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North Indian pharma: Focusing on R&D and tie-ups to meet challenging conditions

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Sanjay Pingle, Mumbai

The North India based listed pharmaceutical companies have established strong presence in the domestic market, highly regulated markets and emerging markets during the last couple of years with several US FDA approved facilities, high-tech R&D laboratories, focus on new lifestyle drugs and partnership with international giants.

Despite economic slowdown in international market, especially in US and Europe, these companies are going ahead aggressively in filing new products in US and Europe. The players are investing huge amounts in expansion of cGMP facilities and new technologies. However, the challenging situation with stiff generic competition, US actions against Ranbaxy and volatile foreign exchange rates are impacting overall working.

The better infrastructural facilities, government support, skilled workforce and growth oriented industrial atmosphere in the North India has offered necessary boost to pharmaceutical segment. The rising custom research and manufacturing services (CRAMS), drug discovery and development services and clinical trials will offer significant boost to business in the coming years. The Indian pharmaceutical market registered better annual growth during 2008-09 as compared to regulated markets and North based pharma companies contributed to this growth. The chronic therapy segment recorded a growth of 13.1 per cent and contributed 28.3 per cent to the total market, while acute therapy segment grew at a rate of 8.6 per cent.

The North Indian pharma segment is dominated by important listed companies, with net sales of over Rs 100 crore during 2008-09, like Ranbaxy Laboratories, Jubilant Organosys, Surya Pharma, Nectar Lifesciences, Panacea Biotec, two companies from Ind-Swift Group, Fresenius Kabi Oncology (formerly known as Dabur Pharma), Venus Remedies and Jagsonpal Pharma, are spreading their operations in new markets, undertaking R&D activities and launching new products.

Further, Morepen Laboratories, based in New Delhi, is struggling with its carried forward losses. Medicamen Biotech and Ahlcon Parenterals are moving ahead with net sales of Rs 86.34 crore and Rs 37.83 crore respectively. The major listed two hospital groups viz., Fortis Healthcare and Indraprastha Medical Corpn are also going ahead strongly.

The leading two companies i.e. Ranbaxy Laboratories and Dabur Pharma were acquired by multinationals players like Daiichi Sankyo of Japan and Fresenius Kabi and now consolidating their operations.

The net sales of 10 pharmaceutical companies, with net sales above Rs 100 crore, in

North India increased by 16.5 per cent to Rs 15,070 crore in 2008-09 from Rs 12,935 crore in the previous year. Though the top line growth was better, the bottom line of these companies impacted heavily by huge foreign exchange losses. Out ten companies, five companies profit declined or they incurred loss. The sample of 10 companies recorded a net loss of Rs 651 crore as against a net profit of Rs 1,520 crore in the previous year.

Ranbaxy, Panacea Biotec and Fresenius Kabi Oncology incurred a net loss of Rs 951 crore, Rs 67 crore and Rs 146 crore respectively during 2008-09 as against net profit of Rs 775 crore, Rs 129 crore and Rs 98.59 crore. The profit before interest, depreciation, taxation and other adjustment, however, improved by 10.2 per cent to Rs 2,268 crore from Rs 2,057 crore in 2007-08.

As against these manufacturing companies, there are major two hospital group viz., Fortis Healthcare and Indraprastha Medical Corporation. These two hospital generated revenue of Rs 1,011 crore during 2008-09 as compared to Rs 559 crore in the previous year, a growth of 81.2 per cent. The net profit of two hospitals went up sharply to Rs 44.17 crore from a net loss of Rs 17.65 crore. Fortis Healthcare turned the corner successfully and earned a net profit of Rs 20.82 crore as against a loss of Rs 55.48 crore in 2007-08.

The North based pharmaceutical companies are continuously investing in R&D activities to established strong presence in regulated markets. These companies launched many new products in the domestic and international markets.

Ranbaxy, the largest pharma company in India, spend Rs 471.38 crore on R&D activities on consolidated basis during the year ended December 2008 as compared to Rs 460.52 crore in the previous year. This worked out to 6.4 per cent of consolidated net sales. During the first half of 2009, its R&D spending increased to Rs 201.91 crore from Rs 196.63 crore. Its alliances with GlaxoSmithKline and Merck in the area of New Drug Discovery Research are progressing well. Ranbaxy received a milestone payment for a product in Phase-I clinical trial was received from GSK. Ranbaxy made 80 filings worldwide and received 55 approvals, which takes the total number of filings to 172 with 133 approvals during 2008.

Earlier, Ranbaxy had planned a de-merger of its Drug discovery Research Unit into a separate company. However, in June 2008 it decided not de-merged this unit. As at the end of December 2008, Ranbaxy had 241 ANDAs filed with the US FDA, of which 142 have been approved and pending pipeline of ANDAs represents an innovator market size of close to US$ 55 billion. The company successfully settle most of its pending litigations worldwide involving Atorvastatin (Lipitor). It also settled pending cases with AstraZeneca.

Jubilant Organosys (JOL) has recently signed a research collaboration agreement with AstraZeneca. Under the shared risk-reward collaboration, AstraZeneca will own the compounds developed under the collaboration with worldwide development and commercialization rights and Jubilant will be eligible to receive research funding spanning an initial five-year period. Jubilant Biosys, a subsidiary of JOL, is providing integrated drug discovery and development solutions to the global pharmaceutical industry. It has an integrated state of the art facility in Bangalore with over 300 scientists.

