'Shortage of Funds, Rising Inflation may Hit Pharma Sector'

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Lack of funds and buying power resulting from soaring inflation and high cost of borrowing are likely to rein in growth for the Indian pharmaceutical sector for at least the next half of the year or so, Kewal Handa, managing director, Pfizer India, said.

"I am seeing some signs of slowdown from the high growth we saw last year. Wellness products will take the first beating," Mr Handa, who is in charge of the Pfizer and Wyeth brands in India, told ET. Wyeth India was merged with Pfizer after the global parent acquired Wyeth.

"If inflation is high, first you buy what is essential, then curative medicine. So, stocking also gets affected by free cash availability," he said, adding that, trends in inventories being stocked as well as amount of medicines being purchased in a single bill have declined marginally from last year. For instance, instead of buying a pack of 10 capsules, people now prefer to buy them five at a time.

Pharmaceutical companies in India recorded an average revenue growth of over 20% in 2010. The potential for pharmaceutical sales to India's over 1-billion people has attracted many major multinational companies to India, including Abbott that spent ₹17,000 crore to buy domestic formulations of Piramal Healthcare.

After Japan's Daiichi acquired Ranbaxy Laboratories and Abbott's acquisition, the Indian government has been toying with the idea of capping the stake a foreign company can hold in an Indian subsidiary.

"The cap on FDI is an emotional reaction. There is no data to support the fear of price rise," Mr Handa said. Even if multinationals brand products and sell them at high prices, competition will provide significant substitutes to keep medicines affordable, he said.

"Since entry cost in the market is low, the minute you raise prices, products become attractive to competitors who will enter the market, keeping prices in check. It is not possible for an individual company to dominate in the Indian market," he said.

On the other hand, he said, controlling prices of drugs and investments in the sector would be detrimental to the industry. It will prevent companies from investing in increasing the reach and markets for the drugs being controlled, he said.

Kewal Handa, MD, Pfizer India

"Companies then don't see any advantage in spending on increasing reach and education for those products," he said.India currently has 74 drugs under price control. A new policy proposes to expand the number to over 350, which would be reverting to a structure before price control was opened up. Stockists have said in the past that few companies supply controlled drugs, and because retail margins are low on these products chemists stock limited quantities.

"Overall drug price increase over the past five years has been 1-2% compared with double-digit inflation. Do we really need price control then," asked Mr Handa. He also said that between taxes and retailer, the mark-up on pharmaceuticals is as much as 40%.Pfizer is pegged as one of the potential acquiring companies in India. However, valuations remain high and incentive to sell for promoters is not compelling, he said.

"Patented products account for less than half a percent of sales and that is not likely to change over the next 5-6 years." As such, the business case for running generic companies remains the same today as it will in the next few years.

The volumes offered by the Indian market are sizeable for large multinational companies to make a bet of 10 years hence. Pfizer is also looking at options to partner, but there is nothing on the anvil at present, he said.