

Killing competition

Pharma multinationals use the FDI route to acquire Indian companies in order to monopolise the generic market.

BY **SAGNIK DUTTA**

As the United States-based pharmaceutical company Merck and Co is all set to sell a human immunodeficiency virus (HIV) medication this year in partnership with the Indian company Cipla, the strategy of U.S. drug companies to acquire generic manufacturers and thereby cut down competition has been brought to light.

This deal will allow Merck to use Cipla's extensive marketing and distribution network to sell its patented product under a different brand name.

Merck produces Raltegravir, an important HIV medicine used to treat patients in India who have failed both first and second line anti-retroviral treatment. The patent for this medicine expires only in 2022. The licence deal between Merck and Cipla will curb generic competition between multiple producers that could lead to a lowering of the prices of the drug.

EXPIRY OF PATENTS

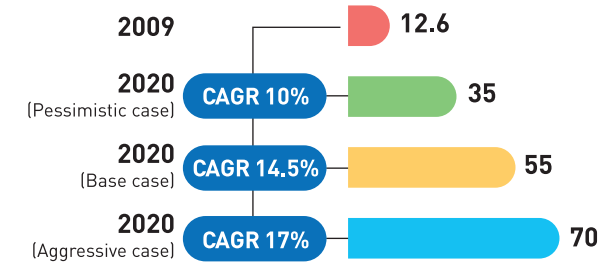
At present, middle-income countries pay more than \$5,000 per patient a year for the drug. Medecins Sans Frontieres pays \$1,700 a patient a year for procuring the drug for its programmes in India. As patents on a number of blockbuster drugs are about to expire, pharma MNCs are acquiring generic manufacturing Indian companies through the 100 per cent foreign direct investment (FDI) route in both greenfield and brownfield investments.

Takeover of major Indian companies since 2006

Year	Indian companies	Multi-national companies	Value (\$ million)	Type
2006	Matrix Labs	Mylan	736	Acquisition
2008	Ranbaxy Labs	Daiichi Sankyo	4,600	Acquisition
2008	Dabur Pharma	Fresenius Kabi	219	Acquisition
2009	Shantha Biotech	Sanofi-Aventis	783	Acquisition
2010	Orchid Chemicals	Hospira	400	Business buyout
2010	Piramal Healthcare	Abbott	3,720	Business buyout
2010	Paras Pharma	Reckitt Benckiser	726	Acquisition
2012	Cosme Laboratories	Adcock Ingram	87.8	Asset acquisition
2012	SMS Pharmaceuticals	Mylan	33	Acquisition of manufacturing unit
2013	Unichem Laboratories	Mylan	30	Acquisition
2013	Agila Specialities	Mylan	1,600	Acquisition
2013	Claris Lifesciences	Otsuka pharmaceutical	250	Joint venture
2014	Cipla	Merck	NA	Licensing deal

The growth of the Indian pharma industry

Projected size of the Indian pharma market (in \$ billion)



Source: Indian Pharma 2020: Propelling access and acceptance, realising true potential a report by McKinsey and Company

Some major acquisitions

- The U.S.-based Mylan entered India in 2007; purchased Hyderabad-based Matrix Laboratories for \$736 million.
- Has acquired seven more companies since.
- Acquired an active pharmaceutical ingredients (API) unit in 2009 and Atra Pharmaceuticals, a finished dosage plant in Aurangabad.
- In 2013, bought Agila Specialities, the injectable medicine subsidiary of Strides Arcolab.
- After the acquisition Mylan will have 14 production facilities in India.
- In 2013, Mylan also acquired SMS Pharma and Injectables' manufacturing unit in Vishakapatnam, Vivin Life Sciences in Vijaywada, Glochem (a finished dosages plant in Hyderabad), another fixed dosages facility in Indore.



• The Merck-Cipla licensing deal for production of Raltegravir—an important HIV- AIDS medicine used to treat patients who have both first and second line HIV treatment.

- It is a deal that will allow Merck to use Cipla's extensive marketing and distribution network in India to sell its patented product under a different brand name.
- It was among the first HIV medicines to be patented in India, and with the patent not expiring before 2022, open generic competition on this medicine is blocked.
- Middle-income countries currently pay more than \$5,000 a patient a year for Raltegravir.
- Raltegravir is on the list of patented drugs a committee constituted on compulsory licensing in the Ministry of Health is looking into.

The merger-acquisition rush

- With a number of patents on blockbuster drugs going off-patent shortly, pharma MNCs are acquiring strong generic manufacturing Indian pharma companies by taking advantage of the 100 per cent FDI in both greenfield and brownfield investments.
- According to data released by the Department of Industrial Policy and Promotion (DIPP), FDI in pharma more than doubled in April-December 2013-14. Most of these investments were in existing facilities in the form of acquisitions.

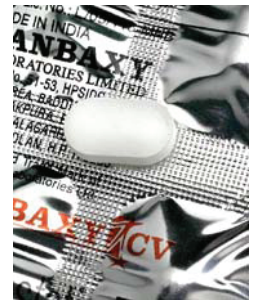
The 110th Standing Committee report on FDI in pharma made some important observations on how these mergers and acquisitions work. It cites the major reasons why MNCs are rushing to India:

- 1) The extensive domestic marketing network of Indian companies,
- 2) Big domestic market size, cheaper operating costs,
- 3) Lax regulatory system prevailing in the sector to earn huge profits and gain control of the existing export market of the Indian pharma industry.

• Market share of foreign companies in the list of top 10 pharma companies in India increased from 10.5 per cent in 2004-05 to nearly 19 per cent in 2010-11.

• 52 per cent of FDI in drugs and pharmaceuticals is used for acquiring stakes in domestic pharma companies from 2000-12, as per the DIPP.

• In case of acquisition, the acquired company is not allowed to use flexibilities such as patent opposition of compulsory licence to introduce generic medicines. For example, all patent challenges by Ranbaxy on Pfizer's blockbuster medicine Lipitor filed in more than eight countries were withdrawn immediately after its acquisition by Daiichi Sankyo.



• The Department of Pharmaceuticals had no information about whether the present FDI policy had brought in augmentation, technology acquisition employment generation in the pharma sector.