

Global competitiveness of the Indian pharmaceutical industry

The pharmaceutical industry is one of the most global and profitable industries with intense and dynamic competition. Research on firm profitability and competitive advantage in the pharmaceutical industry is extensive, but concentrated to the US with a few notable exceptions on the Indian pharmaceutical industry. The Indian pharmaceutical industry has witnessed phenomenal growth since the liberalization drive of the Indian government in 1991-92. Liberalization has not only eased the entry and operations of foreign pharmaceutical firms but also made it easier for Indian firms to form alliances with them as well as internationalize through exports and foreign direct investment. By 2004 the Indian pharmaceutical industry became the 4th largest in terms of volume and 13th in terms of value .

The price control regulation of 1970, imposed on all pharmaceutical products to make cheap medicines available to the poorest of the Indians, combined with limitations on pre-tax profits of pharmaceutical firms, were largely responsible for the declining average Indian pharmaceutical industry's profitability to a low of 3.5% in 1987-1988 . The radical liberalization drive in 1991-92 eased the price control and industry profitability limits, which led to higher profits, almost reaching to 10% of sales in 1996 . Forty years ago Yusuf Hamied, the founder of Cipla-third largest Indian pharmaceutical, urged then prime minister Indira Gandhi: should millions of Indians be denied the use of a lifesaving drug just because the originator doesn't like the color of our skin? Thereafter prime minister Gandhi urged parliament to change laws governing drug patents, making them apply not to the chemical compounds themselves but to the processes used to manufacture them. This meant that Indian firms could, through reverse engineering, figure out the molecular structure of a new drug introduced by another firm, usually a foreign pharmaceutical giant, make certain cosmetic process changes and come out with a new drug, technically serving the same purpose. This gave huge impetus to domestic firms like Ranbaxy Laboratories and Cipla which started to develop unique capabilities in manufacturing large scale generic drugs, later to be effectively used in international markets. However, in 2005, the Indian government changed its patent laws wherein, Indian companies can keep making certain knockoffs, but they can't copy drugs patented after 1995 without a license.

The major sources of growth and competitiveness of the Indian pharmaceutical firms derive from the following:

a) Cost competitiveness – the historical Indian patent law (process patent and not product patent), which enabled Indian companies to copy innovator molecules by manufacturing the product from a non-infringing process is the main source of cost advantage. This also led to product launches in India typically 6-10 years ahead of their launch in the US generics market. Since the Indian market is extremely price competitive, Indian companies develop capabilities in highly cost-efficient manufacturing processes. Indian pharmaceuticals also enjoy cost advantages in form of Indian tax rebates on R&D expenditure, and drugs developed using indigenous R&D are exempted from price controls in India.

b) Continued momentum in the US generics – approximately US \$126bn worth of branded drugs are likely to go off-patent over the next ten years, leaving room for Indian companies to capitalize on this strong patent expiration cycle. Ranbaxy Laboratories, Dr. Reddy's Laboratories, Cipla, Sun Pharmaceuticals, Wockhardt, and Biocon are some of the front-end pharmaceutical companies that have benefited from this changing regulatory environment and are poised to continue their international growth .

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c) Competencies in pharma outsourcing – there is a growing trend of outsourcing and offshoring by large western pharmaceutical firms. This is expected to be equal to a US \$48bn market by 2007. Ernst & Young Global Pharmaceutical Report 2005 identifies India as a partner of choice in global offshoring. Indian firms with their technical capabilities, regulatory skills, cost advantage and global relationships are poised to capture a huge portion of this market. Although this does not affect internationalization *per se*, it further strengthens the established global linkages of the Indian pharmaceutical industry.

d) Patent expiration of global biologics – US \$10bn worth of products are likely to face patent expiration by the year 2009. This is leading to major capacity expansion by Indian companies such as Biocon and Wockhardt, which are the major Indian players in the global biologics space.

e) Basic research progress – the component of basic R&D is increasing for Indian pharmaceutical companies. Till date, India has generated 37 lead molecules, and the expectation is that this figure will increase exponentially with increased competitive pressures from foreign multinational corporations, increased R&D expenditure by Indian companies, and from positive spillover effects of the two.

Ref:(CRIS INFAC. 2004. Pharmaceuticals Annual review: February 2004, Mumbai, Check E. The Treasure of Mumbai. WIRED Magazine 2006;14: 12)

Industry /Sector wise view on mergers and acquisitions by BRICs (Brasil,Russia,India and China) firms in the 2004-2006.

Major M&A purchases by BRICs firms, 2004-06

Date of completion	Investor company	Investor country	Target company name	Target Country	Value of deal (US\$ m)	Target industry sector
Oct 2005	CHINA NATIONAL PETROLEUM COR	China	PETROKAZAKHSTAN INC-CL A	Kazakhstan	3,918	Energy
Apr 2005	SEVERSTAL-RTS BOARD	Russia	LUCCHINI SPA	Italy	2,337	Basic materials
Dec 2005	LUKOIL-CLS	Russia	NELSON RESOURCES LIMITED	UK	2,040	Energy
Mar 2004	MMC NORILSK NICKEL-CLS	Russia	GOLD FIELDS LTD	South Africa	1,162	Basic materials
Jun 2005	CONSTRUTORA CAMARGO CORREA S	Brazil	LOMA NEGRA SA	Argentina	1,025	Building materials
May 2005	CHINA NETWORK COMMUNICATIONS	China	PCCW LTD	Hong Kong	1,014	Communications
Feb 2006	CIA VALE DO RIO DOCE-PREF A	Brazil	CANICO RESOURCE CORP	Canada	646	Basic materials
Mar 2006	DR. REDDY'S LABORATORIES	India	BETAPHARM ARZNEIMITTEL GMBH	Germany	570	Pharmaceuticals
May 2006	SUZLON ENERGY LIMITED	India	EVE HOLDING NV	Belgium	526	Industrial various
Sep 2004	VIMPELCOM-CLS	Russia	KAR-TEL	Kazakhstan	425	Communications

Source: Bloomberg.

BRIC:(brasil,Russia,India & china)