Cure for sure

Our pharmaceutical companies are now all set
to prescribe remedies for the ailing international
drugs business, writes N.B. Rao

The past few months have been
action-packed for the Indian
pharmaceutical industry, as
leading domestic players have
gone about making stunning acquisi-
tions around the globe, even as inter-
national giants have made impressive
transformations. The biggest was by DRL, which paid $570 million for an all-cash acquisition of Germany’s fourth largest generics firm, Betapharm. According to Dr Anj Reddy, chairman of the Hyderabad-based group, the acquisition was part of its “strategic initiative towards becoming a mid-sized global pharmaceutical company with a strong presence in all key pharmaceutical markets.”

The Betapharm deal was on the back of a $59 million acquisition of the Mexican API business of Swiss giant Roche. The move was part of DRL’s strategy to strengthen its position in the custom pharmaceutical services (CPS) business. International pharmaceutical firms are increasingly outsourcing both R&D services and CPS. Mumbai-based Nicholas Piramal India Ltd (NPL) also acquired three firms in the UK, including a unit of Pfizer, the world’s largest drug-maker. It also bought a company in Canada, and is now planning acquisitions in the US, ranging from $20 million to $200 million. According to Ajay Piramal, chairman, NPL, this is part of a strategy where it plans to use its European and North American assets to manufacture niche high-value drugs, while keeping lower-cost manufacturing in India.

The acquisition of European firms is part of the strategy adopted by the In-
dian pharmaceutical sector to expand its custom manufacturing business, ranging from APIs and intermediate development and manufacturing into final dosage forms. According to Frost & Sullivan, contract manufacturing and research ser-

vices in the global pharmaceutical sector is expected to balloon to $168 billion in just about two years. In the past, Ameri-
can and European companies dominated the global pharmaceutical contract manu-
facturing sector, but Indian and Chinese companies are now aggressively expand-
ing into this segment.

Pharma Scene

Spain’s Mundogen, Italy’s Allen SpA,
Romania’s Terapia for $324 million,
major acquisitions in 2006 – including
the largest drug-maker, which made eight
investments in the country.

National giants have made impressive
transformation around the globe, even as in-
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Ranbaxy Laboratories, the country’s
largest drug-maker, which made eight
major acquisitions in 2006 - including
Romania’s Terapia for $324 million,
Spain’s Mundogen, Italy’s Allen SpA,
and South Africa’s BeTabs – is now
eying the generics business of German
giant Merck KGaA.

A few other leading Indian drug-
makers, including Cipla and possibly
Dr Reddy’s Laboratories (DRL), are also
interested in acquiring Merck’s genera-
ics business, which has been valued at
around $5 billion. Incidentally, Ranbaxy
aims to be a $5 billion company in an-
other five years.

The pharmaceutical sector topped
the M&A (mergers and acquisitions)
league in India in 2006, with over $2.2
billion worth of inbound and outbound
deals under its belt. The biggest was the
acquisition by US-based generic-drug
maker Mylan Labs of a 71.5 per cent
stake in Hyderabad-based Matrix Labo-
ratories for a whopping $736 million.

According to Matrix chairman N,
Prasad, the deal provides greater growth
opportunities for the Indian manufactur-
er of active pharmaceutical ingredients
(API), which are supplied to the coun-
try’s leading generic-drug makers. “It
will allow us to accelerate our existing
plans in India and abroad,” adds Prasad,
who is relocating to Singapore as head of
global strategies for the US firm, of
which he is now a director. Matrix had a
few months earlier paid $263 million for
a Belgian firm, Docpharma NV.

Indian pharmaceutical firms, both
large ones like Ranbaxy and Dr Reddy’s
Laboratories (DRL), and smaller ones,
have been on an acquisition spree.

The facility, which produces both API
and finished drugs, is based in Uppsala
in Sweden, and has been approved by
several regulatory authorities, including
those in the US, Europe and Japan.

Subhash Bagaria, chairman and
managing director, Kenwell, notes that
the purchase builds on its extensive
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Frost & Sullivan estimates that India and China could potentially account for nearly 40 per cent of the outsourced market for APIs, finished dosage formulations and intermediates.

Most of the Indian pharmaceutical companies that are making aggressive forays abroad hope to see more than half their total revenues originate from overseas sales. NPL, for instance, saw an over 200 per cent jump in global sales for the quarter ended December 31, 2006, and international sales accounted for over 45 per cent of its overall revenues.

