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PHARMACEUTICALS

China's India headache: The growing pharmaceutical industry

Representational image

Synopsis

Indian CDMOs are strategically expanding through acquisitions in the US and Europe, driven by global pharma's nearshoring trend and a desire to diversify from China. These companies are investing in advanced technologies and specialized capabilities, particularly in biologics and complex chemistry, to capture a larger share of the global market.

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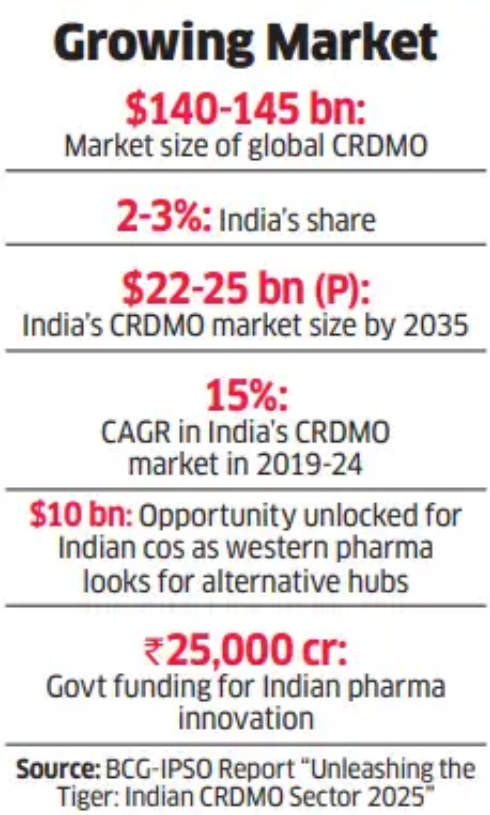
Last Updated: May 25, 2025, 12:21:04 AM IST

When the world sneezes from a US-China chill, Indian companies rush to make medicines. Literally.

Sometime in April, Vivek Sharma, executive chairman of **Suven Pharmaceuticals**, was on a trans-continental call with the top officials of a tech-driven global pharmaceutical ingredients company, for a potential deal. It could possibly be a future asset for the Hyderabad-based firm that is evaluating high-end, specialised platforms in a bid to bulk up its technological prowess and grab manufacturing mandates from pharma and biotech giants in the West.

Before that, in December, **Suven** acquired a controlling stake in NJ Bio Inc, a contract research organisation based in Princeton, US, that focuses on antibody-drug conjugates, a targeted therapy for cancer. The $65 million acquisition has positioned Suven as a key player in the market of contract development and manufacturing organisations or CDMOs. These are third-party companies that provide a range of services to global pharma—from early-stage re - search to regulatory submissions to the manufacturing of the latest drugs.



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Suven is one among a host of Indian CDMOs like Aurigene, Sai Life Sciences, and **Syngene International**, which are prepping for the next phase of growth and expansion through strategic mergers and acquisitions abroad amid a rising call from global pharma companies to nearshore projects in US and Europe. “We remain focused on building a technology-led global CDMO platform. Our acquisition strategy is around assets that bring in cutting-edge technology and strong scientific talent,” says Sharma.

Meanwhile, **Biocon** company **Syngene** International has just completed its

acquisition of **Emergent BioSolutions**, a **biologics**-manufacturing facility in Baltimore, US. Biologics are medications that come from living organisms, like proteins and genes. The $36.5 million deal gives Syngene "a strategic foothold in the US by bringing it closer to the wider customer market," says Peter Bains, MD and CEO, Syngene International.

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What are CDMOs?

- They are contract development and manufacturing organisations; also called CRDMOs, with 'R' for research
- They provide a range of third-party services to global pharma
- They provide services in early-stage research, regulatory submissions and even the manufacturing of latest drugs
- Top Indian CDMOs include Syngene International, Suven Pharmaceuticals, Aurigene Pharmaceutical, Sai Life Sciences, Divi's Laboratories, Laurus Labs
- Some of the Indian CDMOs are looking to buy assets in US and Europe as nearshoring gains momentum in global pharma

Several Indian CDMOs, which have been helping drive the innovation engines of large pharmaceutical companies in the West, are scouting for suitable assets

in the US and Europe to fast-track their capacity building.

“The business development guys of almost every CDMO in **India** are out there on the US East Coast and some parts of the West Coast, evaluating possible acquisition targets,” says a top industry official.

While the Indian facilities of these companies have been helping global drug makers for years, they are now exploring strategic acquisitions in specialised, high-growth therapeutic areas such as biologics, cell and gene therapy and oncology.

“What we are looking for are enhanced capabilities—particularly in research and complex chemistry. The idea is to establish highly specialised labs where our scientists co-create solutions alongside innovator partners,” says Sharma. However, “India will remain our hub for commercial-scale manufacturing, where we continue to enjoy a global cost advantage.”

NEARSHORING & GLOBAL PHARMA

Nearshoring and reshoring are gaining momentum among global pharma majors that are looking to mitigate risks posed by supply chain disruption and rising offshore cost. According to a report by consulting firm LoEstro, pharma companies in the West are investing in local and regional facilities to reduce supply chain risks, ensure regulatory compliance and enhance production resilience amid global disruptions.

Siva Chittor, CFO of Sai Life Sciences, says, “We are seeing a growing customer preference for nearshoring.” Sai has been an early mover in this space, establishing R&D labs in US and UK about five years ago. “These labs allow us to be closer to our customers,” he adds.

