin, Dr Reddy's and Cipla are focusing on R&D. While Lupin has earlier said that it intends to scale up its research spends to 10% from current 8.4%. Dr Reddy's R&D expenses during the quarter also witnessed a 71% increase over the March quarter 2013.



"While generics will continue to drive growth, especially in the US and Europe markets, most pharma companies are increasing their R&D spends since they are now all looking for a portfolio of innovative products. Future growth will come from innovation and most companies wanted to develop their own intellectual properties. This may see some stress on the margins in the near term," said an industry analyst.

ICICI Direct in its fourth quarter review said, "In its quest to transform itself from back-end to front-end, Cipla has initiated some structural changes at the cost of margins such as higher R&D cost on the back of incremental product filings across geographies and higher staff cost on the back of hiring at the global level."

The growth in the fourth quarter for big companies remained slightly muted or in-line with the market expectation on the back of rise in R&D spends and higher base. However, mid-sized companies such as Torrent Pharmaceuticals and Aurobindo Pharma received benefit of Cymbalta launch in the US market.

While companies such as Aurobindo Pharma and Torrent Pharma reported 363% and 120% growth in their consolidated net profit on the back of generic Cymbalta sales in the US markets.

"In domestic formulations, Torrent concentrated on high-yielding chronic therapies such as cardiovascular and neuropathy when most Indian players were growing in anti-infectives (acute). The US launches such as Cymbalta and Micardis have strengthened the US business and overall financial health. For Aurobindo, the US business showed a robust growth on account of launch of generic Cymbalta, generic Avelox and generic Pradin. The re-launch of cephalosporin drugs and pick-up in injectable products also contributed in the US growth," said ICICI Direct.

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