

Institute of Management, Nirma University



Summer Internship Report 2020

Interim Report

Submitted By:

Divyesh Jain	191222	B
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Submitted To:

Prof. Praneti Shah

Internship Organisation: IRM (Cadila Pharmaceuticals)



Date of Submission: 5th June, 2020

Part B

Introduction

Nature of Problems Pharmaceutical Industry Faces

Patent Cliff- This is the problem that pharma company face, it is the erosion in the revenue that pharma face due to patent getting expired and it get open for generic market. It is estimated that around 145 Billion \$ revenue is eroded between 2012 to 2018.

Regulation- Indian pharmaceutical industry faces various kind of regulatory issues like regulatory approval and licensing, pricing policies, Patent protection norms, FDI (Foreign Direct Investment) Policies, this are the issues which can be obstruction to growth of the company. One of the most important issue here is related to pricing policies, government try hard to place a cap on the price of the drug and as a result companies are losing their incentives to work towards innovation and drug discovery

Harsh Inspection and difficulties in approval from Various Agencies across the world Companies are getting various observation and warnings from the approval agencies like USFDA (US food and drug Administration), EMA (European Medicine Agency) Etc. as agencies are making stricter norms and higher frequency of checks.

High R&D expense for drug discovery- This is one the important issue that Indian pharma companies faces because of their size and expenditure power most of the Indian companies. Only 2 to 3 companies in India are capable for the drug discovery due to high investment expenditure needed in drug discovery which is a concern for the growth of companies.

Competition- This is not among the companies in India but among the companies across the globe and this competition is becoming more intense due to various geographical and political factors as countries have different environment.

Change in Marketing and sales models- As companies are evolving, Technological Advancement is happening companies are forced to change their marketing and sales models those companies who are agile have better ability to survive.

Objectives of Study:

- Researching on factors which may help in improving financial and operational efficiency
- Study industry player on qualitatively (Strategic decisions) and quantitatively (Financial) parameters
- Tracking the developments in industry and Evaluating drivers of growth for industry
- Understanding risk and concerns related to industry and probable solutions

So, combining all objective, Research is to assimilate and enhance information so that it is helpful strategic decision making.

Expected Benefits:

Expected outcomes and benefits of this exercise are as follows:

- It will help in bettering and enhancing strategic decision making
- Understanding and forecasting trends in industry
- It will also help in understanding external factors that affect industry and as a result will help in becoming agile with environment.
- It is also going to help in gauging the direct and indirect competition that business might face.
- Ultimately it will help in enhancing value proposition by using knowledge and making its use to differentiate from industry players.

Methodology**Approach:**

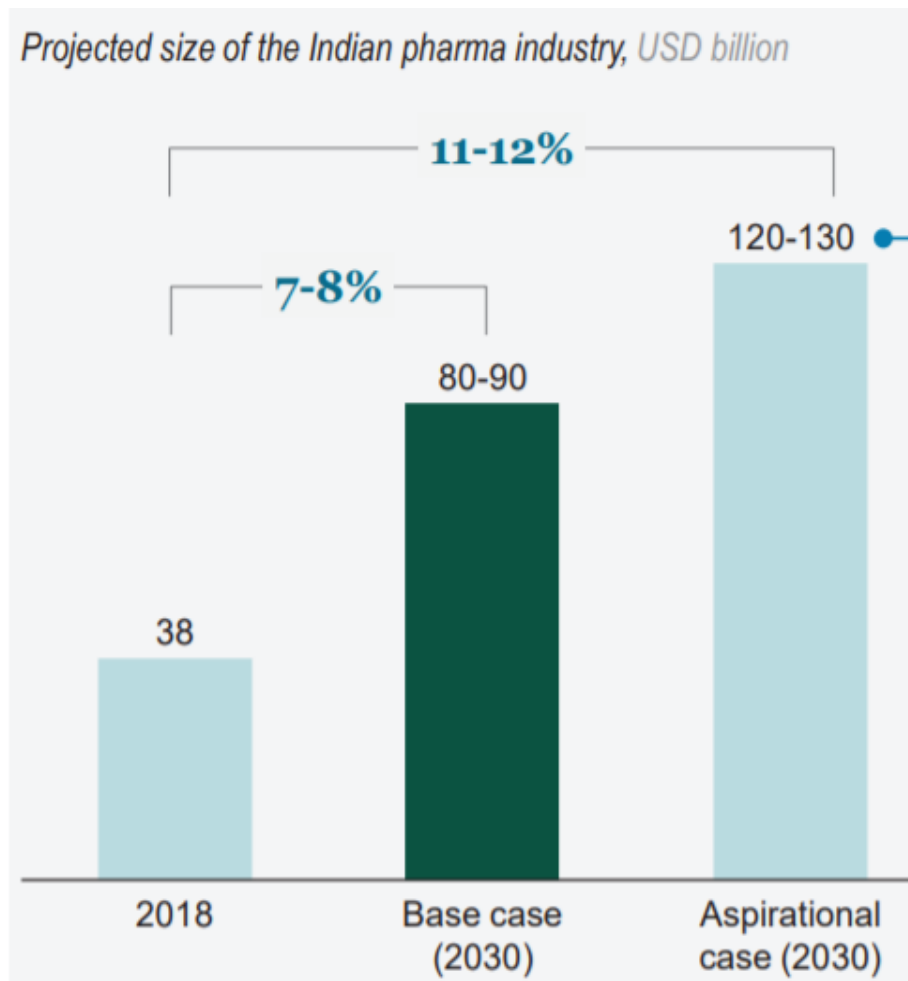
This research on industry will have both data and information in qualitative and quantitative format it will also consist of some projected data. Quantitative data would mostly base on the secondary sources that will be used in the research.

