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# Spot the oligopolist

## Even after Sun-Ranbaxy, market remains fragmented

Given Sun Pharma's takeover of Ranbaxy Laboratories makes it India's largest pharmaceuticals player, it is only natural the move will be scrutinised by the Competition Commission of India (CCI)—in any case, whether in terms of turnover or assets, the deal falls within the CCI's purview. Indeed, according to Sun's investor presentation, the deal will help it become the number one player in as many as 13 speciality segments. What is important to keep in mind, however, is that even after the acquisition, the market share of the combined entity will still be under 10%—9.2%, according to the investor presentation. Indeed, India is probably one of the most dispersed pharmaceutical markets in the world with several thousand producers of medicines, which is why it has among the lowest prices anywhere. In even the medicines that fall under what is called the National List of Essential Medicines (NLEM) on which there are price caps, there are an average of 60 manufacturers per drug—it is 20 in the case of the anti-hypertensive enalapril maleate to 124 in the case of the painkiller paracetamol.

The top 10 companies in the country, and this includes both Sun and Ranbaxy, contributed to just 41% of the total sales in 2013, and the next 10 to another 22%. The rest of the market is catered to by several thousand producers, which is why the prices of the same chemical formulation differ as widely as they do. It gets even more competitive when you look at individual brands of medicine. The top 100 brands, according to a study by CII-PwC, accounted for just 18% of the industry, by value, in 2013. And, of these top 100 brands, just 44 had sales of more than ₹100 crore in a year. It gets worse. While around 10-12% of the industry is ruled by price caps—these are the medicines that fall under the NLEM, there is another price cap on even the unregulated part of the industry. While firms are free to fix the price of non-NLEM medicines, once this is done, prices cannot be raised by more than 10% in any year.

It is theoretically possible to argue, as some in the government do, that it is not the overall market share that matters, but the share in each individual therapy segment, oncology for instance. Were the competition authorities to undertake this exercise, it would be important to not just look at the contribution of these segments to both the top as well as bottom lines, but also the cost of developing these treatments as well as the industry's overall need to dramatically ramp up levels of R&D. R&D levels in the industry are far lower than they are in countries like the US, and it is only when these are significantly hiked that Indian pharmaceutical firms can focus on developing cures for India-specific diseases. Even a rudimentary construction of the Herfindahl Index—the most basic tool in any anti-trust body's kit—will show that India's pharma industry is not concentrated, and the firms have little market power.

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