

Indian pharma market isn't going to be that rosy

Ram Nath Subbu

The pharmaceutical industry has been buffeted by several issues recently, which has not only affected the very nature of the industry but has also adversely impacted its players. Faced with problems ranging from a new Drug Price Control Order (DPCO) that prescribes a ceiling price on several essential medicines to increasing pressure on domestic players from multinational big pharmaceutical giants with regard to patent issues, established domestic players are now focusing on overseas markets. With consolidated sales of around Rs. 5,000 crore in 2012-13, Glenmark Pharmaceuticals Group is a generic player with a significant presence in dermatology, respiratory drugs and oncology, and is

moving ahead with an export-led strategy.

Glen Saldanha, Chairman & Managing Director, spoke to **The Hindu** on a range of issues.

Edited excerpt from the interview:

After consolidation in the last few years, the pharma industry continues to see a lot of changes. What are the challenges facing the industry today?

The pharmaceutical industry today is very global, and those players who exited were primarily India-focused. Once India started following GATT and patent laws, new product approvals got harder and more challenging, and those players did not see a future in their India business and probably that is why some of them exited.

Today, leading domestic pharma companies are global in nature. They have completely diversified their portfolio whereby India does not contribute more than 30 per cent of revenues. They are trying to build a global franchise.

The Indian market will be challenging for most pharma companies as competitive intensities are very high. There will be consolidation among the smaller and mid-size players as they do not have a global platform and are completely dependent on the domestic market. At least in the near-term, growth will continue to be challenging for the Indian pharmaceutical industry.

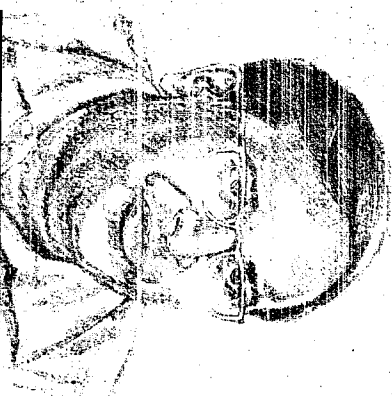


ILLUSTRATION:
P. MANIVANNAN

Among the main challenges, new product approvals contributed 4-5 per cent of India's growth and that has completely dis-

appeared due to the changing regulatory requirements. The increased centralization and need for approvals take longer.

Secondly, there is the push towards genericization, and thirdly, competitive intensity has increased because everybody is launching everything. Big pharma is now getting into branded generics. The industry dynamic is changing and all that is having a bearing on the growth of the market. I do not think the Indian market per se is going to be that lucrative or may for companies.

The new Drug Price Control Order (DPCO) 2013 is an example of increased government intervention in the pharma sector. Is this intervention welcome or is it hindering growth?

That is another aspect which is impacting growth and will impact growth. As things stand, the DPCO has not taken full effect yet because the government is still figuring out prices and so on. But that will also have an impact on growth.

Government intervention or involvement has gone up significantly in the recent past—whether it is by way of DPCO, new product approvals, clinical trials etc.



But in my view, it is something essential to bring India up to global standards. So, from that perspective, it is the right move but in the near-term, there will be pain. To get to global standards in the long-run, it is the right step. The challenges will continue for some time.

There is a need to ramp up the innovation and R&D efforts in India to move on from the generics model as it is considered unsustainable. What holds back Indian R&D other than its capital intensive nature?

At Glenmark, we strongly believe in innovation and have continued to invest aggressively over the last 13 years. From an industry perspective, India has its share of challenges on innovation. It calls for long gestation periods and a long-term vision, and I think a lot of that will take time to develop in India.

Some companies are making headway in innovation but it is still a long way off to benchmark or set a global level.

Most players have had decent visibility for the last 5-7 years on the generic side and at some point people have to look at what next. There are different models that companies are following in that respect. Some are venturing into areas such as biosimilars or different lines of business such as OTC (over the counter) or animal health or NME (new molecular entities).

Some of the strategies are heavily R&D intensive and require a lot of capital and some are relatively easy to get into. High capital investment is always a hindrance and although rising as an absolute number, investment in innovation has been flat as a percentage of revenue. It is 5-7 per cent for the industry and for us it has gone up from 6 to 9 per cent.

What is your take on the issues that have been raised by US Food & Drug Administration (FDA) regarding quality and compliance of exports? We are also seeing increasing emergence of patent disputes involving Indian players.

The US FDA is unbiased and there is no bias in terms of country of origin. It is very rational and consistent in how it approaches things across the globe. That is quite clear.

As India is exporting a lot more to the U.S. now, it is risk-based and automatically, the vigilance has increased because of the sheer amount of products that we sell to the U.S. I think people are reading too much into it. But we have to maintain the highest standards at all times, especially when you become larger and larger. As regards patent disputes, they are common across the world.

In India now, the implementation of patent law will evolve. This is the process of evolution where Indian courts will get more educated about patent law and get more robust over time. Patent disputes are not going away and are going to continue and it will become commonplace.

After all, that is what keeps the generic and branded players at play. The objective of the branded player or big pharma is to get as much patent life as possible while that of the generic player is different and that has to be validated by the courts.

Frankly, there is a lot of noise in the global environment and India about patents but in my view, all that will settle once courts get more robust in terms of how they rule on patents and

once there is a precedent that been set.

Glenmark earns a lion's share of its revenues from exports. What has been the impact of rupee devaluation on the fact that the company has a long-term foreign currency debt around \$480 million?

On a net basis, we will gain due to depreciation. Over 60 per cent actual earnings are in dollars and have a natural hedge versus the rupee. We gain on the P&L, albeit due to rupee depreciation and not expends. On the debt side, it is marked up by the mark to the debt.

What does the future hold for the industry and what factors would determine success for a player in the market?

It depends on what perspective you take. For the industry, it is going to be challenging for the next 3-5 years because it has been recognized by the level that is why they are targeting the market. For the company, it is to be given because they will have to cost-cut and a lot of cost-cutting will come in some of the areas that too will help. As to what will mine success, is a tough question today's environment. It is a very competitive and innovative environment that can give a company the edge you take a year view, only pharma and innovative products can give the increased delta because in even else there is just so much competition.

ramnathsubbu.r@thehindu

Industry.