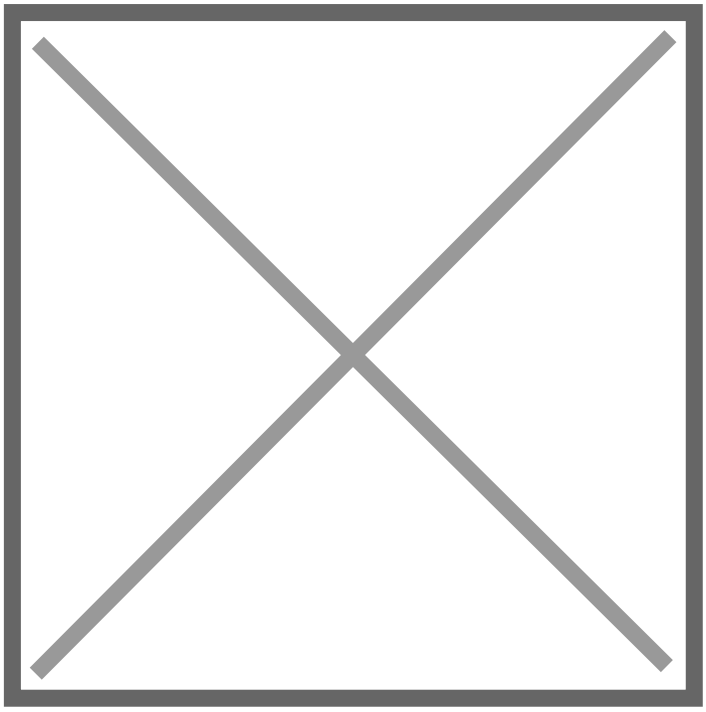
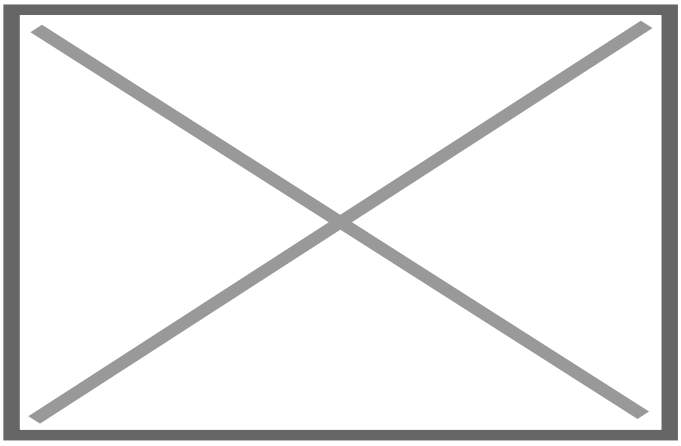
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Opportunities amidst crisis

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The overall debt crisis in the EU and the US is bringing a lot of business possibilities for Indian firms as they offer competitive advantages in terms of cost and quality

The economic crisis in the European Union and slowdown in the US may not have affected the biotechnology industry in India, however, the recent trend of a weakening rupee against the dollar could impact foreign investments in the sector. The present situation appears to be more of a mixed bag of opportunities and challenges for the Indian biotechnology companies.

Pharma exports have been hit in the recent months, but biotechnology has seen only marginal affects, and experts opine that in the coming months, its insulation from the crisis will be constant. The ₹20,000 crore ($4 billion) biotechnology industry in India, including the biopharma and the bioservices segments, constitute 80 percent of the industry's revenue with the highest exposure to exports, especially to markets in the US and EU. These include companies such as Biocon, Serum Institute of India, Panacea Biotec, Advanced Enzymes Technologies and Concord Biotech.

India favorite

Industry experts say that there is going to be only a marginal impact on these companies due to a rising demand for biopharmaceuticals and vaccines, and bullish sentiments of the global community about Indian biosimilars. Ã¢â?¬Å?We expect marginal impact in the short term. Other segments such as bioagri, bioindustrials and bioinformatics derive maximum revenue from the domestic market,Ã¢â?¬? says Mr Anjan Sen, director, strategy and operations, Deloitte in India.

Mr Ajit Mahadevan, partner, life sciences, Ernst & Young, says that there will be greater demand for biosimilars, and discovery and development-related services. Ã¢â?¬Å?This may be a good opportunity for Indian biotech companies as majority of them are engaged in vaccines or contract services and offer competitive advantages in terms of cost and quality. With the crisis taking a turn for the worse, many global companies might look at cutting down R&D costs and budgets,Ã¢â?¬? he says.

Mr Sujay Shetty, partner, pharma and life sciences, PricewaterhouseCoopers, has a similar opinion. Ã¢â?¬Å?Many global companies might shelve their in-house R&D programs and instead outsource clinical trials to CROs that are based out of emerging countries such as India,Ã¢â?¬? says Mr Shetty.

It is also time for Indian biotech companies to look at emerging markets for businesses. Mr Sen says that this opportunity can

help biotech companies focus on emerging markets and enable them to come up with innovative and sustainable business models. Ã¢â?¬Å?According to a study, the BRIC nations (Brazil, Russia, India and China) will provide the bulk of incremental growth for the healthcare market in the coming decade. Reforms being undertaken by the governments in these markets will also help the sector grow substantially,Ã¢â?¬? he points out.

