Hyderabad could be the hub for pharma products outsourcing

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HYDERABAD: After information technology services, Hyderabad is fast emerging as an outsourcing destination for global pharmaceutical majors, which are looking at reducing manufacturing and drug development costs.

"Outsourcing business is expected to grow multi-fold in the coming years and Hyderabad has become an important centre for contract manufacture of pharmaceutical products," Credo Life Sciences Managing Director, Shivaram Prasad, told *The Hindu*.

Mr. Prasad said that outsourcing business had been picking up in the last 5-6 years and was likely to increase both in terms of value and volume.

Big pharma companies were now oustsourcing even manufacture of formulations unlike in the earlier days when only bulk drugs manufacturing used to be outsourced. A recent study by Assocham-EY revealed that pharmaceutical outsourcing market accounts for 75 per cent of the country's total medical process outsourcing business, which is pegged at $3.3-4.2 billion.

As per the industry estimates, the production cost of pharma products in India is around 30 per cent cheaper than that in the U.S., while the cost of developing a generic drug is about 50 per cent cheaper. Hence, multinational companies (MNCs) are also reportedly turning towards Indian companies for gaining access to generic drugs being developed by the latter for the U.S. market.

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In Hyderabad, there are stated to be over 200 pharmaceutical units engaged in contract manufacturing of bulk drugs and about dozen companies that are making formulations for customers in the regulated markets.

According to Granules India Managing Director C. Krishna Prasad, the whole business of outsourcing evolved over the past 25 years as manufacturing of pharmaceutical products became expensive.

In the initial stages, he said, focus on cost reductions and improvement of margins had motivated MNCs to outsource pharmaceutical ingredients. "Today, they are coming and asking us whether we can produce finished products. The only way for the MNCs to compete with Indian companies is to make their products in India," he said.

Stating that consolidation was taking place in the pharmaceutical sector, Mr. Krishna Prasad, said that outsourcing activities had increased along with a rise in mergers and acquisitions. "In future, there will be only marketing companies and manufacturing companies," he predicted adding that the number of small pharma companies would decline.

In the past decade, Indian pharma sector has witnessed not only an increasing number of mergers and acquisitions but also strategic partnerships.

These included take over of Ranbaxy by Sun Pharma, acquisition of Matrix and Agila Specialities by Mylan and purchase of domestic formulations business of Piramal Healthcare by Abbott Labs.

This apart, there had been strategic alliances between GlaxoSmithkline and Dr. Reddy's and Pfizer and Aurobindo, to name a few.