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Opportunities for India in Generic Drug Space

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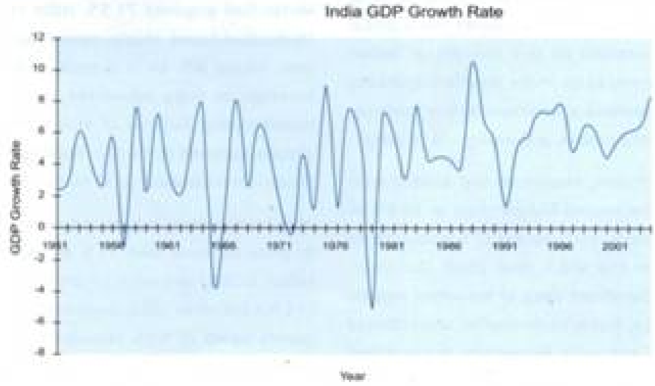
Introduction

India is expected to become the world's second largest economy by 2050. Booming technology exports, rising domestic consumption from a burgeoning 300 million-strong middle class and macro economic reforms are the key drivers behind the 9% annual growth of India's trillion dollar economy. The Indian economy is on the threshold of unlocking huge opportunities for international investors keen to become part of the India growth story.

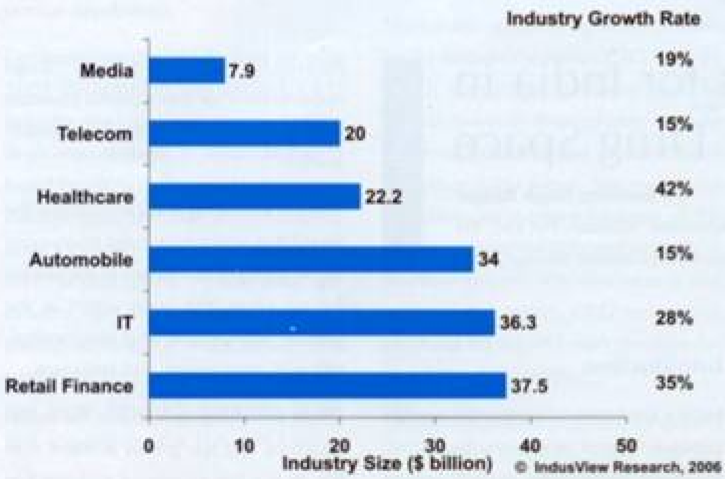
There is a growing realization across the board that economies need to co-exist: if one segment of it serves as the market for the other, the other serves as the source of expertise and economical, efficient, man-power and resources.

Under this changing scenario, the Indian economy that has grown at more than 9% in the last couple of quarters has been at the centre stage and focus of the governments and global companies alike. This is the sixth quarter out of the past seven that GDP growth has exceeded 8% and was among the strongest increases the country has ever recorded.

India GDP Growth Rate



The vast pool of English-speaking skilled managerial and technical manpower matches, if not surpasses, the best in the world. These factors have led numerous multinational companies to, not only establish operations in India but also to count it among their key markets.



Pharma Sector: Potential Unfolds

European pharmaceutical companies will be prime targets for takeovers in the next year. Indian companies in this sector have reached critical mass and are set for lift off. We'll no doubt see a global spotlight on this industry as Indian companies make headline-grabbing overseas acquisitions to buy customer relationships and intellectual property.

Pharma, Healthcare and Biotech have the second highest share at 10.4% in terms of volume and 12% in value terms in the M&A deal chart last year. Significant deals in the sector include Dr. Reddy's Laboratories' acquisition of Germany's Betapharm Arzneimittel GmbH for almost $600 million.

The U.S.-based generic drug-maker Mylan Laboratories Inc's $6.63 billion (Rs.27,200 crore) acquisition of Merck KGaA's generics unit is set to bring India on the global map of pharmaceutical manufacturing. Mylan, which becomes the world's third largest generic drug-maker from the current ninth position following this acquisition, will be the first global company of this size to have a large manufacturing base in India through its subsidiary Matrix Laboratories Ltd. Mylan had acquired 71.5% stake in Hyderabad-based Matrix earlier this year. Mylan will be in a position to leverage its India advantage as six manufacturing facilities of Matrix are already approved by the U.S. Food and Drugs Administration (U.S. FDA).

The pharmaceutical industry is expected to grow by more than 13% to $6.5 billion in 2007 and reach a market size of $ 9.5 billion by 2010, surpassing the growth trends of 9.5% recorded over the last 5 years.

India's multinational companies will continue to make huge strides. We still have a long way to go as India's attractiveness increases on account of skilled workforce, lower costs and industry best-practice.

The progressive trend in this sector is expected to continue, due to increased integration with global trade which began with the signing of the General Agreement on Tariffs and Trade (GATT) in January 2005. India started to recognise global patents and the growing significance of the country in terms of contract research and clinical trials.

The ability to produce high quality, low cost drugs will see India's exports spike over the coming months.

Generic drugs: $65 billion new opportunities

The generic drug market is set to expand its domain as drugs worth $33 billion are going off patent in the current fiscal ending March 2007. By the next fiscal, drugs worth $65 billion will go off patent.

Indian pharma companies filed 62 drug master filings (DMFs), the maximum number with the US Food and Drug Administration (US FDA) in the July-September 2006 quarter.

Indian drug-makers are expected to acquire a 33% share of the global generic drug market by 2007 against the current 22% market share, according to estimates. Indian companies are strongly positioned to grab the new opportunities in the generic drug market as they have the benefit of low-cost manufacturing, world-class production skills and availability of quality manpower. Domestic production costs in India are almost 50% less compared to developed countries.

The Indian pharmaceutical exports are likely to grow at around 18% by 2007-08 to take its total export volume to about $6.5 billion (Rs.300 billion) against $4 billion (Rs.182.90 billion) in 2004-05. The increase in exports will substantially be in its exports to regulated markets of U.S. and Europe in generic drug markets.

Indian firms can take advantage of their low-cost manufacturing to score over others to win a huge market size in the generic drug space of African countries also. Africa in future will provide huge opportunities to Indian drug-manufacturers following the withdrawal of the patent suit filed by 39 global pharmaceutical companies against the South African government, which allowed the sale of cheaper generic versions of branded drugs. The first and foremost aim of the Indian pharmaceutical industry should be to take its business to those regions where Indian presence is not well represented.

The Indian pharmaceutical industry is not concentrated around a few large companies. Rather, it is a highly fragmented industry with the market leader Ranbaxy holding just 7% market share. About 70% of the market is well distributed among 250 large companies. Apart from these 250 large companies, there are about 8000 small units and 20,000 registered units. Although India's domestic market is strictly regulated on pricing, the export opportunities are coming in a big way.

All Round Support

The recent changes in the Indian patent laws are also changing the dynamics of the industry. With the introduction of the product patent last year, multinational pharmaceutical companies are now looking at India as a preferred investment destination as they want to cash in on the huge human resource here as well as the massive domestic market. India accounts for 22% of the world market of generic drugs. The new patent regime is also encouraging the Indian drug-makers to step up their own research and development activities.