However, companies such as Lupin and Advanced Enzymes still maintain that the US and EU are their important markets and shifting complete focus from such markets is not on their cards. Dr Cyrus Karkaria, president, biotechnology, Lupin, says, Ã¢â?¬Å?Lupin has its presence in the emerging markets and we will always use that to our advantage for biologics too. However, markets such as the US and EU are equally important for us.Ã¢â?¬?

Experts also see it as an appropriate time for biotech companies to enter into marketing alliances and tie-ups. Ã¢â?¬Å?Smaller biotech innovator companies can tie-up with organizations having strong marketing and sales muscle and try to reach to the masses in India itself. We expect tie-ups and partnerships to continue in the biotech space, although there may be fewer acquisitions,Ã¢â?¬? adds Mr Sen.

Fund crunch

The negative side is that funding into the Indian biotech industry, especially from regions such as the US and EU, may take a beating. Ã¢â?¬Å?The larger Indian biopharma industry has limited reliance on investor capital, thus in terms of unavailability of funds the situation hasn't changed much.

However, the smaller Indian biotech firms are facing issues similar to those faced by the global biotech companies. This includes the fact that 80 percent of the funding is going to 20 percent of the biotech companies (with Indian and many other biotech companies having to manage with the remaining 20 percent funds),Ã¢â?¬? says Mr Mahadevan. This is coupled with the fact that most of the small biotech companies do not have a risk management strategy in place.

Companies having business set-ups in Spain and Italy may also suffer setback. Ã¢â?¬Å?Companies that have significant exposure to markets, such as Spain and Italy, are likely to be on the front line of the impact as their governments have adopted a slew of measures to contain healthcare expenditures. Having said that, governments in other countries are expected to follow suit and hence players who are focusing on those markets would be impacted as much,Ã¢â?¬? adds Mr Mahdevan.

All for a weak rupee

For biotech companies, it is more of a no-loss, no-gain situation. Ã¢â?¬Å?A large proportion of the drugs exported by biotech companies, especially vaccines, are mainly to organizations such as the World Health Organization, wherein prices are already pre-decided and appropriate foreign exchange (forex) impact mitigation measures are in place. For pharma exporters, it is good news although manufacturers may see their input costs rising in the near future,Ã¢â?¬? says Mr Vishal Gandhi, senior vice president and head, life sciences, YES Bank.

According to Mr Mahadevan, the fluctuation is an opportunity amidst crisis. Ã¢â?¬Å?Currency fluctuations are characteristic of every recession and should be looked at in that light. The weakening trend may continue or reverse and companies should be cognizant of this. It is time when it is not only sufficient to have a competitive product or service, but also equally important to bargain favorable trade terms,Ã¢â?¬? he says.

Ã¢â?¬Å?The constraints are forcing companies to work and excel on multiple fronts, which may be a good sign from a long-term sustainability point-of-view,Ã¢â?¬? he says.

Mr CL Rathi, MD, Advanced Enzymes Technologies, sees a more long-term impact on the company's business. Ã¢â?¬Å?We have been focused on increasing our exports. Naturally, some export sales will not materialize quickly. We are now working to improve our services by employing an European subsidiary company,Ã¢â?¬? he says.

CROs in India are likely to be at an advantage. Ã¢â?¬Å?Indian CROs will benefit from the weakening rupee as their contracts are mainly dollar-backed. Those on the development side of clinical trials will be positively impacted as most western life science companies will now increase outsourcing of their trials to CROs in the emerging countries,Ã¢â?¬? adds Mr Gandhi. But the situation may make foreign investors reluctant to invest in the country. Ã¢â?¬Å?Since the fluctuations affect the global banking system, we will see foreign investors taking a backseat and reluctant to invest into the country,Ã¢â?¬? adds Mr Shetty. Agrees Mr Gandhi, Ã¢â?¬Å?PE investments in this area will take a hit as a major chunk of the money is raised in the US and EU markets. It is important that companies have a risk management strategy in place to hedge themselves.Ã¢â?¬?

In this case too, the impact would be mostly felt by small companies, who do not have a risk-mitigation strategy against risks of forex fluctuations and are unable to hedge their export revenues. However, companies will also see a rise in the cost of raw

materials and other logistics as-far-as exports are concerned. Ã¢â?¬Å?Depending on the kind of markets you will be exporting to, there will be some kind of impact on exports because there is a lot of competition in the market,Ã¢â?¬? says Dr Karkaria.

In the near future, crisis will continue with cuts in healthcare budgets being the top priority for many countries. Pressures of pricing and reimbursement are also here to stay for some time. Ã¢â?¬Å?There can be largely two approaches to sustain: prove it or lose it. This means that you need to pursue therapeutic areas and strategies to demonstrate how you are improving outcomes, and thus do more with less,Ã¢â?¬? concludes Mr Mahadevan.

Nayantara Som in Mumbai