Generics Gateway

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If generics are the gateway of growth for global pharmaceutical giants such as AstraZeneca, Pfizer, Sanofi-Aventis, Novartis, Merck and GlaxoSmithKline, there is a clear and renewed thrust on the $17 billion Indian pharmaceutical market. Market is abuzz with acquisition talks as global pharmaceutical majors scan the Indian market for potential buyouts.

The reason for Indian pharmaceuticals companies coming under the buyout lens is not hard to find. Acquiring an Indian drug company with proven skills in manufacturing can bring in cost-effective generic development methods. Also, global pharmaceutical majors' pursuit for profitable growth is bringing them to Indian shores—the $8 billion Indian domestic pharmaceutical market is growing at 12% per annum and poised to reach $14 billion by 2013.

Soon after acquiring Hyderabad-based Shantha Biotech for $770 million, Chris Viehbacher, the CEO of Sanofi-Aventis issued a shrill public statement: "There will be more shopping on the horizon. The objective is to build the company's vaccine, biotechnology and non-prescription-medicine businesses, as well as expand in emerging markets."

It is probably the same sentiment which resonates in the $44 billion drug maker's ambitious drive to notch up alliances or buyout outright the assets of Indian generic companies. No wonder, the French drug giant is leaving no stone unturned in order to grab a share of the fast-growing generics business—Indian pharmaceutical companies' main forte—and also increase its sales in the $8 billion domestic pharmaceuticals market.

Sanofi-Aventis is not alone in its pursuit to acquire Indian pharmaceutical assets. The $48 billion American drug giant Pfizer has sent feelers to pick up equity stake in a host of Indian companies—Mankind Pharma, Intas Pharma, Zydus Cadila or the biotech business of Wockhardt, according to healthcare analysts. That's not all.

Allergen, Abbott Laboratories, GlaxoSmithKline, Novartis, AstraZeneca and many other global pharmaceutical companies are also on the prowl, seeking to buy Indian pharmaceutical companies or strike a strategic alliance with them.

Irrespective of the business strategy being adopted, the gameplan is fairly simple and crystal clear from the global pharmaceutical majors' viewpoint: Make an offer to the predominantly family-controlled Indian pharmaceutical businesses they can't refuse. On their part, Indian companies are waiting for the right valuation; something what the promoters of Ranbaxy Laboratories achieved when they sold their stake to Japanese firm Daiichi Sankyo for a mind-boggling $4.6 billion last year.

There is no doubt that India offers a significant advantage to the global pharmaceutical companies, informs Ramesh Adige, president, Ranbaxy Laboratories. The country has talented scientists with strengths in chemistry. Manpower and manufacturing costs are lower than the West. The cost of innovation in India is believed to be one-third to one-fifth of that in developed nations. It is because of these significant advantages that there is an emerging trend of growing partnerships between big pharmaceutical companies and domestic pharmaceutical firms. “Large innovator companies and Indian generic companies are coming together in a hybrid business model that draws synergies and leverages strengths from both ends of the value spectrum,” he reveals.

The global generics market, driven by a series of growth factors such as increasing genericisation, favourable government support, significant patent expiries and an ageing population, is projected to grow at an attractive rate. KPMG estimates the global generics market to reach $93.6 billion by 2011 from $55.5 billion in 2006.

Generics are in high demand not just in emerging markets like India and China where the purchasing power is lower, but also in the US, Western Europe and Japan as a means to control drug spending. As a result of these market dynamics, large pharmaceutical companies such as Pfizer and Sanofi continue to show a desire to move into generics via acquisitions. “All research-driven global pharmaceutical companies are finding their growth rates stagnant in the developed markets and hence are keen to invest in India and spur their growth. We can expect some big-ticket deals in the next couple of months,” says Sujay Shetty, associate director, pharmaceuticals life sciences practice, PricewaterhouseCoopers.

Ranjit Shahani, former managing director of Novartis India and current president of Organisation of Pharmaceutical Producers of India (OPPI) is quick to endorse the global pharmaceutical majors’ move to grow in India. “Markets in the developed world are growing at low single digit; developing countries like India are expected to grow at double digits. With its growing middle class, India represents an opportunity for geographic expansion and a fertile ground for big pharmaceutical companies,” he stresses.

