

FACING COMPETITION

# Best year of the decade, but stiff challenges ahead for pharma

**Large global firms have been tightening their grip on the local market, competing in the generics segment**

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MUMBAI

Both in terms of revenue as well as performance of stocks, 2010 has been the best year in the decade for the ₹90,000 crore Indian drugs and pharmaceutical industry.

Valuation of companies rose, riding strategic deals, and market grew at 20%, but the dream run for the local players may not continue for long as large global firms have been tightening their grip on the fast-growing local market, competing in the same low-cost generics segment.

Top drug makers in the domestic market including Cipla Ltd, Dr Reddy's Laboratories Ltd, Sun Pharmaceuticals Industries Ltd, Lupin Ltd and Glenmark Pharma Ltd have posted impressive growth in sales and profits in the last nine months of this calendar year, following an equally good annual performance for the fiscal ending in March 2010.

The growing domestic sales and approvals of more and more generic products in the overseas markets have contributed to this growth.

The Bombay Stock Exchange's healthcare index, consisting of top Indian drug makers, has risen 33% this year, double the growth of the Sensex, the exchange's benchmark index.

"The country's drug market grew at annual rate of 19-20% this year compared to the base of last year's 14-15%," said Ranjit Kapadia, senior vice-presi-

## RIISING VALUE

The stocks of India's pharma firms rose, while the BSE's healthcare index gained 33% this year, nearly double the rise in the Sensex.

	Rise (in %)
Cadila Healthcare	76.01
Sun Pharmaceuticals Industries	59.4
Ipca Laboratories	58.24
Lupin	57.13
Orchid Chemicals and Pharma	55.58
Dr Reddy's Laboratories	47.93
Apollo Hospitals Enterprise	42.75
Aurobindo Pharma	42.22
GlaxoSmithKline Pharma	41.09
Glenmark Pharmaceuticals	28.95
Piramal Healthcare	26.02
Opto Circuits (India)	14.32
Ranbaxy Laboratories	13.69
Cipla	9.45

Source: Capitaline

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According to him, the domestic industry will see more long-term licensing and supply deals between local and foreign players. "This will change the pattern of the Indian drug industry as it could reach more export markets by collaborating with global companies," added Kapadia.

In 2010, the world's largest drug maker, Pfizer Inc., signed its third product licensing agreement with Bangalore-based Biocon Ltd to develop a range of insulin for its international markets. Pfizer had similar deals in 2009 with Aurobindo Pharma Ltd and Claris Lifesciences Ltd, and it is likely to sign a bigger generic drug development and supply deal with the country's largest generic drug maker Cipla shortly.

Previously, India's second largest drug maker Dr Reddy's had partnered British drug firm GlaxoSmithKline Plc to develop and export a range of generic

markets.

Domestic firms are expecting a stronger competition from large global players. Four high value acquisitions that these global drug makers—Abbott Laboratories, Daiichi Sankyo Co. Ltd, Sanofi-Aventis SA and Reckitt Benckiser Group Plc—made in India in the past three years have changed the market dynamics.

"The fear prevails in the local market at present is that more consolidation will take place, driven by high-value acquisitions by foreign drug makers," said a pharma analyst with a foreign brokerage. According to him, it will create a big challenge for small and medium players in the market.

Multinational drug makers' market share has already gone up to 15% in 2010 from 10% the previous year.

"Unless they innovate both in terms of technology and the business model, Indian drug makers...are in for a tough time," said Sujay Shetty, pharma leader, PricewaterhouseCoopers India. Global firms, with their huge resource base, innovative products and busi-

optimize the big-value acquisitions they make in the coming years, he said.

Though this is not exactly a bad trend for individual entrepreneurs as they get better valuation for their investments, it will have two direct impacts in the Indian drug market, according to Dilip G. Shah, secretary general, Indian Pharmaceutical Alliance.

The first will be a drastic reduction of domestic industry strength as happened in Italy and Mexico. In both countries, the local pharma industry was strong before multinationals' entry through enforcement of unwarranted intellectual property laws.

Second, it will create a fear psychosis among small and medium companies as they will tend to exit from the business following the leaders, Shah added.

"There will be only collaborations taking place among local players, instead of buyouts as the valuations that have been followed in the past deals have already raised the expectation of promoters," said Glenn Saldanha, managing director and chief executive, Glenmark Pharma, while addressing a international generic industry conference in Mumbai earlier this month.

According to Ranjit Shahani, president, Organisation of Pharmaceutical Producers of India, and chairman and managing director of Novartis India Ltd, 2011 will be exciting as "an explosion of biological knowledge will change the way we approach many diseases".

"Cost containment challenges will continue to put pressure on the industry, and we can also expect to see increasing collaborations and partnerships not only in the commercial arena, but also in the research and development space to keep the cost in control," he said.