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Research Paper

Pharmaceutical Industry in India: A Brief Report during 2001-2010

Mr. Ashis Mohanty
Sr.Lecturer in Mba Bhadrak Institute of Engineering & Technology, Barapada, Bhadrak Mob-9937416564,

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I. INTRODUCTION

The Indian Pharmaceutical Industry has come a long way from waiting for imports of bulk drugs from global majors for re-processing to becoming an industry which is driving product development and breaking new grounds in medicine research worldwide. This transformation can be better gauged in terms of volume numbers where in the industry which was earlier stagnating is now expected to touch a turnover of INR250 billion ($5.7 billion) at the end of the 10th Five Year Plan (2002-2007). Part of this amazing growth story will be propelled by capital investments of around INR100 billion ($2.3 billion), most of which have already been committed to the Government of India.

The Indian pharmaceutical industry has a unique amalgamation of three critical factors which make it so attractive for investment thereby adding impetus to growth.

- The process patent regime
- Price controls
- Exemptions to Small Scale Industries (SSIs)

The commitment to infrastructure development, technological competency augmentation and a wide array of products has boosted the industry to already achieve the $4 billion mark.

The implementation of Good Manufacturing Practices has become a further supplement to the industry now producing bulk drugs for all the major therapy segments which are the most in demand. The competencies developed in India in organic synthesis and process engineering have helped derive the most cost effective solutions in time efficient scales and compliant with high quality standards. An important outcome of this was India's low cost production of anti-retroviral for export to humanitarian and international organizations in needy African countries which brought global recognition and acceptance of the industry as a major player in the global drug producing nations.

Aruvian's Research's report on Analyzing the Indian Pharmaceutical Industry is an extensive outlook on the industry which explains the basics of the industry by examining the participants which come under the purview of the industry. The report presents a complete synopsis on the Indian pharmaceutical market and its present demographics wherein, the report also presents the turnover volumes currently being handled by the industry.

The report further breaks down this volume analysis by product segment as well as the expected turnovers as per the lifelong therapy segments which are prevalent in India. The report explores the progressive R&D initiatives which have been carried out in the industry in order to boost its own production, invention as well as to improve on the quality of products being presently marketed.

The cost competitive advantage of the Indian Pharmaceutical Industry is explained in this report along with the patterns of consumer behavior which indicates further growth sustenance in the industry. The report also analyzes certain market developments which have supplanted growth till now and the drivers of growth in the Indian Pharmaceutical Industry.

II. THE HISTORICAL BACKGROUND OF PHARMACEUTICAL MARKET IN INDIA

India received independence from Britain in 1947. In the early years following that event, MNCs were allowed to export drugs—mainly low-priced generics and a few high-priced specialty items. When the Indian government increased pressure against the import of finished products, MNCs developed formulation units in India and exported only bulk drugs to that country. In the early 1960s, the Indian government encouraged the indigenous manufacture of bulk drugs.

In the following decade the Indian patent act prevented the granting of product patents for substances used in foods and pharmaceuticals. Only process patents were allowed for five years from the date of granting a patent or seven years from the date of filing the patent. Drug price control order (DPCO) was introduced during the same period to prevent undue profiteering from essential medicines. MNCs were compelled to reduce their holdings to 40% in their Indian ventures. In the 1980s–1990s, domestic pharmaceutical companies flourished. As a result, the market share of MNCs fell to the current 35%, down from 75% in 1971.

III. TYPES OF DRUG SYSTEMS IN INDIA

Ancient civilization allowed India to develop various kinds of medical and pharmaceutical systems. In addition to the allopathic system, which is prevalent in the United States, Japan, and Europe, the following types of medical and pharmaceutical systems are used by the Indian people:

- **Ayurveda:** Ayurveda translates as the "science of life." It encompasses fundamentals and philosophies about the world and life, diseases, and medicines. The knowledge of Ayurveda is compiled in *Charak Samhita* and *Sushruta Samhita.* The curative treatment lies in drugs, diet, and general mode of life.

- **Siddha:** The Siddha system is one of the oldest Indian systems of medicine. *Siddha* means "achievement." Siddhas were saintly figures who achieved healing through the practice of yoga. The siddha system does not look merely at a disease but takes into account a patient's age, sex, race, habits, environment, diet-physiological constitution, and so forth. Siddha medicines have been effective in curing some diseases, and further work is needed to truly understand why this system works.