Sources of Data:

In this research report mostly, the data used will be secondary data as the analysis is on the industry and the sources which will be used to get this data will be annual reports of companies in the industry, Consulting report on industry, Conference call of the companies etc.

Analysis of Industry

Indian Pharma industry is poised for growth as said by most of the consulting firms and the industry leaders in their annual report it is estimated that it can grow at an annual rate of 7 to 8% in base cases scenario but there is also possibility of growth north of 11 to 12% in case of aspirational scenario. In order to grow at aspirational scenario companies will need to fire on multiple cylinders to capture the growth.



Source: McKinsey report

What can be the drivers of such aspirational growth?

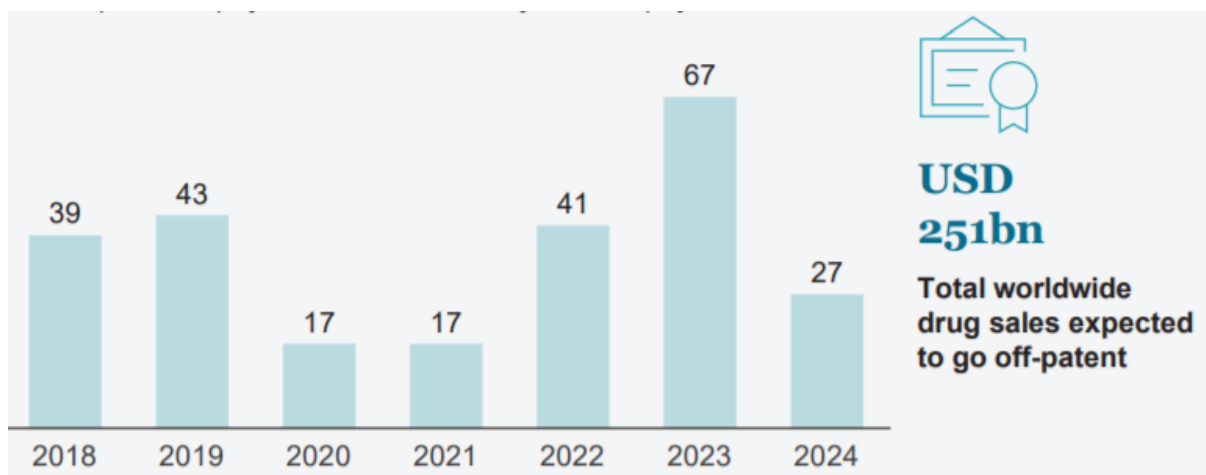
- Escalated growth in India can be due to increase in affordability and accessibility
- It can come through some potential breakthrough in innovative products
- Growth can come through expansion in under penetrated markets like japan and china
- Higher growth in US market as more No. of ANDA molecules goes off patents
- Increase in health insurance share in country

