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FDI as a key growth driver for Indian pharma: F&S

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According to Dr Saneesh Edacherian, research analyst, Business and Financial Services - Healthcare, Frost & Sullivan, "With a growth rate of nearly 7.0 percent in FY 2013, the pharmaceutical industry has outpaced India's economic growth rate which was less than 5.0 percent for the same period. Though the pharmaceutical industry witnessed a decline in growth compared to previous year, it is one of the largest and the fastest among emerging economies. Indian pharmaceutical exports are expected to grow at a CAGR of 15 percent (Base year 2012) in next 5 years. With more than 55 percent of the drugs sold in highly regulated western markets India has the highest number of USFDA approved manufacturing plants outside USA."

The allowance of FDI in pharma sector was well received by foreign investors, the FDI in pharma increased to US $ 1.2 billion in the period April to November 2013 compared to US $ 589 million in the period April to December 2012 according to data released by DIPP.

However there were few factors both global and domestic which pulled down the growth of Indian pharmaceutical industry compared to previous years. While the recent notices by FDA to certain sites in India, regarding compliance issues has had a mild impact on the global reputation of Indian pharmaceutical industry, the new drug pricing policy which fixes the price of essential drugs has had a negative impact on domestic sales. Moreover the depreciating rupee has mixed impact of increasing export revenue for large companies but also increasing the cost of raw materials for small local manufacturers.

The FDI in pharma has been a welcoming move for the pharmaceutical industry and also to the Indian economy at large. Allowing increased participation of foreign investors in Indian pharma was one of the moves by the Government to reduce the spiraling current account deficit (CAD). The CAD narrowed down from US $ 21 billion in second quarter of FY 2013 to US $

5.2 billion in second quarter of FY 2014.

This is quite evident from the regulatory changes allowing 100 percent FDI in both brownfield and Greenfield projects. Though the Department Of Industrial Policy & Promotion (DIPP) wanted to curb FDI in brownfield projects to 49 percent citing concerns of reduction in production of life saving drugs and increase in price of the drugs available in the market, the Union Government opposed this and allowed 100 percent FDI.

The primary reason for this opposition could be that in a country like India where practical and administrative bottlenecks exist, allowing only Greenfield projects is not going to lure foreign investors into the sector and this could not be a solution for increasing CAD in the short term. The M&A involving foreign acquirers also increased from 8 deals in 2012 to 11 deals in 2013, with the total deal value almost increasing 6.4 times between 2012 and 2013. The largest deal involved US $ 1.85 billion acquisition of Agila Specialties Private Limited by the US based Mylan, Inc.

In a nutshell the increasing presence of FDI in Indian Pharma is expected to benefit the Industry in the longer run with more significant contribution to country's economic growth.