

## Survival of the Fittest

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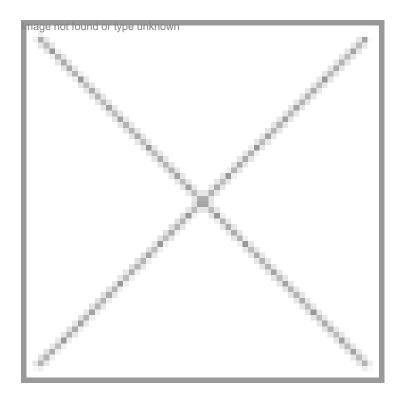


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## Survival of the Fittest

If India is determined not to miss the next big industrial wave, biotechnology, it is imperative to evolve strong fiscal and regulatory policies that support entrepreneurship, low cost base for research and manufacturing and encourage investments into the sector, advises Nitin Deshmukh, Director-General, ABLE and Head (private equity), Kotak Mahindra Bank.

Last year was exceptional for all sectors globally and in particular for Life Sciences. The industry showed many signs of evolving into a mature industry. Number of products, revenues, profits, market cap are all up and show intrinsic value. The industry was trumpeted as the "greenshoots" of investment and stock market recovery in Europe and the US as more biotech-

derived products came to the market. Half of the new drugs approved by the US FDA in 2003 were biologics. The industry ended the year 2003 building a diverse portfolio of protein therapeutics, many of which achieved blockbuster status. Though there was a decline in the total number of biotech companies both in the US and Europe, those surviving appear to have a firm financial base with a more realistic product portfolio. The industry statistics for 2003 reflected healthy numbers.

- Market capital of US biotech industry increased from \$ 219 billion in 2002 to \$ 342 billion in 2003.
- US capital markets invested \$ 16 billion in biotech in 2003 as against \$ 10 billion in 2002.
- Life Sciences sector attracted 27 percent of all VC funding in 2003 in the US -the highest proportion in the last 12 years (NVCA survey)
- There were over 155 drugs in the market, 19 approved in 2003 and over 370 drugs were in various stages of clinical trials or awaiting FDA approval.

What does this phenomenal performance mean for biotech in Asia and specifically India?

The year 2003 witnessed many Asian countries encouraging biotech through government policy-making bodies providing significant funding support and fiscal incentives. Government support to infrastructure development is helping creation of biotech research and industry clusters. Asian countries have jumped on the biotech bandwagon in an attempt to differentiate and develop greater knowledge base in their economies and mitigating risk of overdependence on traditional commodity manufacturing and trading activities. Korea, Taiwan and Singapore have taken a leadership position followed closely by China and India.

Unlike other sectors, Life Sciences rely on vast product and service revenue potential with a huge end user market. Asia with large unmet medical needs, unresolved diseases endemic to the region and demographics, presents such an opportunity to the Life Sciences industry. A generally benign regulatory environment, China's accession to WTO and compliance with TRIPS and India's adoption of product patents from 2005 can be expected to spur investments and cross border collaborations. While governments in Singapore, China, and Taiwan are vying with each other to lead in the area with large investments, India is yet to see a concentrated government effort, though the development of the biotech industry remains on its agenda.

While the biotech industry in India grew at 40 percent during 2003-04, the country also witnessed the successful IPO of India's largest biotech company - Biocon which created excitement on two counts - creating a benchmark of Venture Capital (VC) success and sector valuation. While the success of Biocon brought into focus technoentrepreneurship and venture capital; scarcity of venture capital remained India's key challenge in developing the industry. With the exception of few VC's, most VC's in the country are fairly new to this sector, do not quite understand the issues, are averse to risk and gestation periods involved, unlike in the US and Europe where a deep VC industry has developed with many biotech sector focused funds.

Countries that have shown leadership in biotechnology have seen their governments commit substantial public funds. The US, Canada, UK, Germany, Ireland, Australia and Israel government have invested billions of dollars to support emerging biotechnology developments, often in partnership with the private sector. Closer home, Japanese, Korean, Taiwanese and Singaporean governments actively promote and provide seed capital for biotechnology start up companies. Singapore has identified biomedical services as the next driver in its economic growth plan and has invested over S\$ 2 billion into creating a world-class infrastructure and establishing the regulatory framework. In addition to providing direct seed funding and fiscal incentives, it is encouraging foreign scientists to join its government research programs in an attempt to create critical mass in its talent pool as also enable research collaborations. Scientists are being provided incentives to participate in upsides of their product commercialization. While it is too early to comment on the outcome of such initiatives, the country is certainly attracting enough attention to becoming the region's biotech hub.