- Increase in spending on healthcare by government

Areas from where growth can come and company can capitalise on it:

- Personalized medicine, Novel Therapies can become a trend also regenerative medicine
- CRO/ CMO (Contract research and contract manufacturing)
- Increases in biological drugs, Biosimilars
- Newer manufacturing technology

Patent Expiration trends worldwide:



Source: McKinsey report

As seen trend of patent expiration from 2020-2024 is around 170 billion \$ Indian companies as are more into generics and branded generics should be ready to tap this market and can increase their revenue going forward.

This can be proved to be best opportunity for the Indian pharmaceutical company to gain from this Patent-Cliff but to do this Indian companies need to formulate molecule level strategy in addition with regulatory and marketing excellence.

So, capitalising on this Patent Expiration would be an important factor for the growth of Indian Pharmaceutical industry.

Inhouse production of API's

Around 80% by volume demand of the API's is fulfilled by China. And this is due to lack of infrastructural facilities in India. Companies with government should work with each other and can should take the benefit of inhouse production on employment and related factors. By doing

this companies will get benefit of backward integration and can safeguard itself from supply and price disruption and ultimately can increase and stabilise its margin.

Indian Pharmaceutical player analysis:

Indian player is since few years are growing at a healthy pace based on the sales and there are many factors which are responsible for it.

Here is the table which shows the growth of larger Indian players based on the sales value-

	Sales (CR)							
Year	2012	2013	2014	2015	2016	2017	2018	2019
Sun Pharmaceuticals Ltd.	8019	11131	16080	27392	28487	31578	26489	29066
Dr Reddy's Lab Ltd.	9814	11833	13415	15023	15568	14196	14281	15448
Cipla	7021	8279	10173	11345	13790	14394	15156	16362
Biocon	2086	2485	2877	3090	3347	3891	4123	5514
Aurobindo Pharma	4615	5842	8089	12103	13772	14910	16463	19564
Torrent Pharma	2691	3203	4172	4636	6687	5816	5950	7673
Cadila Healthcare Ltd.	5263	6358	7224	8651	9427	9376	11905	13166

As seen from this table Indian companies are growing at a healthy pace based on the sales figure though this does not show the profitability as this are sales figures, but it is very clear from this table that Indian pharmaceutical industry over the decade has participated in growth and taken the advantage of it.

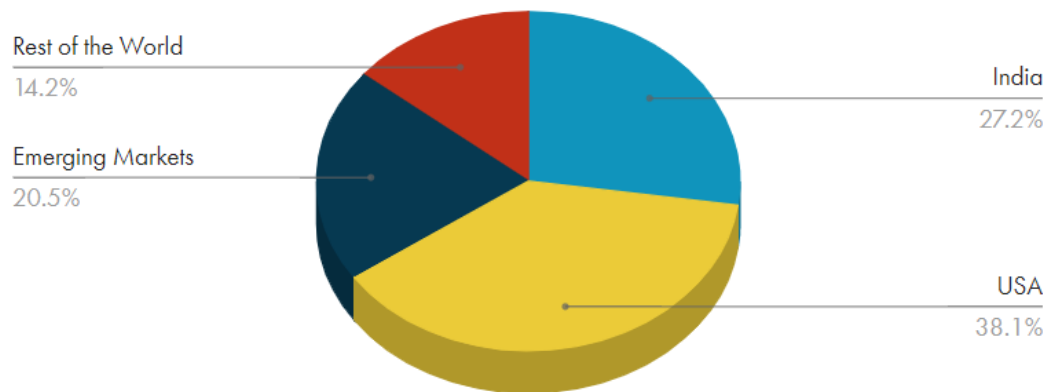
As seen from the table on an average company were able to grow its revenue by almost 300% over a decade which is a very healthy growth.

Though as we can see that sales are increased so much but growth in profitability is less than sales growth due to increase spending on R&D. Also, for this company it is very important take control of their working capital as this are capital intensive business. So, it is of utmost important to manage working capital to maintain profitability in business.