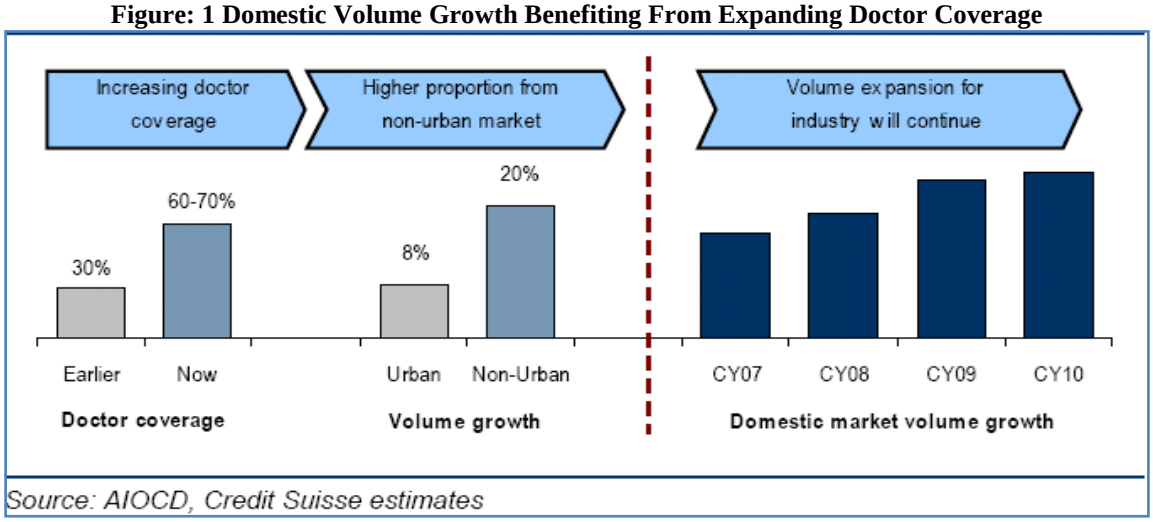
- **Unani:** The Unani system originated in Greece and progressed to India during the medieval period. It involves promotion of positive health and prevention of disease. The system is based on the humoral theory, i.e., the presence of blood, phlegm, yellow bile, and black bile. A person's temperament is accordingly expressed as sanguine, phlegmatic, choleric, or melancholic. Drugs derived from plant, metal, mineral, and animal origins are used in this system.

- **Homeopathy:** Homeopathy flourished in Germany in the seventeenth and eighteenth centuries. In India, it is one of the commonly used methods to treat diseases. Physicians in the time of Hippocrates (400 BC) first observed that some substances produce symptoms of conditions that they were then used to treat. On the basis of this finding, a homeopathic medicinal agent, which can produce artificial symptoms in healthy human beings, can cure a similar set of symptoms of natural diseases. It normally uses a single medicine, and the dosage is minimal— just enough to cure the disease.

IV. THE INDIAN PHARMACEUTICAL MARKET VALUE

India's pharmaceutical market may not be impressive by international standards, but considering the total Indian economy, it is one of the major economic sectors in India. According to the Indian Drug Manufacturers' Association (IDMA) annual publication, the estimated value of production of bulk drugs and formulations in India during 2000–2001 was approximately Rs 27,187 crores out of which Rs. 5344 crores is for bulk drugs and Rs. 20,843 crores for the formulations.

