

Indian drug firms may lose out as US pharma supply chain consolidates



Pallavi Ail
Mumbai, March 2

CONSOLIDATION in the pharmaceuticals supply chain in the US will weigh on the bargaining power of Indian drug firms in that market, top Indian players apprehend. A spate of acquisitions and joint ventures — 16 in 2012 and 10 in 2013 — has resulted in fewer suppliers of prescription drugs, which might work against the interests of Indian firms.

Lupin CEO Vinita Gupta acknowledged there will be pricing pressure because of the mergers in the supply chain space. Speaking to analysts after the Q3FY14 results announcement, Gupta observed, "The challenges arising from the consolidation of our customers are significant and there is a lot of pressure on pricing. But the Walgreen

consolidation happened well before the CVS-Cardinal (deal) and so far, we have survived it. We've been able to manage pretty well."

Abhijit Mukherjee, presi-

A SPATE OF ACQUISITIONS AND JOINT VENTURES IN THE US — 16 IN 2012 AND 10 IN 2013 — HAS RESULTED IN FEWER SUPPLIERS OF PRESCRIPTION MEDICINES

dent and head of global generics segment, Dr Reddy's Laboratories, also agreed, on a call with analysts, that there could be some impact of the changes in the US supply chain environment. "There have been some mergers be-

tween wholesalers and retailers and depending on how many customers a company has in each segment, there will be an impact," Mukherjee said, adding that his firm had factored the changes into its plans. "While there will be an impact, it's a part of the erosion in the generics business," he said.

Sun Pharmaceutical Industries CEO Dilip Shanghvi recently said it was clearly becoming increasingly difficult to find a way to negotiate effectively. "There would be increasing pressure on manufacturers," Shanghvi noted.

In a recent report, HSBC Global Research said the CVS-Caremark, Medco-Express Scripts and Walgreen-Alliance Boots mergers have increased the purchasing power of distributors and retailers.

Continued on Page 2

Industry

Width: 20.15 cms, Height: 10.16 cms, a4r, Ref: pmin.2014-03-03.42.13

"Indian companies have indicated some volume-price trade-off given the product mix and given that they are the top suppliers of several products. Large gener-

THE PHARMA SUPPLY SPACE HAS SEEN A FAIR BIT OF CONSOLIDATION IN 2012 WITH 16 DEALS IN THE DRUG SUPPLY CHAIN, ANALYSTS SAY THE SEGMENT HAS NOT SEEN THE LAST OF THIS TREND

3 ics players believe they are better
 2 placed given their relationships
 1 with global supply chains and the
 capacity to meet large volumes,"
 JPMorgan analyst Neha Man-
 puria said.

The pharma supply space has

Analysts say the segment has not seen the last of consolidation. Charles Rhivee at New York-based brokerage Cowen and Co recently announced.

HSBC analysis tracking the pharmaceutical market said the share of Indian companies in the generic US prescription market rose from approximately 12% in 2008 to about 26% in 2013, while generic drug penetration has jumped to more than 85% over the last five years mainly due to significant patent expiries, which hints at the potential market Indian generic drug companies can take advantage of.

In December 2013, CVS Caremark and its peer Cardinal Health decided to create a joint venture to source generic drugs for the US market. Scheduled to take off in July, the venture will procure generics worth \$11 billion to \$12 billion. The deal was

ly observed, "We have now seen some of the largest generic purchasers combine to form partnerships, and we expect the trend to continue. In addition, we think other large direct purchasers of generics may look to join the various coalitions."

announced nine months after US distributor AmerisourceBergen announced an agreement with retail drugstore operators Walgreen and Alliance Boots in March 2013, signalling a tie-up in the retailer-wholesaler chain. Another US distributor, McKesson, announced it will buy a majority stake in German

In the US, distributors also referred to as PBMs such as CVS Caremark, Cardinal Health, AmerisourceBergen, McKesson, Express Scripts purchase drugs from manufacturers that are then sold to operators of retail drugstore chains like Walgreen, Alliance Boots, Rite Aid and Shoppers Drug Mart.

MA(VKT)
Ponds
3.3.14

~~SS2~~

~~SS2~~

JT

TJ, MC

Ayoo
11-3-16

Industry