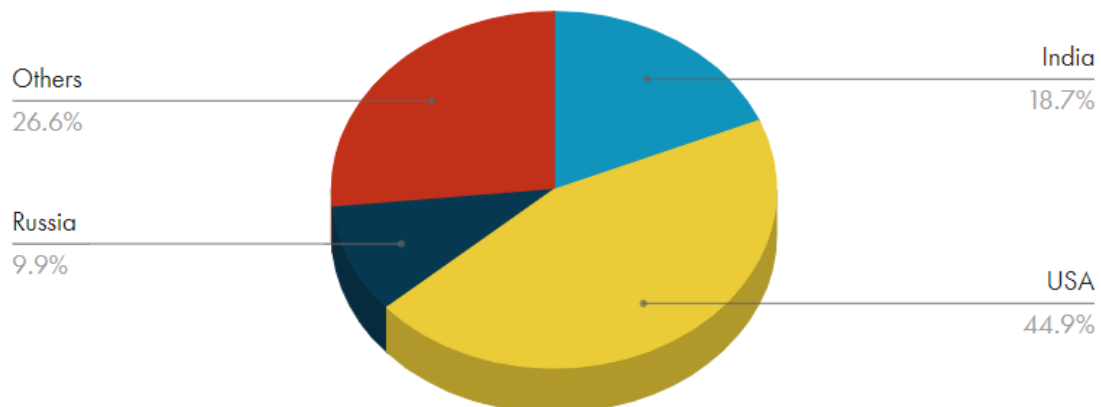
We will try to decipher what are this sector leaders have done over the years and what are their strategies for future for growth, which are the areas that companies are seeing that will add value in future by going through companies' commentary and past trends.

Geography wise revenue breakup of companies:

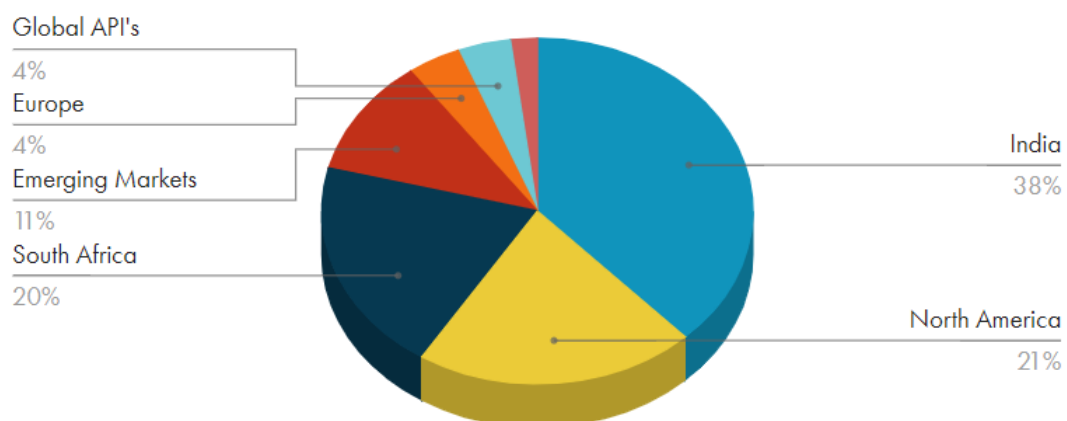
Sun Pharmaceuticals Ltd.



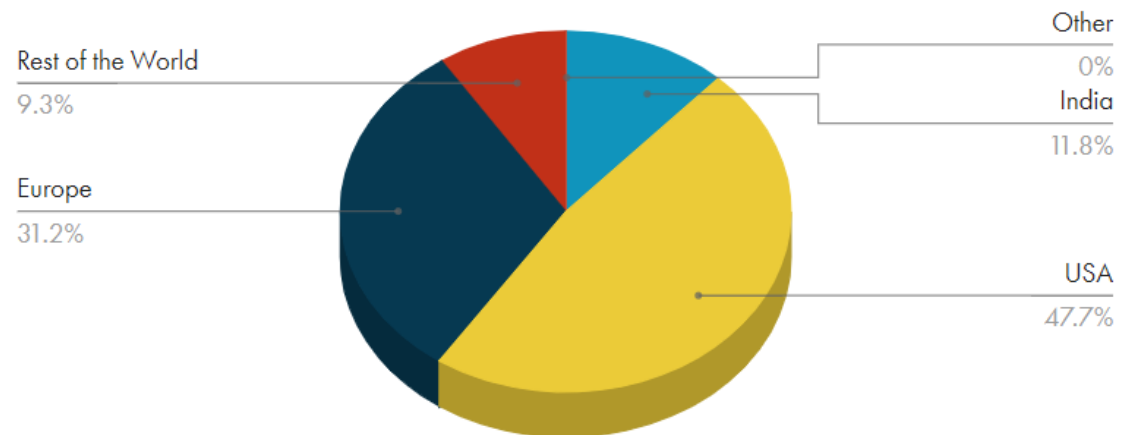
Dr Reddy Lab Ltd.