A key driver is the increasing trend of global customers looking to re-balance their supply chains from China. Multinational pharma companies in US and Europe want to diversify their manufacturing bases in a bid to reduce their over-reliance on China amid geopolitical uncertainties and a growing divide between Washington and Beijing.

However, such is the dependence on China, that US’s proposed **BioSecure Act**, which seeks to restrict American companies from doing business with Chinese drugmakers, has been put on the backburner.

If US puts hurdles for Chinese pharma companies, it will create huge opportunities for India. Indian CDMOs, which have a significant presence in small-molecule manufacturing, are now stepping up into biologics, which are large complex molecules, and advanced therapeutic modalities that can help

them snatch a large slice of the pie from Chinese manufacturers.

“The Indian CDMO sector is well poised for growth to capitalise on the changing global dynamics,” says Akhil Ravi, CEO of Bengaluru-headquartered Aurigene Pharmaceutical Services. “Factors such as robust infrastructure, regulatory compliance and highly skilled talent pool have strengthened India’s position to become a preferred strategic partner for global companies in drug development. We remain committed to expanding our capabilities and capacity to meet rising demand in small-molecule APIs (active pharma - ceutical ingredients), peptides and bio - logics,” says Ravi. Peptides are smaller forms of proteins.

Says Bains of Syngene: “India is entering a critical phase in the evolution of its CDMO industry. A CAGR of 15% in 2019- 24, double the global growth rate of 7-8%, indicates that there are strong tailwinds for India.”

At Syngene, the conversations with its customers are around its end-to-end ability to strategically support them in R&D and manufacturing and its long-term sup - ply chain resilience. “We are seeing in - creased visits by both large and mid-sized pharma companies, which are running comparative pilots with a few organisa - tions as a way of selecting longer-term partners. We have been successful in con - verting a majority of these pilots into fulltime contracts,” says Bains.

Deepak Jain, MD and CEO of Jubilant Ingrevia, which has partnered with glob - al drug firms for manufacturing drug intermediates, expects 6-7x growth in pharma contracts over the next few years. “This is a golden opportunity for India. If not India, who else?” he asks.

Inorganic expansion, through acquisi - tions abroad, enables Indian companies to stave off the threat of tariffs and geo - political impact and access highly skilled manpower, says Sujay Shetty, global health industries advisory leader, PwC. “Also, from the IP perspective, it makes more sense if they are on the ground there since they will be running highly confidential projects for clients

that could be multinational innovator companies or biotech companies," he adds.

Piramal Pharma, which recently announced a capex of $90 million for the expansion of two of its US facilities in Kentucky and Michigan, will focus on organic, brownfield expansion in the drug development and manufacturing service business, says chairperson Nandini Piramal.

The company has four manufacturing facilities in North America and two in the UK. "We are one of the best-positioned CDMOs to benefit from pharma companies wanting to onshore manufacturing in US," says Piramal.

The overseas facilities of Indian companies will be mostly in advanced therapeutic segments. Says Annaswamy Vaidheesh, former MD of GSK Pharma India: "Their strategic priorities are in - creasingly aligned with high-value segments such as biologics and advanced technology platforms that require differentiated capabilities and offer greater margin potential."

Biologics require specialised facilities and expertise that drive up production cost but can generate higher profit margin.

However, Vaidheesh warns that establishing a fully onshore, end-to-end sup - ply chain for US clients through Indian partners will take time, as it involves scaling capabilities and aligning regulatory and operational processes. "Innovators typically assess whether a CDMO has the bandwidth to take on new programmes. Without demonstrable ca - pacity, even strong technical competen - cies may not suffice," says Vaidheesh.

Key Indian companies have been in - vesting heavily to enhance capacity. Aurigene has made significant additions to its infrastructure and established a new biologics facility at Genome Valley, Hyderabad.

Chinese companies have been the preferred CDMO partner for US companies —grabbing 80% market share—because they are good in speed and low in cost.

India is well-positioned to play a greater role in global supply chains, but the pace and quality of transition will depend on several factors. Speed of execution has been a major pain point for Indian CDMOs, which have to go through multiple levels of domestic regulatory approvals that delay consignments to customers by three-four months.

“Speed and agility are key expectations from global innovators. Chinese CDMOs have set high benchmarks in terms of responsiveness. Indian players need to invest in systems and capabilities that allow them to meet these expectations competitively,” says Vaidheesh.

RISING PE INTEREST

Rising growth opportunities and the China+1 plan of MNCs have led to sustained investor interest in the Indian CDMO space. Over $900 million has come from private investments and nearly $750 million has been raised through IPOs over the past 15 months, according to Grant Thornton. “This reflects the segment’s growing strategic relevance, driven by global demand for outsourced development and manufacturing and India’s established expertise in generics, APIs and complex formulations,” says Bhanu Prakash Kalmath SJ, partner and healthcare industry leader.

Another significant development has been US President Donald Trump’s executive order that directed drug companies to reduce the prices of medicines in 30 days. While that could still see negotiations, some experts suggest the direct result will be companies’ looking at partners in India to cut their costs of research and production.

This seems like a shot in the arm for Indian CDMOs. Can they now make a dent in the time-tested Chinese pharma supply chain? The results are awaited .

(Originally published on May 24, 2025)

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