The Indian pharma scene
CURE FOR SURE

The past few months have been action-packed for the Indian pharmaceutical industry, as leading domestic players have gone about making stunning acquisitions around the globe, even as international giants have made impressive investments in the country.

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 eyeing 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 generics business, which has been valued at around $5 billion. Incidentally, Ranbaxy aims to be a $5 billion company in another five years.

The pharmaceutical sector was among the toppers in 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 U.S.-based generic drug-maker Mylan Labs of a 71.5 percent stake in Hyderabad-based Matrix Laboratories for a whopping $736 million.

Among Indian acquisitions, the biggest was by Dr. Reddy's, which paid $570 million for an all-cash acquisition of Germany's fourth largest generics firm, Betapharm. According to Anji 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 (NPIL) also acquired three firms in the U.K., 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 U.S., ranging from $20 million to $200 million. According to Ajay Piramal, chairman, NPIL, 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.

Kemwell, a Bangalore-based formulations contract manufacturer, also acquired another Pfizer plant recently.

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 U.S., Europe and Japan.

The acquisition of European firms is part of the strategy adopted by the Indian 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 services in the global pharmaceutical sector is expected to balloon to $168 billion in just about two years. In the past, American and European companies dominated the global pharmaceutical contract manufacturing sector, but Indian and Chinese companies are now aggressively expanding into this segment.

Frost & Sullivan estimates that India and China could potentially account for nearly 40 percent 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. NPIL, for instance, saw an over 200 percent jump in global sales for the quarter ended December 31, 2006, and international sales account for over 45 percent 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.

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 generic drug-makers, the absence of new billion-dollar blockbuster drugs internationally.

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 and chemists 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 percent, and revenues are projected to touch $12 billion by 2010. ■