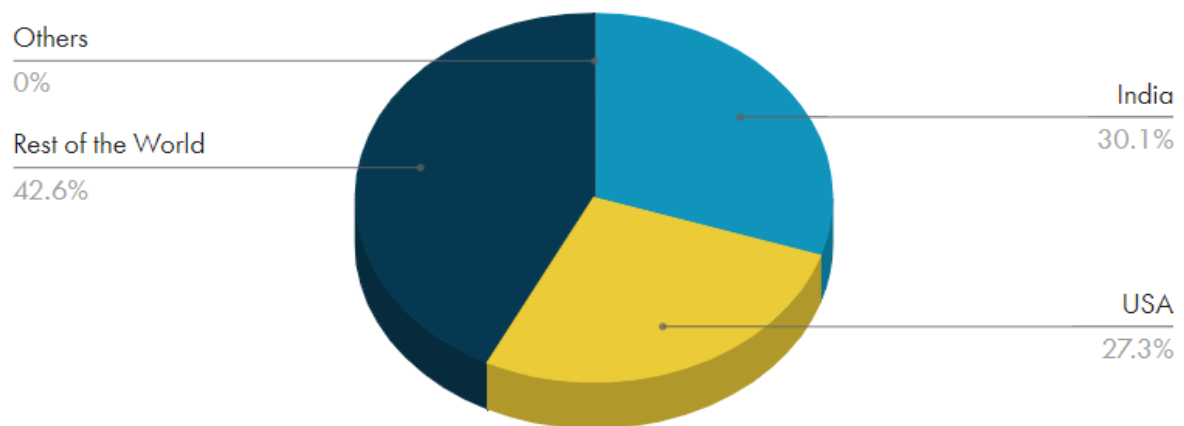
Cipla Ltd.



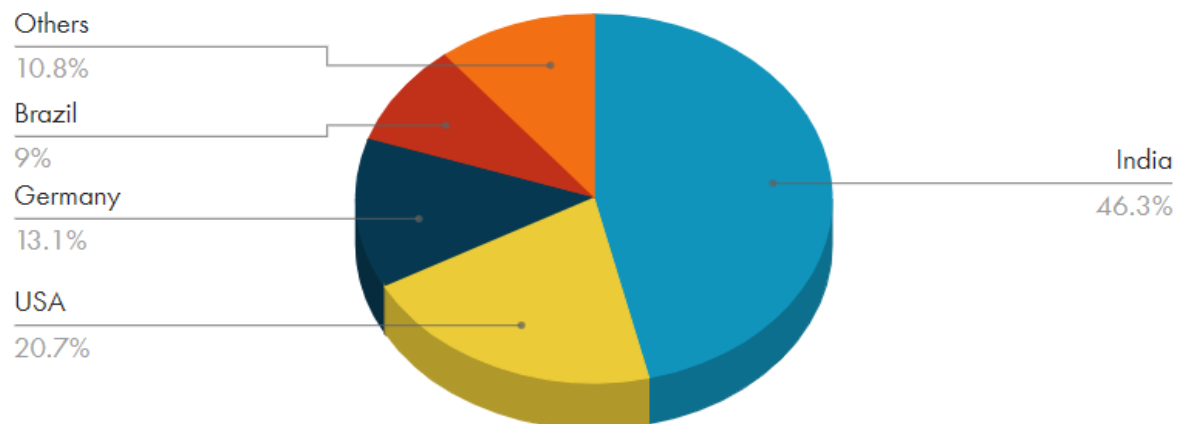
Aurobindo Pharma Ltd.



