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MNC May Need Govt Nod to Buy Local Pharma Firm

Govt plans to control buyout to ensure availability of drugs at affordable prices

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NEW DELHI

The government may approve acquisitions of local drugmakers by global firms on a case-by-case basis on certain conditions to ensure availability of medicines at affordable prices, despite calls for restrictions on such deals in the wake of a spate of takeovers in the last three years.

Multinationals may have to move buyout proposals through the Foreign Investment Promotion Board (FIPB), allowing the government to understand the firm's rationale for buying a local firm, a person familiar with the matter said. They will also be asked how the acquisition will build capability of Indian industry such as manufacturing, R&D, sourcing or bring new technology. "This idea will be akin to the moral suasion policy adopted by the Reserve Bank of India," he said, requesting anonymity. Moral suasion is a strategy adopted by authorities to influence and pressure, but not force players into adhering to a policy.

The existing policy allows 100% automatic foreign direct investment (FDI) to encourage capacity building in the sector. But the government was under pressure to cap foreign drugmakers' stake in Indian firms after a series of acquisitions that saw MNCs snapping up some large local players.

A ministerial group that is being set up will take a final call on this issue. Faced with loss of revenues due to the expiry of patents on their best-selling drugs, global drugmakers look to buy Indian firms that make cheaper versions of off-patent blockbuster drugs.

The last three years saw a number of such deals including Daiichi Sankyo's acquisition of India's largest drugmaker Ranbaxy and Abbott's deal to buy the domestic formulation business of Piramal Healthcare.

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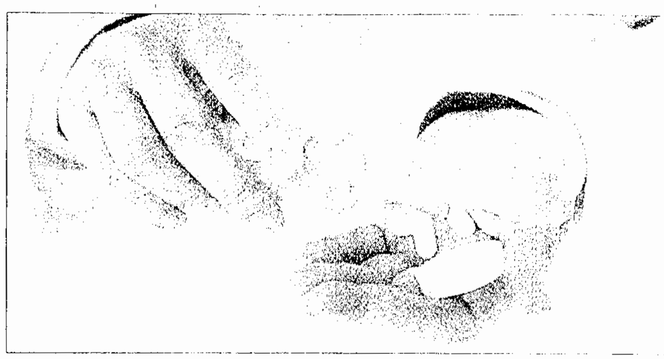
Consultancy firm Ernst and Young, appointed by the commerce ministry, has suggested case-by-case clearance of takeovers in a report submitted to the government a few weeks back.

There is another proposal to cap a foreign drugmakers shareholding in an Indian firm through buyout at 49%. "An MNC can have control over pricing and marketing decision even with a 49% cap. Besides, such a policy sends a wrong signal to global investors," an industry executive said.



BOOSTER DOSE FOR LOCAL FIRMS

MNCs' share in the country's Rs 47,000-crore drug retail market has risen to about 25% from 10% three years ago. Industry analysts believe this could touch 50% if the trend of MNC takeovers continues.

Indian drugmakers and health groups fear that once global MNCs get a dominant position in the market, they may focus on exports, stop selling low-margin drugs and market costly patented medicines in India, thus threatening availability of low-cost medicines. Global MNCs say equity holding has no relation to cost of medicines, which is monitored by local drug price regulator. Besides, there is enough competition in the market to check the prices. "A rollback of the open FDI policy regime would be retrograde and hurt India's image as an investment destination," said Ranjit Shahni, president of OPPI, the association of overseas drugmakers in India.

Daara Patel, president of the Indian Drug Manufacturer's Association (IDMA), says local drugmakers are in favour of a 49% cap. "MNCs can increase prices by importing the existing brands to escape price control," Patel said.

Indian government regulates prices of medicine made using any of the 74 bulk drugs. If they are imported, the price regulator fixes the prices of such drugs by merely giving a margin of up to 50% on top of the landed cost provided by the importer. Another industry executive said there are several companies whose acquisition may not have a undesirable impact, and a uniform cap would prevent promoters from selling them.

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