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WTO: A study of the pharmaceutical sector

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Gloabalisation of world trade has become inevitable ever since the WTO regime came into effect. Any corporate response now cannot remain confined to domestic markets, and even at domestic levels, the competition is global. In the changed situation, only those companies that are either multinational or those that are proactive to change, occupy top slots in sales and exports. In the pharmaceutical sector, most such companies are those that have a good R&D base. They can tap the national and international markets entering into newer areas of medicine and want to see eye to eye with the top companies of the world.

The coming in effect of the WTO regime has made globalization inevitable. No longer can a corporate response be confined to domestic market based on unilinear strategies often dependent on government intervention. Even at the domestic level the competition is global whether from MNC's or from increased imports.

In this changed scenario with the global regime supreme only those players who responded to the rules of the game and reacted to the global changes rather than domestic imperatives have emerged successful. With the new patent regime there will be longer patents, new drugs that will be introduced will carry patents along with. The change in investment laws under the TRIMS will change the constitution of MNC's in India, more companies will try to enter their bases in India, a country

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vith low labour cost. Reverse Engineering can no longer be the preferred route in he patent mainstream. Phasing out of subsidies and tighter implementation of the emaining ones will be the hallmark of Indian business in a global regime.

n the times to come direct exports and imports are a reality and a reduction in the luties is going to make the markets more competitive. Although, if the companies vant to innovate and be creative, capital goods imports, which are already cheap, vill be cheaper in the future for adopting new technologies. While much of this :an be associated with liberalization if we look at the performance of the different :ompanies under different parameters, it is inferred those who responded to Global Challenges particularly under the GATT/WTO regime have come to dominate the harmaceutical sector.

'he analysis of the basic economic data of the top 10 pharmaceutical companies ınder different heads (sales and exports) and at different point of time in last decade hows that there has been a marked change in the nature of the companies that lominate the top slots. The most important factors seem to be a response to the harge in not just the markets but also on Research and Development. The ompanies, which are R & D centric, have reached the top.

Hitting the bull's eye

TOP TEN PROFIT SELLERS OF THE PHARMA INDUSTRY (figures in Rs. Crores)

1995 Sales	Rs.Cr.	2000 Sales	Rs.Cr.	*2003 Sales	Rs.Cr.
Glaxo India Ltd.	920	Ranbaxy	1996	GSK	2480
Ranbaxy	793	Novartis	831	Cipla	2345
Novartis	469	Cipla	773	Ranbaxy	2280
Lupin	466	Aurobindo	740	Nicholas	668
Aventis	310	Wockhardt	558	Sun Pharma	613
Cipla	298	Lupin	543	DRL	504
Pfizer	243	Aventis	536	Cadila	480
Ambalal Sarabhai	243	Dr.Reddy's	493		
Torrent	234	Nicholas	490		
Smithkline	215	Sun Pharma	479		

*Source: CMIE database 'Prowess' *Source: ET & TOI, First week of May, 2004*

'he domestic pharma market grew 7.3% in the year to March 2004 to net sales of pprox. Rs.20, 000 crores, GSK remained the market leader as with the merger effect etween Glaxo Pharma and Smithkline Ltd., but Cipla climbed closer to the top lot with 11.2% spurt in sales compared with GSK's 2%.

The story ahead

There are a number of companies which may have a leading figure in sales analysis, but were nowhere in reckoning and in some cases the companies were making losses. There was a sizable presence of the companies in the top slots with good profits especially of the mergers and acquisitions. E.g. DRL and American Remedies, Glaxo Wellcome and Smithkline Ltd. A more direct measure of the response to the global market challenges is the export figures.

