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# *The pharma story: A decade of transition*

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The last 10 years were a crucial transition period for the Indian pharmaceutical industry. The next 10 years will be more crucial, predict industry experts.

The period between 2000 and 2010 witnessed India's top 10 drug companies growing from sales turnovers, ranging between ₹500- ₹800 crore, to professionally-run multinational generic companies with turnovers ranging from ₹3,500 crore to over ₹7,000 crore. If most of these companies earlier relied on bulk drug supplies, small exports to unregulated markets in Africa and Asia and formulation sales in the domestic market, the last 10 years saw them aggressively tapping regulated markets of the US and Europe and penetrating into newer and emerging markets. If the Indian industry had filed only three marketing applications with the US Food and Drug Administration (FDA) in 1998, that number swelled to 148 in 2009.

"Indian companies countered the new product patent regime since 2005 by setting up global standard facilities and entering into regulated markets. This gave them confidence to take on global generic companies and went ahead to acquire numerous overseas units to enter newer markets," says D G Shah, secretary general of Indian Pharmaceutical Alliance (IPA) and a leading industry advisor.

India enforced process patent, in early 1970, which allowed domestic companies to legally copy and manufacture patented drugs. To comply with TRIPS agreement, India decided to enforce a product patent regime since 2005, which banned copying and selling of patented drugs launched after 1995.

To face this, the Indian drug companies also increased their spend on research and development. The last decade saw 20 fold jump in spend on R&D, he adds.

If the Indian drug industry grew at a compounded annual rate of 9 per cent between 2000 and 2005, the latter five years saw the growth propelling to 13 to 14 percent every year, says a report from McKinsey & Company. "From a market size of $12.6 billion in 2009, the Indian pharmaceutical market will grow to $55 billion by 2020, with the potential to reach $70 billion in an aggressive growth scenario. In a pessimistic scenario characterised by regulatory controls and economic slowdown, the market will be depressed and is expected to reach $35 billion," the McKinsey report says.

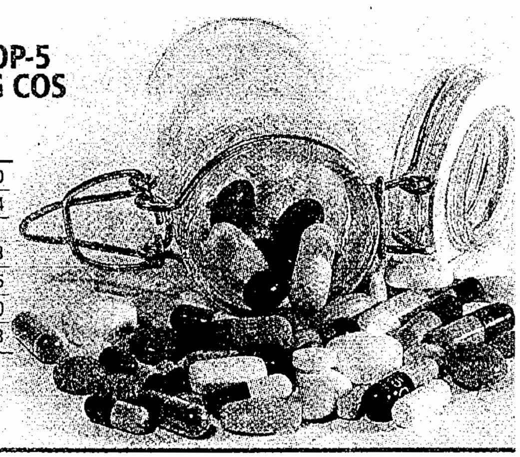
The industry is likely to maintain a growth rate of 15-20 per cent annually in the coming decade, says various other reports.

"In the next decade, India's spend on health care will grow from the current 1 per cent of the GDP and new patented drugs will be available in India much faster. Further, drugs will reach a large segment of rural population," says Hasit Joshipura, managing director of Glaxosmithkline Pharmaceuticals, the second largest multinational drug company operating in India.

### RISE &RISE OF TOP-5 DOMESTIC DRUG COS

GROWTH IN 10 YEARS
(IN ₹ CRORE)

| | 2000-01 | 2009-10 |
|---|---|---|
| Ranbaxy | 1,741.8 | 7,344 |
| Dr Reddy's Laboratories | 984 | 7,003 |
| Cipla | 791.3 | 5,765 |
| Lupin | 650 | 4,740 |
| Sun Pharma | 613 | 4103 |



But the danger is the Indian drug companies are now transforming from predators to preys.

If companies like Dr Reddy's Lab, Wockhardt, Sun Pharma, Lupin and Jubilant were able to execute numerous acquisitions in overseas markets in the last 10 years to expand business phenomenally, the same companies are now being targeted by multinational companies. India's low-cost manufacturing capabilities and skills in generic drug making have made India a must destination for all global drug companies. Moreover, the global markets are increasingly becoming generic to cut health care costs.

The growth of India and China and the huge population in these two countries lure the who's who of global pharma industry to these two countries.

"Multinational companies had a share of only 15 per cent of the domestic market and this is expected to grow to 25 per cent in the coming four to five years," says Ranjit Kapadia, vice-president, institutional research with HDFC Securities.

Abbott, which had just $250 million sales in the country, even after 100 years of its existence in India, is currently the largest domestic drug company in terms of market share, following the acquisition of Piramal Healthcare's formulation business.

"The Piramal acquisition delivered Abbott immediate market leadership in India, a cornerstone to any emerging markets strategy as one of the world's fastest-growing emerging markets," says Mike Warmuth, senior vice-president of Established Products of US-based Abbott.

If the high-value inbound acquisitions like Matrix-Mylan, Dabur-Fresenius Kabi, Shantha-sanofi aventis, Ranbaxy-Daiichi, Abbott-Piramal and the recent Paras sell-off are any indication, more deals are likely to follow.

"If a few more top domestic companies decide to sell off at good valuations, this may trigger floodgates and many traditional firms in this business would be willing to sell," warns D G Shah.

India has about 3,000 drug firms and about 1,000 of these will fade away by consolidation within the next five years. The total number of firms may shrink to about 1,000 by 2020, predicts T S Jaishankar, chairman of Confederation of Indian Pharmaceutical Industry (CIPI), an industry organisation.

"The usual tablet-capsule-liquid makers in small and medium scale sector will not be able to survive. However, companies that focuses on a particular area can act as contract manufacturers to multinationals," says Jaishankar.

The industry is likely to face challenges in overseas markets as regulatory agencies may further increase scrutiny of Indian products and facilities. Already several multinational companies have initiated campaign among doctors and patients on the quality of drugs made from India.

Pressure to enforce more anti-counterfeiting features in products, non-tariff barriers and quality standards will force the industry to increase prices. The government will also pressurise the industry to reduce prices of drugs and bring more medicines under price control, says Shah.

The decade in store will be more eventful for the industry, than the decade went by, say the experts.