Figure: 1 Domestic Volume Growth Benefiting From Expanding Doctor Coverage

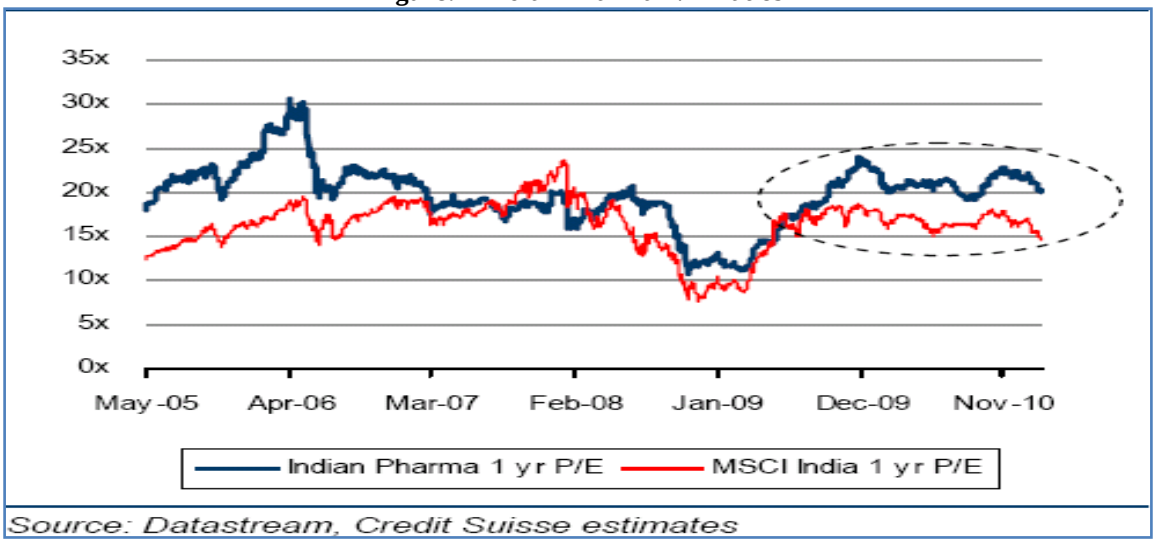


Source: AIOCD, Credit Suisse estimates

The bulk drug production increased by nearly 20% every year, whereas the value of formulations increased at an average rate of 15% per year. This indicates the rapid growth of the pharmaceutical sector in the Indian market. The value of imports and exports increased two-fold and four-fold, respectively, during the last decade. The export of bulk drug underwent dramatic growth in the past decade, coming in at nearly 40% each year. A comparison shows that 80% of the formulations produced are consumed indigenously, whereas the majority of the bulk drugs manufactured are exported. Russia and the United States are the top two importers of bulk drugs and pharmaceuticals from India ($200.7 million and $197.9 million, respectively). However, countries such as Brazil, Singapore, and Iran experienced a tremendous growth in the import of pharmaceuticals from India in recent years.

India has almost 600-700 prescribing doctors, but doctor coverage of most large pharma companies in India is limited to just 200-250 doctors. Thus, most companies are sprucing up their field sales force aggressively to expand their doctor coverage. For instance, Ipca Laboratories has already increased its sales force to 4,800, already covering 400 doctors, and plans to scale up its sales force by another 10% to reach 500-600 doctors. This amounts to reaching out almost all doctors practicing in India. Industry experts believe there is a first-mover advantage in these markets, both with doctors and customers. Thus, the companies are taking the step ahead, without the presence of a proper distribution system to some areas. Ranbaxy's project Viraat is aimed at reaching the additional urban regions.

Figure: 2 Indian Pharma P/E Ratios



Source: Datastream, Credit Suisse estimates

The Indian pharma sector has outperformed the broader market over the past 18 months due to superior growth prospects and continued MNC interests in the Indian firms. The growth trajectory in the key markets is still the same and thus, we maintain our positive view on the sector.

