Interview with Sujay Shetty, Director, Leader – Pharma Life Sciences, PricewaterhouseCoopers Pvt Ltd

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PwC is undoubtedly renowned for its strong network of international expertise, but every market still has its own particularities… What is it, that your clients struggle with the most in India?

The Indian market is a very price-sensitive market. For companies active in the area of branded generics, this is definitely one particularity that needs to be taken into account. The second aspect worth mentioning is the labor attrition. With attrition rates as high as the IT sector, it is very difficult for pharmaceutical companies to keep hold of their people. A third aspect some MNC clients have been concerned about in the past, has been the discussion of a cap on FDI. For some of the MNCs, counterfeiting has also been a concern, although the government has recently run a study that minimized this problem. Overall, it is a highly competitive market..

India is said to become a top 10 market by 2020. What are the key factors for companies to consider when deciding on the level of investment here?

There are two main aspects to growth in India, which are the outsourcing story and the domestic footprint story. That latter has grown much stronger in recent years, as shown by the acquisition of Piramal by Abbott. Companies now want to play a role in India’s domestic space, and have a take on branded generics in India’s markets.“One billion people, let’s sell to them”, that is the train of thought.

The other side is related to how to leverage India’s other strengths and capabilities. Processes such as backend and IT activities can help in cost-effectiveness. As an MNC, you will generally deal with both these issues when weighing off your investment options in the country.

How do you explain that most MNCs have first decided to go to countries like China and Brazil, instead of India?

In fact, if you go back to the early 1900s, you will see that MNCs such as Abbott were already in India, far earlier than in any of these other markets. The middle years, between the 1970s and 2000, was the period when things underwent a change through the process patent era. As generics started dominating the market, Indian players took the chance to grow significantly. All in all, we can speak of a re-arrival of the MNCs, as IP laws are strengthening while generics are on the rise. Even 5 years ago, these elements were no priority yet.

What did the Patent Law of 2005 bring exactly?

It brought a re-thinking on the whole issue of process patenting The government feels it has done enough in terms of legislation, Data exclusivity remains the big elephant in the room that has not yet been sorted out. Apart from data exclusivity, from an industry perspective, work remains to be done on strengthening IP enforcement. The article 3D is a particular point of discussion relating to what is, and what is not, incremental innovation.

Have you felt that companies changed their strategies following the Patent Law?

Moreinnovative products were launched over time. Whether MNCs go ahead with the launch of their global portfolio always depends on their local strategy. Companies such as Abbott aim to be a big gorilla in the generics space, which inevitably requires a local acquisition. Specialist-driven therapy companies such as Astellas or Roche, on the other hand, have chosen to focus on a limited number of areas.

More and more players have also been targeting India’s rural areas. What do you see as the main hurdles to get access to these parts of the market?

There is a lack of doctors, infrastructure, primary care centers, pharmacies, logistics, and so on. However, with infrastructure getting better over the years, many of these elements will gradually fall out of this list of challenges.

It cannot be ignored?

Exactly, everyone is talking rural nowadays, with 60% of the populations residing there at the very minimum. It is clear that pharmaceutical companies do not want to leave these markets out of their strategy. Some of these players have been running interesting pilots, which they are now aiming to scale up.

Many say the way forward is through PPPs. Are they bound to increase in importance?

I think such initiatives work well for medical devices and healthcare, because the capital expenditures ar€e very high there. However, I am not sure how this will work for the pharmaceutical industry. One way is for the government to take up its tendering business in the same way as China has done. Then again, such public procurement is not necessarily a PPP, but rather simply an increase in values and volumes.

Some of the areas that have been looked into are initiatives such as diagnostics centers, patient camps, etc. However, in India the pharmaceutical industry is mainly left to the private sector, with only limited involved from the public sector. One particular area where I do see the opportunity for government involvement is the funding of innovation. While people often talk of drug discovery in India, there is still limited activity taking place in that area.

What do you see as a realistic timeline for India’s first molecule to come out?

Companies such as Glenmark and Biocon have been very active and overall, many efforts have been made, and there is a clear hope. This is a long process. We will just have to sit and wait for it to happen. There is no reason why it should not happen, given that India has the required scientific talent.

A key aspect that stands out in terms of healthcare in India, is the near absence of insurance providers. How do you see their future role?

The role of the insurance providers is obviously the answer to many issues India faces today. One area where such providers can help significantly is by covering those expenses taking place in the outpatient clinic, for both the pre- and post hospitalization stages. With reference to the pharmaceutical industry, this is the single most important thing that should happen in India, and it is bound to lift up the broader market and certain specialist therapies which would otherwise be unaffordable. Such focused expansion of insurance claims to cover specified areas is what should be taking place on the supply side of the insurance sector. On the buyer side, tax advantages should be provided to enhance the demand side dynamics.

There is also room for improvement for companies to provide group coverage for their employees. While this has already been done to some extent, it is an area that can grow much further.

Where do you think the efforts to increase the public's awareness should come from?

It is both a macro- as well as a business issue, so the efforts should come from both the private sector and the government. This is one example of an area where PPPs may work.

At the same time, the public opinion on prices for innovative products in India has been quite negative. Yet, when speaking to the MNCs, we were told that this perception is unjustified, because of transaction costs that are not taken into account. How have you observed this issue?

Generally speaking, 35% of the expenses are on the distribution side, until the time the drugs reach the pharmacies. A lot of rationalization needs to be done. The current distribution system has been set up in in line to the current tax environment. . This adds to a significant single chunk of cost. One significant change that is happening in this area, is the Goods and Services Tax (GST), which is expected to be made transformational. This will address the flaws of the current distribution system in India, as the cost of transaction to the end-consumer is bound to shrink.

Is pricing a non-issue in India then?

That depends from what perspective you are looking at pharmaceutical pricing in India. On the one hand, there is the government that aims to make medicines affordable for the entire nation. To do so, it is now considering increasing the 74 drugs that are under price control today, to a large number of drugs. The industry, on the other hand, argues that the price per drug and per tablet in India, are already among the lowest in the whole world. They cannot understand why prices that are already low, should be reduced even further. This is a very serious issue for India's policymakers.

In your view, how is the Indian pharmaceutical industry perceived by the general public?

I think there is a certain attitude of respect towards the pharmaceutical industry. I believe that the public understands that India has good generics and product development skills, which has helped to keep the cost of medicines down. Just like the Indian IT sector, the industry has done well in terms of exports, because it respects and understands regulatory compliance. There is a common understanding that India has good sciences that keeps medicines affordable.

Lastly, how do you see PwC's services evolving here in India?

It is a big market that has been growing significantly. As this growth continues, PWC will grow along. It is fair to say that is a rather vibrant market and a good time to be here

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