Panacea Biotec is the second largest vaccine producer in India. Its product includes highly innovative vaccines, biopharmaceuticals and prescription products in important therapeutic areas such as pain management, diabetes management, renal-disease management, anti-osteoporosis, anti-tubercular, gastro-intestinal care products. It has collaborations and tie-ups with leading national and international research organizations and corporations. It has set up five R&D centers and got 24 product patents, valid in more than 60 countries worldwide.

The company is focusing its R&D efforts towards immunization segment. It has launched world's first fully liquid vaccine with brands such as, 'EasyFour" & 'EasyFive'. The company has entered partnership with WHO and UNICEF in their effort to maximize coverage of vaccines under the Expanded Program on Immunization.

Venus Remedies has submitted 49 product dossiers for registration in 23 countries across the Globe. With this it has presence in 20 countries of LAC, South East Asia, Africa and Middle East. The company received DCGI permission to conduct phase-III clinical trial of a novel amino glycoside formulation. The molecule was in-licensed from Chinese Innovator Company by Venus who has the exclusive marketing rights for this product in India. Venus received Korean Intellectual Property Office a product patent for Potentox, one of the research products.

Fresenius Kabi Oncology's R&D expenditure increased to Rs 30.73 crore during 2008-09 from Rs 26.23 crore in the previous year.

Ranbaxy has invested significant amount of Rs 3279 crore in subsidiaries up to end of December 2008 and it is increasing every year. Its investments in international subsidiaries amounted to Rs 3021 crore and that in domestic subsidiary touched to Rs 258 crore. Its investment in Ranbaxy (Netherlands) BV increased to Rs 2654 crore during the year ended December 2008 from Rs 2529 crore in the previous year.

Ranbaxy acquired total 46.99 per cent stake in Zenotech Laboratories and invested Rs 155 crore to acquire Vectra Pharmaceutical Pvt Ltd in 2008. The company has 52 subsidiaries as at the end of December 2008 and one Joint venture namely Nihon Pharmaceutical Industries Co Ltd in Japan. Ranbaxy has setup manufacturing facilities in 11 countries.

Surya Pharmaceutical's subsidiary has launched its Pharma Retail Project by opening 5 pharmacy stores in April 2009. It targets to create PAN INDIA presence by setting up 500 stores by 2011-12. Surya Pharma has incorporated an overseas subsidiary company Surya Pharmaceutical, Inc., in USA for promotion of its products in USA and Latin America. Panacea Biotec has invested an amount of Rs 23 lakh towards capital contribution in its US subsidiary company and Rs 240 lakh towards payment of call money in respect of shares held in its Indian subsidiary, Umkal Medical Institute Pvt Ltd. Panacea has also setup indirect subsidiaries in South Africa and Switzerland for marketing of products.

Jubilant Organosys, the largest in CRAMS in India with revenue of Rs 1963 crore, has established strong foothold in more than 50 countries. Its international revenue during 2008-09 increased by 56 per cent to Rs 2,177 crore. The company recorded 103 per cent growth in its North American revenue to Rs 1181 crore and that in European Union increased by 8 per cent to Rs 381 crore. The company announced tie-up with Eli Lilly, Amgen and Forrest Labs for drug discovery and development activities. The company is now investing Rs 250 crore in CRAMS in the current year.

Ranbaxy's standalone exports on FOB basis increased to Rs 2682 crore during 2008 from Rs 2517 crore in the previous year. Its consolidated net sales during the first half of 2009 declined by 9 per cent to Rs 33,537 crore mainly due to fall in sales in North America. Its sales declined by 29 per cent in North America to Rs 7,894 crore in first half ended June 2009 and that in Europe moved down by 13 per cent to Rs 5,970 crore.

With sharp improvement in profitability of Ranbaxy and Jubilant Organosys during the quarter ended June 2009, the aggregate net profit of 10 pharma companies in North India improved sharply by 454 per cent to Rs 907 crore from Rs 163.60 crore in the corresponding period of last year. However, profit before interest, depreciation, taxation and adjustments declined by 29.1 per cent to Rs 440 crore from Rs 621 crore basically due to lower EBDIT recorded by Ranbaxy, Panacea Biotec and Jubilant Organosys.

While announcing quarter ended June 2009, Atul Sobti, CEO and managing director Ranbaxy, said, "Challenges have continued this quarter for the global economy and the pharmaceutical industry, affecting liquidity and demand across geographies. Our balanced market mix with a clear focus on emerging markets has helped us mitigate these pressures."

The aggregate net sales of these 10 companies declined by 1.4 per cent to Rs 3,011 crore from Rs 3,053 crore as Ranbaxy's standalone net sales declined by 17.3 per cent to Rs 1,006 crore during the quarter ended June 2009 from Rs 1,217 crore in the similar period of last year. Even, Panacea Biotec's net sales moved down by 21.1 per cent to Rs 177.21 crore from Rs 224.48 crore.

Though the profit margins are under pressure, North India based companies paid better returns in the form of dividend to investors for the year 2008-09. Though Ranbaxy and Panacea Biotec skipped the equity dividend during 2008-09, Jubilant declared equity dividend of 150 per cent, Ind-Swift Laboratories and Nectar Lifesciences paid dividend of 10 per cent. Surya Pharma announced dividend of 12 per cent. Even the share prices of these companies are moving at reasonable level in the volatile market.