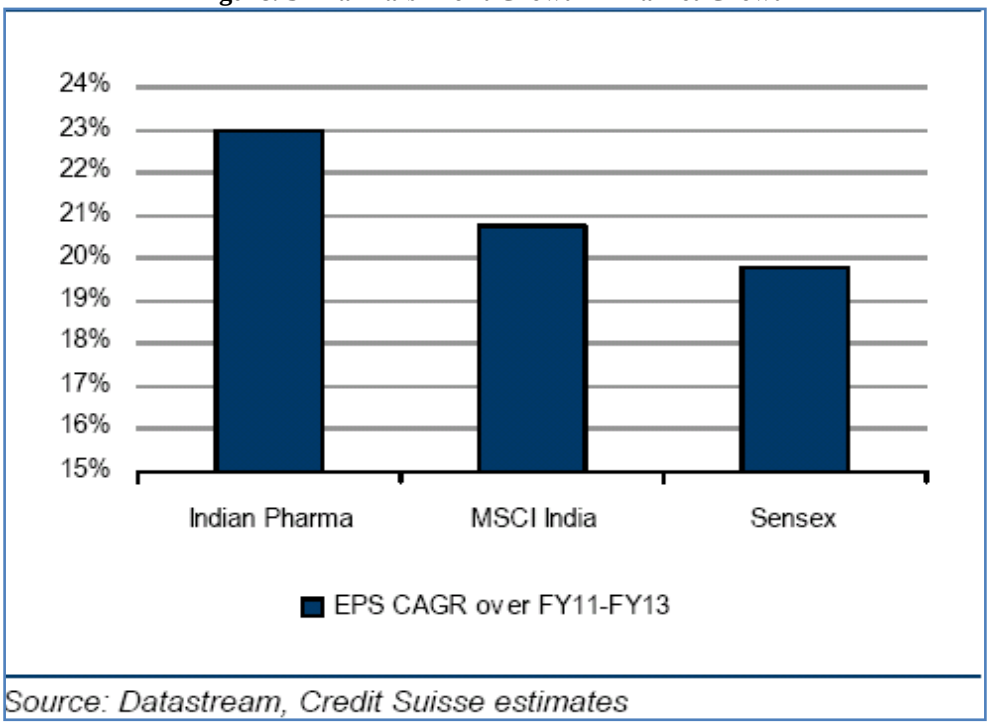
*Corresponding Author: Mr. Ashis Mohanty

- **Domestic growth has picked up and is sustainable:** Sales force expansion has yielded positive results and industry volume growth has picked up. The majority of the growth is coming from the non-urban markets, as metros are growing at single digit. Industry experts believe that there is a first-mover advantage in these markets and that explains some companies increasing doctor coverage to as high as 70%. Only the top 20 companies are expanding into the rural areas and should maintain above industry growth. Success of the model is important, as it helps fund export growth.

- **Growth acceleration to come from exports.** Indian pharma companies have a low market share of 10% in the US and 5% in the emerging markets (EMs). In the US, the firms are moving up the curve by investing in branded portfolio and niche therapies while growth prospects in the EMs are even stronger, as their presence is limited to just one-two markets. The matured approach of the firms now, their strong balance sheet and experience with the branded generic markets in still our confidence in the growth prospects.

- **Lupin and Glenmark are the top picks.** Rerating for Lupin and Glenmark is possible as base business margins improve. Fondaparinux approval holds the key for Dr. Reddy's. Cipla's muted growth drives our Neutral rating while for Sun Taxotere upside is already factored in. We maintain Underperform on Ranbaxy and Glaxo, as Ranbaxy appears to factor in the best case outcome, and we expect Glaxo's growth to lag the industry average.

Figure: 3 Pharma's Profit Growth > Market Growth



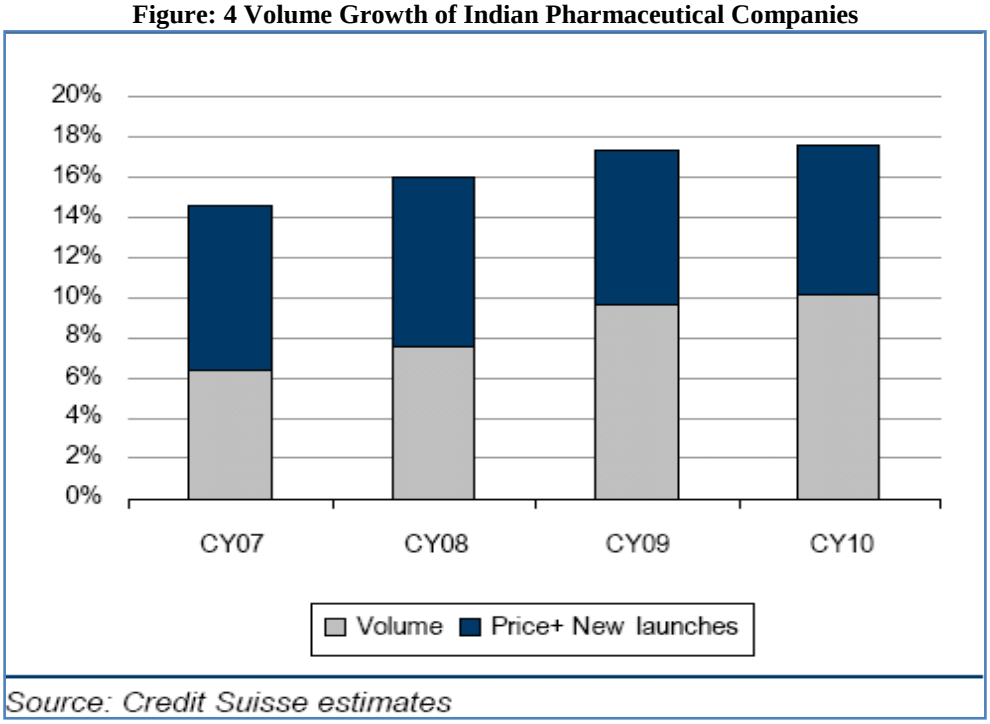
Source: Datastream, Credit Suisse estimates

