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~~Sanjay K Singh, associate director, corporate finance, KPMG India~~

*Several growth drivers in the domestic market have led to India etching a significant position in the global market. In an interview, Sanjay K Singh, associate director, corporate finance, KPMG India, talks about the key growth drivers in the market and lucrative areas of investment for Indian companies. Excerpts:*

**How did the Indian pharma market look like in 2007? What were the key areas of investment for Indian companies?**

In 2007, the key trends observed was increased research and development, growing generics market, CRAMS space and then the hospitals and allied industry space. In the R&D arena, companies are becoming more ambitious as they are now spending substantial amount of resources in basic research. Also the key trend now is that companies are looking at demerging their R&D arm because here they are talking about different risks and returns. Also, in this space, 2007 saw some of the top Indian companies joining hands with MNCs and talking about deeper collaborations in research.

On the generics front, companies are going for segments which are niche and with marginal risks. Some of the segments of focus are dermatology and injectables. For instance, Glenmark is planning to launch close to 13-15 dermatology products in the US in next 2-3 years and they are all generic products. Oncology is one segment that companies are getting serious about. Unfortunately there are not many companies which have been able to file too many ANDAs on the oncology front.

Then we have the Contract Research and Manufacturing Services (CRAMS) opportunity -- clearly it was of no interest to companies five years ago, but now they have realized that this is a bigger opportunity and one which gives them a relatively less risky stream of business. So in this space there are CRAMS-oriented companies and on the other hand, there are large pharma companies which have dedicated a good amount of resources in the CRAMS space. In this space again it was observed that Indian companies have gone into exclusive, long-term contracts with some of the companies in the US and EU as they find it an attractive proposition.

Talking about hiving off R&D units, many private equity firms which have invested in these units are backing out because of the high risks involved in these ventures. Is this justified?

Clearly it is a business where risks and returns are very different from the normal generics business. There have been a few cases of firms which have invested in these demerged research arms of certain companies and are now planning to get out of it. But that is only natural because one should understand that this is a business which is still evolving in India while in the west it is flourishing where people understand the risk profile involved. In India people are just getting the hang of it now. So it is just a matter of time before they understand that it is a different business altogether. Once you understand the intricacies of the risk which comes with it, you are also talking about the potential which is manifold and with greater results

Analysts predict that pharma retailing is the next big thing. What is your take on this?

Typically pharma retailing in India is a peculiar scenario. We have so many wholesale traders and retailers that it has now become a very unorganized sector. Pharma retailing will bring in benefits to the consumer. At a larger level, circulation of fake drugs in the market can be reduced. These are aspects only bigger retailers can handle and not a small retailer. Retailers are people who are into backward integration, who have the IP chain and are trying to put in measures like RFID to track counterfeit drugs in the market.

Second, now India has issues on the storage ability of drugs. Many products are stored beyond the required temperature. For example, many of the injectable products are supposed to be stored at 80C, but in the suburban and rural areas, it is kept outside. So in such a situation it is only the organized retailers who have the resources to adhere to the conditions. Again the advantage is on the issue of price. Bigger retailers will be talking directly to the producers. So here they will backend the prices from the producers and the prices taken to the consumers will be lower than the price is right now. Pharma retailers would take time to consolidate their position in India because here reach is a concern.

The year 2007 saw a series of M&As. Will there be new trends in the M&As avenue?

M&As can be differentiated into two parts -- one is the local M&As and then M&As happening overseas. Crossborder M&As have always existed in India and will continue to attract Indian players for many reasons. Indian companies want to expand their relations with MNCs, the US and EU as they give better margins. So this model, where manufacturing is done in India and marketing done overseas, is a sustainable one. Local M&As have not been happening on a larger scale, but my sense is that the time is not far when we will see even local M&As happening due to cost pressures on product launches. India is a product patent country. So there will be pressure on local small companies either to merge or collaborate, partner alliance with some of the bigger companies for survival and there are already such feelers in the market, the latest instance being Ranbaxy and Orchid joining hands. This is a new trend, but it is inevitable.

How will biotechnology change the face of the pharma industry?

If you see the newer pipeline of MNCs, a large part is biotech products. So biotech is an inevitable phase. Biotechnology will come to India to a larger extent, but at the same time, the potential of Indian companies to develop biotech products is limited, the reason being lack of technology know-how and dearth of trained manpower. India has traditionally had people with strong chemistry skills rather than biological knowledge. It is trying to grasp that knowledge because we have had scientists who have worked in research labs abroad and who have come here and joined pharma companies, but still we have not yet come to a scenario where they have reached that comfort zone on the development side. There would be a collaboration front when they would collaborate with larger companies to launch their biotech products and also get to know the intricacies of business. Some companies have also invested a good amount of money in biotech. For instance, Glenmark has established a dedicated biotech company in Switzerland. It will be a while before companies in India will get full-fledged into this business

How will public-private partnerships help in accelerating growth?

India is a market where the government has traditionally been a healthcare provider. That needs to change. Public-private partnership (PPP) holds a lot of promise while the government can provide a lot of assistance in terms of research, technical

know-how, facilities and maybe some concessions.

Since CRAMS is the next big thing for pharma, what effect will it have on biotech?

There is a lot of scope for biotech companies, especially in the CRAMS space. Many of the biopharma companies are now looking at outsourcing their product manufacturing to India as they have run out of capacities in the US and EU. Traditionally CRAMS has not been happening on the biotech side, but now there is a clear opportunity for CRAMS on the biopharma side, especially for players who understand the industry better and it will also be an opportunity for them to understand the technology platform to move up the value chain.

Indian companies have lagged behind on the technology front? Are there some investments happening on this front now?

For this flaw, it has to be largely understood that India was a process patent compliant. So there was hardly any incentive for companies to invest in technology. Here they would just take an alternative process and design the same product. Now in the product patent compliant regime, I think there will be a lot of incentives to invest in R&D. Now out of the top 10, clearly 5-6 companies are seriously investing in technology. They are not just NCEs, but new NDDS which can be branded.

What is the success mantra for companies in the pharma and biotech space?

A company has create its own niche and not emulate others and most important stick to it. Second, companies should keep an eye on trends. While opportunities present at hand might be big, there are few trends which will happen in the next 2-5 years, which could be even bigger. So the earlier a company keeps an eye on its competitor, the better for it, an apt example being CRAMS. Again, while the cost advantage is transient, the clear differentiator in India would be the technical know-how and research ability.

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