Pharmabiz
29 September 2012

Pharma industries need to look sustaining growth post 2015 when patent expiries stop

Baring Private Equity Partners India perceives that India pharma will now need to look at sustaining its growth momentum post 2015 when there will be no major drugs going off patent.

Patents of around $13 billion worth blockbuster drugs expired in 2007 and another $60 billion worth patented drugs would expire by 2012. As a result, the global market will have new generics worth $73 billion.

At the current valuations level, companies can generate sustainable growth ranging from 18 per cent to 25 per cent. Although meeting these expectations will not be a challenge in the near term as patent expiry of several drugs but will create a bountiful export market for Indian generic companies which will fuel their growth story. But sustaining growth momentum post 2015 would be a serious challenge when there will be no major drugs going off patent, Amit Chander, Partner, Baring Private Equity Partners India told Pharmabiz.

There will be greater realization then that the export opportunity for Indian companies is unfortunately cyclical in nature not in the conventional sense of being linked to economic cycles but being connected instead to patent life cycles, he added.

Companies which are not planning ahead for this eventuality in terms of having new growth options will have another painful realization to cope with the fickle nature of markets. Valuations will get re-rated if growth expectations are not met as has been amply evident in the telecom sector recently where evaluation of market leaders contracted sharply as growth slowed down. Therefore building a sustainable business and creating value for shareholders over the long term is all about being able to spot trends ahead of the others and capitalizing on those insights through smart execution, pointed out Chander.

Those companies focused on maximizing exports, oblivious of the sharp bend in the road post 2015, will find it difficult as there are no short term fixes to the problem. Acquisitions can change the growth numbers once in a while but can’t be a sustainable alternative. Therefore Indian generic companies have to accept this reality that sustainable growth in the pharma industry has always come through innovation, through development of new products. With the drying up of drug pipelines and large drug multinationals with all their experience and resources unable to develop enough new drugs, it would be a difficult situation even for small Indian companies with limited expertise in this area, he said.

In such a scenario, Indian pharma need to go after smaller commercial opportunities like low risk incremental innovations by enhancing the utility profile of existing drugs. The industry is still to offer perfect solutions to patients in several areas. Lot of existing drugs have limitations which if overcome through smart incremental innovation can enhance value-add to patients creating commercial value in turn for the innovating companies, said Chander.