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For Indian Pharma, a Demoralizing Ranbaxy Deal

Posted by: Bruce Einhorn on June 12

The news that Japan's Daiichi Sankyo has acquired Ranbaxy, the leading Indian drugmaker, is a major blow to India's pharmaceutical ambitions. For many boosters of India's pharma industry, it's a given that of course the company's drugmakers are going to become global players. Yes, they've made their name mostly as low-cost manufacturers of generics. That in itself is no small accomplishment. But the generics business is not all that lucrative, since competition is pretty strong worldwide and Big Pharma companies fight relentlessly in court to obstruct them.

Moreover, being a copycat king is a little bit embarrassing, since even though making generics now is all on the up-and-up, the business serves as a reminder that companies such as Ranbaxy became successful thanks to a 1970 move by the Indian government that, in the words of the Hindu, "effectively ended patent protection" in the country. With that change, "domestic manufacturers were now able to produce low-cost, generic versions of popular, yet expensive drugs." Today, the Indian government has a much stronger patent-protection regime, and there's no longer anything disreputable about the generics business in India.

Still, Indian pharma execs have much loftier ambitions of coming up joining the likes of Pfizer, Novartis and Roche by coming up with new drugs of their own rather than making inexpensive versions of drugs developed by others. Ranbaxy and other companies such as Dr. Reddys have been throwing money at R&D programs focusing on new drug discovery and they've been teaming up with foreign drugmakers to pool resources. As my BusinessWeek colleagues Pete Engardio and Ben Rissing wrote here hopes are high for India – and China, too – becoming a force in the global pharma industry, although they caution patience. "When will a new blockbuster come out of India or China? It is far too early to say. It typically takes more than a decade to develop a newly discovered compound into a commercial drug that can win approval from the Food & Drug Administration, and most of the current strategic development deals are less than three years old."

But it's not so easy for the Indians to join the world's drugmaking elite, as my BW colleague Nandini Lakshman wrote here. Their budgets are tiny compared to those of Big Pharma rivals. Developing new drugs is extremely risky compared to the relatively secure generics business. By selling to Daiichi Sankyo, Ranbaxy's owners decided not to wait and instead take the money.

And Ranbaxy was supposed to be India's champion, the top player and most ambitious globally. What sort of message does the deal now send? Perhaps that India may be fertile ground for new drug discovery, but Indian companies won't be in charge of those discoveries. Here's what the Economic Times has to say: "According to ChrysCapital MD Sanjiv Kaul, an ex-Ranbaxy executive and a sector analyst, the deal may dampen the spirit of other Indian pharma majors who have global aspirations. 'Commercially, it is an awesome deal. However, Ranbaxy was the all-conquering Indian hero and should have been the last man standing instead of being the first to capitulate. A huge positive for Ranbaxy but a negative for Indian pharma.'"