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Pharma: On a healthy wicket

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Sector outlook

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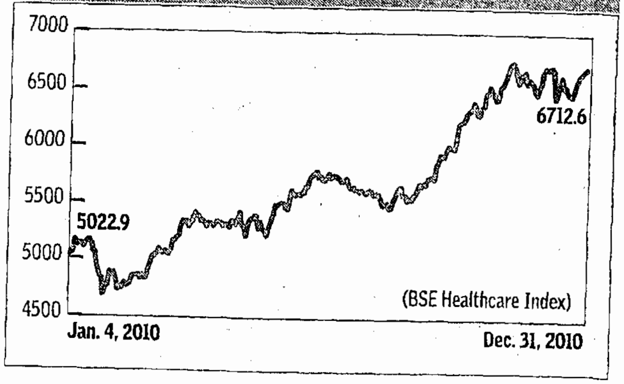
The Indian pharmaceutical sector closed 2010 on a high note, what with an impressive stock market performance, driven largely by earnings growth and bettering prospects.

And if the sector undercurrents are to be relied upon, good times are likely to continue this year as well. Strong demand growth in the US market, increasing generic penetration worldwide besides a robust domestic market, promise to keep the Indian drug makers in good health in 2011 too.

Outperformer



STRONGER PUSH TO GENERICS

The year promises to see a higher generic incursion led by expiring patents and receding product pipelines of global pharma companies.

According to IMS Health, in 2011 alone, products with sales worth over $30 billion are likely to go off patent. In the US alone, Lipitor, Plavix, Zyprexa and Levaquin – which together accounted for more than 93 million prescriptions dispensed in the past 12 months and generated over $17 billion in total sales – likely will lose market exclusivity.

More drugs are expected to lose patent in the coming years and by 2015, prescription drugs, currently generating annual sales of $142 billion, will face generic competition.

The demand for generics will also get a push from favourable regulatory moves in developed markets looking to combat rising healthcare costs. According to the Generic Pharmaceutical Association, generic medicines saved the US Healthcare System about $824 billion over the last decade and $139 billion in 2009 alone.

Aside of US, other developed markets such as the UK and Japan too are increasingly veering towards generics. The Japanese Government has set a target market share of 30 per cent or more for generics by fiscal 2012. Indian drug makers with a growing product pipeline, regulatory-compliant manufacturing facilities and cost advantages stand a good chance to benefit from these.

MERGERS AND ACQUISITIONS

2010 was dotted with many deals, especially of global pharma buying out companies in the ... tis and Novo Nordisk's Russia plans, Eisai's bid to move Aricept manufacturing to India, and Merck-Sinopharm and GlaxoSmithKline-Laboratories Phoenix deals, to name a few.

What's for 2011

- Global generic push
- Higher competition back home
- Market alliances and licensing deals with global pharma
- Government policy move on price control and M&A remains key

But among the biggest emerging market deal for the year was Abbott Laboratories' acquisition of the domestic formulations business of Piramal Healthcare for $3.7 billion. The deal placed Abbott at the top of the Indian market with a 7 per cent market share. What was more striking about the deal was the valuation according ... Abbott paid 8 times Piramal's sales and gave the domestic market contours a whole new spin, emphasising on its high-growth potential.

The increased interest among global pharma majors to buy Indian companies however spooked the regulators into thinking about ways to protect the domestic drug makers (compulsory licensing). MNC buyouts of the last few years have tilted the market share in their favour, with six out of the top ten drug makers by market share being MNCs.

So how will the coming year be? While there is no doubt about the potential of the domestic market – expected to grow at about 16 per cent – it will be marked by higher competition.

Indian as well as MNC drug companies have been aggressively adding to their field force over the past year. While this will help expand the market – given that companies are also focussing on tier-II and III cities – it would also spur an increase in competition and margin pressure for some.

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