But it is not just the large Indian drug-makers who are eyeing overseas acquisitions. Even medium-sized firms and smaller ones are hunting around the globe for such deals.

Vadodara-based Sun Pharmaceuticals, for instance, has prepared a war chest of $500 million for acquisitions in the US, where it has seen strong growth in recent months. Sun’s annual revenues in the US market are expected to touch $100 million this fiscal, as its business has been growing by a robust 30 per cent.

Unichem Laboratories, another mid-sized firm, is planning to acquire a company in the world’s fastest-growing pharmaceutical market, Brazil, and also in Europe. The company will be investing about $25 million for the Brazilian unit.

What are the factors triggering off the flurry of activities in the Indian pharmaceutical sector, and the spate of deals that have been negotiated around the globe by domestic companies? There are many reasons for these developments, which will ultimately help boost the prospects for the Indian pharmaceuticals – and increasingly, also the biotechnology – sector.

The most important is the emergence of India as a low-cost, high-quality option for outsourcing of research, manufacturing and other services, which is bringing about dramatic changes in the global pharmaceuticals business.

Other factors include the global slowdown in the sale of patented drugs, the growing opportunities for generics-drug makers, the absence of new billion-dollar blockbuster drugs internationally, and the increasing pressure on Big Pharma. Its critics include not just members of healthcare NGOs, but even shareholders on Wall Street and many western governments, that are facing a crisis in the healthcare sector and are seeking a sharp reduction in the price of prescription drugs.

Industry observers note that India’s pharmaceutical industry is at the crossroads, and the country could become the preferred global supplier for bulk drugs and dosage forms, and a hub for contract research and manufacturing (CRAM), contract research organisations (CRO) and R&D activities.

The country is among the top-five manufacturers of bulk drugs and ranks among the top-20 pharmaceutical exporters in the world. The Indian pharmaceutical industry ranks fourth globally in terms of volume, and 13th in value terms.

India also has a vast pool of talented professionals – every year, nearly 125,000 chemical engineering graduates pass out of its universities. There are about half a million pharmaceutical scientists and pharmacists, working in the manufacturing, R&D, hospitals and retailing sectors.

The industry is growing at a compound annual growth rate (CAGR) of 13.6 per cent, and revenues are projected to touch $12 billion by 2010. Exports add up to about $3.8 billion, with formulations accounting for 55 per cent, and bulk drugs the rest. Exports are projected to touch $6 billion by 2010.

Increased abbreviated new drug application (ANDA) approvals from the American regulator are seeing exports zoom. The domestic industry is geared to catering to the US market. For instance, India has the largest number of master filings (DMFs) with the FDA.

They also have the largest number of patents approved by the administration, allowing them to market their drugs in the US.

India’s strength traditionally has been in the area of generic-drugs. And this is one area that is witnessing record growth internationally. The generic-drugs market is worth over $60 billion globally – out of a total drugs market of around $300 billion – but the next three to four years will see an additional $60 billion with branded drugs going off patent, providing tremendous opportunities for Indian drug-makers.

Nearly three-dozen top branded prescription drugs are expected to go off patent over the next two to three years, and Indian manufacturers will be the main beneficiaries. Analysts expect this to accelerate the growth of the domestic pharmaceutical sector.

The enactment of the Patents Act in 2005, ensuring that India met its World Trade Organisation (WTO) obligations
The domestic industry in India invests over $250 million a year on R&D; this is expected to rise to $500 million by 2010 and $1.2 billion by 2015.

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The Indian pharmaceutical sector is now focusing on R&D, especially in the area of new chemical entities and dosage forms. About a dozen companies are developing 60 new compounds, and the average spend on R&D in the pharmaceutical sector has gone up to 10 to 12 per cent, from around 8 per cent before the enactment of the patent legislation.

The domestic industry in India invests over $250 million a year on R&D; this is expected to rise to $500 million by 2010 and $1.2 billion by 2015. G.V. Prasad, CEO, Dr Reddy’s, notes that the Hyderabad-based group is spending about $80 million every year in R&D. “For companies like ours, who aspire to be a major player in the global generic space and also an innovative player the R&D spend is very significant. This is likely to go up significantly once we increase our portfolio in generic business.”

International drug giants are also looking at India as a potential R&D hub, thanks to the availability of skilled professionals including scientists, and the relatively lower personnel costs. Western pharmaceutical firms are confronting major challenges, including squeezed margins because of the growth of generics.

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