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Economic Times , Delhi
Wednesday, 12th September 2012, Page: 8
Width: 14.18 cms Height: 17.95 cms, Ref: pmin.2012-09-12.39.51

Indian Pharma Cos Look Beyond Patent Expiries for Growth

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India's top pharmaceutical companies are preparing for life after high revenues from expiring patents drops off at the end of this year. While some drugmakers are taking to specialty pharma products that have little competition, others are hoping that services will help sustain revenue flow from the United States, a key market. At present, Indian companies account for over half the applications seeking permission to manufacture a 'me-too' drug. And a significant chunk of them are the first to obtain the exclusive 180-day right to sell the drug whose patent has expired.

While this is a significant opportunity for the company introducing the first copycat drug, the party lasts only for 180 days. After that, the drug becomes commoditised with multiple entrants vying for a share of the pie. This generally leads to a fall in margins of up to 50% for the companies.

According to IMS Health, a provider of information, services and technology for healthcare firms, 2012 will have patent expiries worth \$44 billion (₹2.4 lakh crore) of sales in the US market, more than double that of last year. Next year it will be only about \$15 billion, but subsequently rise to a maximum of \$22 billion in 2015. "The pharma companies are looking at niche segments to mitigate the risk in the generics business," said Ranjit Kapadia, vice-president for institutional research at HDFC Securities. "With increasing number of players, a great price war is waiting to break out." India hopes to double its pharma exports in the next two years. The Pharmaceutical Export Promotion Council expects overseas sales to touch ₹1.2 lakh crore, or \$25 billion, by end 2013-14, from around \$13.2 billion in 2010-11.

In The Queue

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While almost all Indian companies have geared themselves to hit the generic jackpot, they also claim to have strategies in place for life after the patent cliff.

Dr Reddy's Laboratories is looking at smaller acquisitions in the US and European markets in the injectables, patches and topical capabilities areas. It hopes to complete these buys over the next 12-18 months, by which time a significant number of generic launches would have taken place.

"We will first enter into a commercial deal with target companies and partner with them to manufacture and market the product," said Abhijit Mukherjee, president of Dr Reddy's global generics business. "Subsequently, after gauging the sales and the market's response, we would go ahead and make an offer to buy a stake in the firm." He declined to divulge details about the proposed deals.

Lupin Pharma, on the other hand, is looking to make a mark in the pediatrics and primary care segment by 2014. The company wants to improve its product portfolio in this segment, which has just few companies, compared with over 10 competitors in the pain and chronic diseases segment. "The pediatric drugs market has traditionally been the most undervalued and underserved segment in the global pharmaceutical market," said Nilesh Gupta, Lupin's group president and executive director.

While Dr Reddy's and Lupin will strengthen their portfolio by foraying into specialty pharma, Aurobindo Pharma plans to focus on services to increase revenues. It aims to garner some 25% of its revenues from custom research over the next 4-5 years, said managing director N Govindarajan. Currently, Aurobindo gets no revenue from contract research and manufacturing services, also known as Crams.

He said the company is eyeing long-term contracts from global pharmaceutical companies and will work with emerging drugmakers on new molecules as the Crams business fetches better margins than generic drugs.

India's top exporter, Ranbaxy Laboratories, has a two-pronged strategy for the US. The first is sales of branded drugs, where the company just rolled out its first product Synriam for treating malaria. It is also developing a plan for new delivery methods for existing drugs. "Changes in therapeutic segments are just the beginning. In years to come, there will also be a structural upheaval in companies after the patent cliff," said an analyst, who did not wish to be named as he is not authorised to speak to the media.

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