Growth Acceleration

Growth of the Indian pharma industry has picked up over the past four years and was largely driven by higher volumes. Industry data suggests most of the volume increase has come from the non-urban markets, which are growing at 2-3x the urban markets. This has been possible due to the structural changes taking place on the ground. Indian pharma companies have expanded their sales force aggressively; some companies have increased their doctor coverage from 30% to almost 70%.

However, only the top 20 pharma companies are expanding to the rural regions currently. The long gestation period of almost three years and subsequent lower profitability discourage new entrants. Gross margin on rural portfolio is lower at 45-50% versus 70% on urban portfolio. Lower margins are due to matured products such as anti-infective, pain relief and vitamins. However, industry experts believe there is a first-mover advantage in these markets, both with doctors and customers. In the medium term, we do not see a risk to industry growth, as new product launches and volume growth should sustain 13-14% growth in the urban markets while volume growth in the non-urban markets should remain at about 20%.

Figure: 4 Volume Growth of Indian Pharmaceutical Companies



Source: Credit Suisse estimates

Export markets should account for bulk of the incremental growth for Indian pharma companies over the next two years, with the US market dominating export profit. Indian pharma companies currently have close to 5% market share in the emerging markets (ex. India and China) and less than 10% in the US. Indian firms are moving beyond plain vanilla products in the US towards branded portfolio and niche launches. Thus, by any means it is too early to say that the growth prospects in these markets have saturated.

We remain convinced about the growth prospects in the Ems (Export Market). Indian pharma companies are strategically well positioned to succeed in these markets, given their large and proven product portfolio, familiarity with the branded generic markets, low manufacturing costs and judicious market selection within the EM portfolio. The companies have learned from their peers' mistakes and now have a more matured approach towards these markets. The balance sheets of Indian pharma companies are significantly less leveraged than those of their global generic peers and thus, we think Indian pharma companies have ample scope to expand in these markets—organically as well as inorganically. The companies that should benefit from inorganic opportunities are Sun, Dr. Reddy's, Lupin and Cipla, in my view.

V. CONCLUSION

It has been seen that the Indian Pharmaceutical Industry has improved its infrastructure, creations that are based on technologies, and various other spheres of developments which has resulted in a huge amount of production in the Indian Pharmaceutical Industry. Even when the Indian Pharmaceutical industry was on its way to restructure itself , it still continued to flourish at a good rate in the World Pharmaceutical Industry and also getting itself fit with the new world of Pharmaceuticals.

The Indian Pharmaceutical Industry at present produces a huge amount of drug which includes all types of medicines needed for different streams. This was made successful because of the availability of very skilled technical and scientific manpower and also because of the development done in this field of industry.

The cell also looks after the quality of the drugs and also the global needs so that companies can make that type of medicines and export them to the concerned countries.
There are some particular reasons why the production has touched new heights:

- Indian Pharmaceutical Industry has reached a point which not only fulfills the demand within the country but also a surplus is generated for export purpose.
- The low production cost has also helped the Indian Cause.
- A very low R&D cost has also proved helpful.
- Indian Pharmaceutical Industry has scientific power which is innovative in nature and has helped a lot.

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