It is imperative to get a global perspective in order to understand as to why large drug companies are moving expeditiously to acquire generic assets in the country. Until now, patented new products were prime growth drivers of research based pharmaceutical companies all over the world. However since the last few years, because of various reasons, the number of launch of such products has been significantly reduced. To add fuel to the fire, 2010-12 will witness patent expiries of many more blockbuster drugs, depleting their growth potential even further.

“Over $47 billion worth of drugs are expected to go off-patent by 2011 representing a rich pipeline for the generic manufacturers,” says Hitesh Gajaria, executive-director, KPMG India. To make matters worse, it is estimated that around $140 billion of annual turnover from blockbuster drugs will get almost shaved off due to patent expiry by the year 2016. IMS Health reports that by the end of 2010, sales revenue of more than $30 billion will be adversely impacted due to patent expiry.

It is clear that patent expiry of so many blockbuster drugs during this period will fuel the growth of generic pharmaceutical business, especially in the large developed markets of the world. But how would be the changing business model of global pharmaceutical companies during this trying time?

Tapan Ray, director-general, Organisation of Pharmaceutical Producers of India says, the global pharmaceutical companies are resorting to an interesting strategy, combining both traditional and the new business strategies. Firstly, mega merger and acquisition strategies are being actively followed mainly to enrich R&D pipeline and achieve both revenue and cost synergies. Secondly, many large global companies, like GSK, Sanofi Aventis and Merck are getting attracted to emerging opportunities in the fast developing vaccines market. PricewaterhouseCoopers estimates the vaccine market to be $42 billion by the year 2015. Thirdly, some large global pharmaceutical companies have already made a firm commitment to the generics market. Novartis paved the way for other innovator companies to follow this uncharted frontier as a global business strategy. Last year, the generic business of Novartis (under Sandoz) recorded 19% of their overall net sales, with turnover from generics registering $7.2 billion growing at 20%.

Keen business interest of Sanofi Aventis to acquire Zentiva, the generic pharmaceutical company of Czechoslovakia; coupled with the recent acquisition of the generic pharmaceutical company Laboratorios Kendrick of Mexico and acquisition of Ranbaxy Laboratories of India by Daiichi Sankyo are clear indicators of changing opportunity landscape. Pfizer has also maintained its generics presence with Greenstone in the US and is using the company to launch generic versions of some of its own off patent products.

It is also worth mentioning that generic pharmaceuticals produced in India are increasingly being accepted all over the world. Many Indian companies like Piramal Healthcare, Aurobindo, Dr Reddy’s are taking up global generic manufacturing contracts for the global players like, Allergan, Pfizer and GSK, in addition to marketing generic pharmaceuticals themselves. “Outsourcing of such business processes to India has undoubtedly been proved to be not only effective in saving costs, but also in saving valuable development time for the global pharmaceutical giants,” says Ray.

While the buzz might be around acquisitions, notching up alliances with Indian pharmaceutical companies is an integral part of the global drug majors’ growth strategy. For instance, the British drug giant GlaxoSmithKline has firmed up a pact with Dr Reddy’s to develop and market over 100 branded generic products across a number of emerging markets, excluding India. These branded generic products will be manufactured by Dr Reddy’s and licensed and supplied by GSK in various countries in Africa, the Middle East, Asia Pacific and Latin America. GSK will gain exclusive access to Dr Reddy’s portfolio and future pipeline of branded pharmaceuticals in therapeutic segments such as cardiovascular, diabetes, oncology, gastroenterology and pain management. Earlier, Pfizer gained rights to 55 generic products when it entered into a marketing pact with Hyderabad-based Aurobindo Pharma and Claris Lifesciences. Under the terms of the agreement, Pfizer will market the drugs in more than 70 countries in Latin America, Eastern Europe, Asia, Africa and the Middle East.

Yet, the Indian pharmaceutical industry is highly fragmented with intense competition. This makes consolidation imminent as companies strive to gain critical scale, size and competencies in order to overcome cost and margin pressures. “The trend for consolidation has so-far eluded the India pharmaceutical market but it will not be long before we see it happen, Adige feels.

Nevertheless, changing market dynamics have brought to the Indian pharmaceutical companies an opportunity to play on a much bigger turf. It’s time to bite the opportunity pill.

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