TOP 10 EXPORTERS OF THE PHARMA INDUSTRY

2000 of exports	Rs.Cr.	*Dec 2003 of exports	Rs.Cr.
Ranbaxy Lab Ltd.	374	Ranbaxy Lab Ltd.	2346
Cheminor	116	Dr.Reddy's Lab	983
Ipca Lab Ltd.	110	Aurobindo Pharma	642
Aurobindo Pharma	95	Lupin	559
Shasun	89	Orchid Chem.	532
Orchid Chemicals	79	Biocon	300
Lyka Labs Ltd.	63	Wockhardt	280
Cipla	60	Divi's Labs	259
Wockhardt	59	Sharun Chem.	178
Strides Arcolab	58	Cadila	177

*Source: CMIE database 'PROWESS'; *ET August 2004.*

The profile of leaders in exports has virtually been recast by 2003 with Ranbaxy topping the list consecutively.

With the onset of global competition, only those companies, which are either multinational, or those Indian companies, which are proactive to change, occupy these top slots in Sales and Exports. Most of these companies have a good R & D base they are tapping the national and international markets entering into newer areas of medicine and want to see eye to eye with the top companies of the world.

WTO related sectoral study on drugs and pharma industry in India:

Industry Overview: The world market for pharma is currently placed at US$450 billion is projected to grow at an annual rate of 8% over the next five years. The growth in the Indian pharma industry at around 12% p.a. compares well with the industry's growth of 14% p.a. in North American Region. India is ranked 5th in the world, and accounts for 8% of the worlds production of drugs and pharma.

Trends in Production: The production of formulations dominated by the large scale and multi national companies has been increasing with steady yoy growth rate of 15% per annum. The production of bulk drugs has increased at higher yoy growth rate around 19% to 20% p.a. in the last five years.

Trends in Imports: Imports are largely from China, Switzerland, USA, Germany, UK, France and Japan; the import of formulations has been picking up growth at almost 25% p.a. in the last 5 years.

Trends in Exports: The annual growth rate in exports between 1994-95 and 2000-01 has been 22%. Growth in exports of formulations has fallen down from 15% to 8% in 2000-01 at the same time imports of formulations have been growing steadily at 25% - 26% p.a. The growth rate between 2002 – 2004 July has been 35 – 40%.

Investment: Investment in the pharma industry has grown from Rs.1380 Cr. in 1995 to Rs.2900 Cr. in 2000 and expected to grow 15% - 16% more p.a.

The Market: India is expected to open two mega opportunities for local pharmaceutical companies i.e. R & D and contract manufacturing.

Chemecii has projected India's exports till year 2006 – 07, exports are projected to grow rapidly from Rs.9550 Cr. in 2001 – 02 and nearly double by 2005 – 08 and further escalate to Rs.24,000 Cr. by 2006 – 07. This reflects the tremendous export potential of the Indian Pharma Industry.

Competitor Analysis: China accounts for nearly 70 – 75% of total imports of paracetamol in the country. The share of imported paracetamol in total domestic consumption has been rising. Due to this domestic manufactures were forced to reduce their selling price.

India – China Comparison: The main strength of the Chinese Pharma industry is the installation of large manufacturing capacities which render higher economies of scale. At the end of 1999, China had over 1800 J.V with a total investment of US $ 1.5 bn. It has special valley for pharmaceuticals where the output is estimated been US $ 240 mn. in the year 2001 and will grow steadily at 25% p.a.

Conclusion

The new regime will be the knowledge regime and human resources are to play a critical role for the success of the companies. The emphasis will be on research and development. The initiative research and reverse engineering will be discouraged and large number of companies may face closure. The companies survival and growth definitely will depend on how strategically and effectively they face and counter the various challenges posed by the changed environment. Companies will have to take cautious strategic moves to off set the risk of threat in the new product patent regime. The flood of mergers and acquisitions will be continued.

The changed environment may cause rise in the drugs prices, as there may be a kind of monopoly of the firms having patent rights. The common man will be affected badly on account of availability of new drugs.

Most executives and doctors echoed a similar sentiment: "Major alliances will be there with much authentic companies i.e Joint Venture, mergers & acquisitions may also be there in the context of the domestic companies."

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