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Pharma

In India, lies the remedy

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While domestic companies are widening their presence, what's interesting is that MNCs too aren't in any mood to shy away this time.

With growth comes competition. Given the immense growth opportunities that the domestic pharmaceutical market has on offer, it is no wonder that many a global pharma major is getting wooed by its charm. The result: An undeniable increase in competitive pressures. While domestic companies are deepening and widening their moats, what's interesting is that MNCs too aren't in any mood to shy away this time. Here's a lowdown on what's driving the India interest and which companies are better-placed to make the most of the opportunities.

Industry.

MINE OF OPPORTUNITIES

Well, for one, industry estimates peg the domestic sector to grow at about 15 per cent compounded rate for the next ten years to become a $49 billion market (CII and PWC estimates). Aggressive estimates peg the growth momentum at 20 per cent and industry size at $74 billion for the same period. Two, the clear advantages for early movers, as only companies that enter early can hope for local entrenchment. What adds to the urgency is that domestic companies are already ahead in the race. Finally, the lack of growth opportunities in developed markets due to sluggish prescription trends, pricing pressure, intensifying generic competition and pipeline failures.

SPRING BOARD FOR GROWTH

The India attraction, however, isn't exactly new-found. Over the last five years, the sector has seen 105 inbound deals worth about $11.75 billion (according to data provided by E&Y). The trend nonetheless has attained prominence only post the big-buck deals of Ranbaxy-Daiichi Sankyo and Piramal Healthcare-Abbott.

For most part, the country's growing economy and, with it, the better affordability of the local populace are expected to drive growth. Lifestyle-related diseases, especially diabetes and cardiovascular – a fallout of rising incomes – too are expected to add to the demand. Cipla and Sun Pharma score well on this count.

Besides, companies, both local and global, have stepped up efforts to penetrate the domestic markets and have added fervently to their field strength. In the year to 2010, companies such as Ranbaxy, Lupin, Dr Reddys', Ipca Labs and Cadila Healthcare added about 15-60 per cent to their existing field force and have continued to do so this year too. Interestingly, even MNC majors such as GSK Pharma and Pfizer India have added to their field agents.

This is significant as India is predominantly a branded generics market and doesn't have a great tolerance for price hikes. Pharma companies, therefore, need to penetrate Tier-II, Tier-III cities and rural markets that offer a high volume play. Here again, MNC companies seem keener to tap rural markets. Ranbaxy's Project 'Viraat, Novartis' Arogya Parivar programmeEli Lilly's Self-Employed Women's Association (Sewa) in Ahmedabad and Sanofi Aventis' initiative 'Prayas', are examples. The rural market makes up about 17-18 per cent of the domestic pharmaceutical market and is expected to gain prominence over the years.

The widening ambit of health insurance industry too will provide a growth fillip. Considering that nearly 80 per cent of all the health expenses in the country are footed from people's personal resources (according to IRDA Annual Report for 2010), growth in health insurance promises to expand the domestic market further.

A CASE OF DAVID VS. GOLIATH?

No doubt, the domestic pharma landscape is set to change significantly over the next few years. But will it result in multinationals gaining significant clout? Or will domestic companies maintain their dominance?

Well, if past track record is anything to go by, it may be *status quo* for a couple more years at least. In the last five years, there's not been any significant change in the market shares of the top ten companies (as per data provided by IMS Health Information and Consulting Services India).

But for the Piramal-Abbott deal, which pushed the latter up the ladder, and Mankind Pharma, the unlisted firm that moved up the ladder (market share increased to 3.2 per cent in Jan-2011 from 1.9 per cent in Jan-2007), most players have seen only minimal changes in their market shares.

The dominance of local companies, therefore, may remain for some time. Growth of existing products as well new launches are expected to help domestic companies maintain, if not increase, their market shares.

Meanwhile, for MNCs, what could be a stumbling block is that they still operate with a reasonably limited portfolio, as patented launches have not been forthcoming as yet. Second, their product portfolios aren't as broad-based across therapy areas as that of domestic companies. Realigning portfolios and strategies may, therefore, take some time. M&A, however, offers a quick-fix solution to all this and can change the domestic dynamics completely.

With Cipla, Torrent Pharma and IPCA Labs rumoured to be likely acquisition/ stake sale targets, developments on this front can prove to be game-changers. While valuations (considering the high benchmarks set by earlier deals) may be a disincentive, it might not prove deterrent enough for cash-rich global pharma, looking to satiate its hunger for growth.

To browbeat competitive pressures, local companies will have to strengthen their branding and markering initiatives for key drugs. They will also need to periodically add to their products' portfolio. Cipla, Sun Pharma, Lupin and Cadila Healthcare have scored well on most of these counts and seem better-placed to hold fort. Significant presence in chronic therapeutic areas, regular product launches and a first-mover advantage will help the companies chart better growth rates

But even as it may take time for the MNCs to play catch up, it may be an eventuality difficult to avoid in the next four-five years. With MNC majors (such as Abbott, GSK Pharma and Pfizer) making efforts to forrify their local presence, expand field force and product folios, it will be interesting to see how the market shares stack up in the next five years.

After all, MNCs have ready access to their parents' products and are increasingly seen cosying up to the idea of India-specific pricing (read as lower price) too.

HOW THE MARKET SHARES STACK UP

Company	Market Shares (%)				
	MAT 01/2007	MAT 01/2008	MAT 01/2009	MAT 01/2010	MAT 01/2011
Cipla	5.1	5.1	5.3	5.3	5.2
Ranbaxy	5.1	5.0	5.0	4.9	4.7
GSK Pharma	5.1	4.8	4.3	4.3	4.2
Piramal Healthcare*	4.4	3.9	4.1	4.2	4.0
Zydus Cadila	3.6	3.7	3.6	3.7	3.7
Sun Pharma	3.2	3.3	3.4	3.7	3.7
Alkem	3.0	3.2	3.1	3.2	3.3
Mankind	1.9	2.1	2.5	2.8	3.2
Pfizer	3.2	3.0	3.0	3.1	3.2