

The future of biotech industry in India is very bright

13 June 2003 | News

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Ernst &Young (E&Y) is one of the world's top 4 technology consultancy organizations. E &Y has been globally active in biotechnology for some years now. It compiles the widely acclaimed Global Biotechnology Report every year. This year's report is likely to be released at BIO 2003, the annual meeting of the global biotech industry in Washington DC on 22-25 June. Driving E&Y's biotech initiatives in India is its Hyderabad-based director Utkarsh Palnitkar. He outlined the organization's pioneering activities in India in a chat with BioSpectrum. Excerpts:

What is the total quantum of funds committed/disbursed so far to biotechnology companies in India? What is your estimate of the funding requirements of biotech industry in the next few years?

The biotechnology commitments of different venture capital funds (VCFs) is estimated to be to the tune of Rs 300 crore (Source: RIS). The Small Industries Development Bank of India (SIDBI) and ICICI Bank have committed about 35 percent each. As revealed by a recent CII Survey, banks continue to remain the major financing source for biotech in India with venture capital accounting for less than 20 percent of the funding. The total project investment by the companies analyzed in the survey was over \$100 million (Rs 480 crore) in the last decade. The companies have received over \$1.5 million of VC funding from 1999-2001. The total private equity funding estimated to be made in the Indian biotech sector in the next 2-3 years is in the range of \$ 100-200 million (Rs 480-960 crore).

Ernst & Young has been working closely with many state governments and organizations to promote the biotechnology segment. Could you give some details?

Our health sciences team has worked closely with the Government of Andhra Pradesh in its various initiatives for promoting biotechnology in the state, key among them being the formulation of the state's biotech policy, privatization of the biotech park and more recently the conceptualization and promotion of the Genome Valley bio-cluster. E&Y is the retainer consultant to the state for the biotech sector and has the mandate for attracting large private and foreign investments in this sector. E&Y is also a member of the Biotech Advisory Committee set-up by the AP government for the promotion of biotechnology in the state. Our team has also served the state governments of Maharashtra and Kerala on assignments related to the biotech sector.

There is a lot of government support to the biotech industry in the US, Israel, Canada and Australia. Is there any relevant model for India to design an ideal funding mechanism to promote the biotech industry?

Angel funding or seed capital for biotech start-ups is the primary need for this sector. Finding a solution to early stage biotech venture funding becomes all the more relevant, given that the majority of the opportunities are in the start up/early stage and are driven by research or researchers evolving from academic and research institution.

Most companies require seed capital prior to the VC funding stage and here the government could perhaps play the all important role of an angel investor. In this context the Israel model where the government and the venture capitalist hold an equal stake in the company seems to be quite relevant to India. The government may exercise an exit route when the company is profitable by first offering to sell its stake to the VC itself. Interestingly enough, a declaration based on the Israel model is being drafted by Karnataka's Vision Group on Biotechnology to be presented for implementation by the state and the central government.

Do you recommend Indian biotech companies to confine to product or services or some niche areas to make global impact quickly?

Globally, the product paradigm has clearly emerged as one of the paths to sustainable growth in biotechnology. A quick look at the top 10 global biotech companies would reveal that nearly all are product companies. In fact, even leading tools and technology providers like Incyte, Applera Corporation and Millennium are now moving towards a product based business model. Global biotech companies have undergone a transition from being R&D focussed organizations to those that develop products and create licensable technologies. In India, the service model is the more popular entry strategy for start-ups as risks are low and cash flows are positive from an early stage.

What is your forecast about the growth prospects of the Indian biotech segment? Do you foresee any consolidation-taking place in the near future?

Given the pervasive nature of biotechnology, it is expected that nearly all products in the future would become biotech oriented. As more and more organizations continue to embrace biotech based techniques, I suspect a time would come when one would be hard pressed to distinguish biotech from the mainstream. Having said that, the kind of support the government has shown to this sector and the missionary zeal with which the sector is being promoted by various industry associations such as CII, ASSOCHAM & FICCI, the future of the biotech industry in India undoubtedly seems bright.

What we now need to look at is how the Indian biotech industry can move to the next step. With the present constraints on funding for biotech ventures, the only way I see companies in this sector growing is through collaborations, partnerships and alliances- both nationally and globally. One can only speculate that in the product patent regime post 2005, most small to medium sized Indian biotech companies may become attractive acquisition targets for big pharma and biotech companies and MNC contract research organizations (CROs) with deep pockets. I say this because global companies are increasingly recognizing India as a low cost hub for research and development.

How many state governments have started exclusive venture funds for the biotech segment?

There are, in fact, quite a few state government sponsored venture capital funds in the country today viz. APIDC Venture Capital (Andhra Pradesh), Karnataka State Industrial Infrastructure Development Corporation (KSIIDC), Gujarat Venture Finance Ltd and Kerala Venture Capital Fund. The state governments of Delhi, Tamil Nadu and Uttar Pradesh also have their own venture funds. Some of these states are also in the process of launching dedicated funds for biotechnology.

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