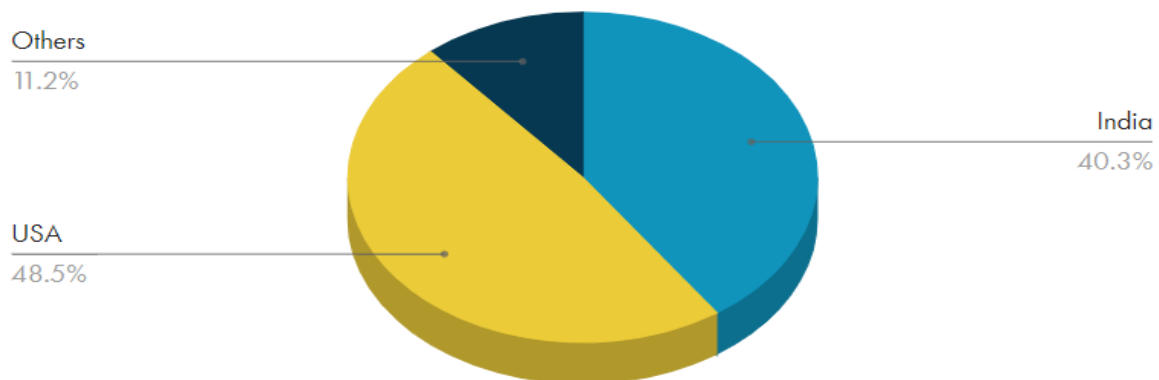
Biocon Ltd



Torrent Pharma Ltd.



Cadila Healthcare Ltd.



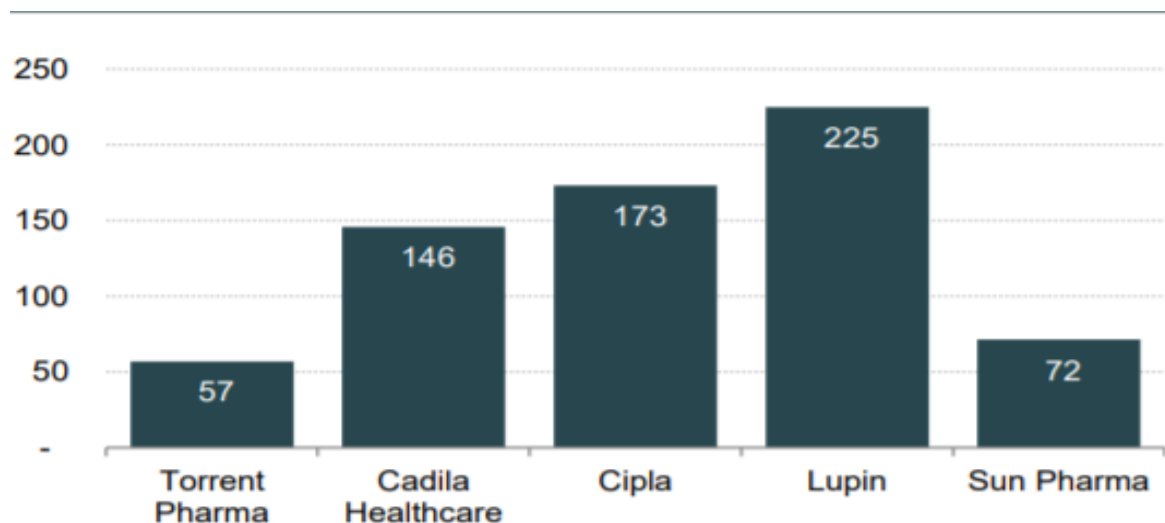
As we can see that majority of Indian companies' revenue is highly dependent on US market on an AVG 33% of Indian company's revenues comes from US market.

The main reason behind Indian companies have so much dependency on the US market is because of the Prominence in Branded Generic and Generic drug. Indian companies are good at producing this drug at better volume and price.

But there is various development in the US market like pricing policy and Approval norms which are harming profitability of Indian companies.

Off lately Indian companies are seeing Margin pressure due to such development in US market. As a result, companies need to think about diversifying market from US to maintain their profitability as well as growth.

R&D spending of top pharma companies in US Million (\$)



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