July 22, 2025

Innovative Drug Developments bear fruit - A New Chapter Unfolds?

What's the Point?

- In recent months, some leading Indian pharma companies have made notable progress in developing new chemical entities and biologics.
- The global innovative drug market is projected to grow from USD 30 billion in 2023 to USD 60 billion by 2028, driven by demand for novel therapies.
- Historically, Indian firms have focused on generics and stayed underinvested in innovative drug development due to high R&D costs, regulatory hurdles, and long development timelines.
- Recent success has the potential to catalyze broader industry participation and investor interest in this segment.
- India's growing role as a global CDMO hub also provides indirect exposure to cutting-edge innovation.

Numbers in Perspective

Chart 1: Growth in Global innovative drug market

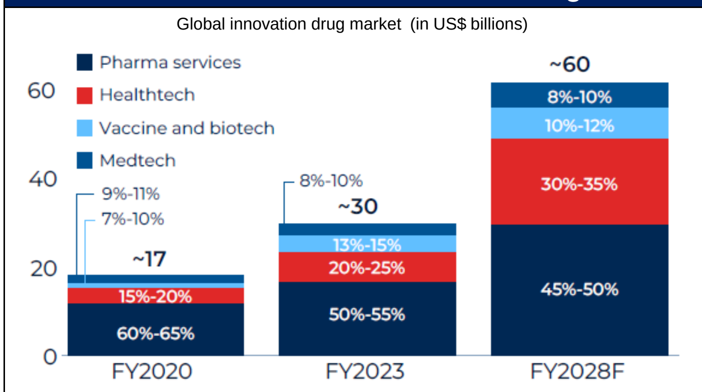

Chart 2: Indian companies have a pipeline of innovative drugs

Company	Product	Therapy	Own Developed / Licensed	Comments
A	Product A	Anti-Infective	Own	Phase III trials over; To be filed in India shortly and in US in Q3FY26
B	Multiple Products	Derma / Ophthal	In-licensed	Commercialised globally
C	Multiple Products	Anti-Allergy / Derma / Oncology	Own	Different phases of commercialization / clinical trials
D	Multiple Products	Anti-diabetes / Nephrology / CNS	In-licensed	Different phases of commercialization / clinical trials

Source: Bain & Company, Inc, DAM Capital, MCA filings, Jefferies, LoEstro, Arizton Grand View Research, Redseer, IRDAI, Allied, Netscribes, Infinium, Tata Capital Healthcare Fund, Insights10, Birac, IBEF. In Chart 2, Company names have been masked, but represent listed Indian companies.

A Market of Possibilities

The innovative drug market is expanding rapidly, with new players commanding greater share in the market. This growth is fuelled by rising demand for treatments in oncology, neurology, and rare diseases, as well as the emergence of gene and cell therapies. For Indian pharma, this represents a lucrative opportunity to move up the value chain.

High cost with uncertain outcomes – why India largely stayed away

Despite strong capabilities in manufacturing and generics, Indian companies have historically stayed underinvested in innovative R&D. The reasons potentially have been:

- High capital requirements (often exceeding $1 billion per drug)
- Long development cycles (10–15 years)
- Low success rates in clinical trials
- Regulatory complexity in global markets

These barriers made generics and contract manufacturing more attractive and predictable.

Signs of Change?

Traditionally focused on operational excellence and affordability, Indian pharma companies are now exploring proprietary R&D. Company C highlighted in the above table recently out-licensed an in-house developed early stage oncology asset to a big pharma company globally. Another is advancing antibiotic research, while a third is making progress in oncology. These developments reflect a strategic pivot toward long-term value creation.

CDMOs: Innovation Through Collaboration

India’s pharmaceutical ecosystem is deeply integrated with global innovation through Contract Development and Manufacturing Organizations (CDMOs) and is seeing incrementally higher share in this market. These partnerships allow Indian firms to contribute to and learn from advanced drug development processes, without bearing the full risk. It’s a model that builds capability and credibility.

Looking Ahead: Innovation as a Growth Catalyst

As success stories accumulate and global interest grows, more Indian companies may enter the innovation space. Supportive policy frameworks, maturing biotech talent, and international collaborations could accelerate this trend.

Conclusion

India’s pharma sector is evolving from a cost and efficiency driven model to one that balances affordability with innovation. As we have been highlighting, India’s Pharma sector is a diversified sector with multiple lines of business. Recent success has the potential to incentivise greater investment into innovative drugs, and may become a trend to watch out for. Investors looking to participate in India’s vibrant Pharma and Healthcare space may consider investing in the HDFC Pharma and Healthcare Fund as per their risk appetite and financial goals.

Sources: Bain & Company, Inc, DAM Capital, MCA filings, IBEF and other publicly available information

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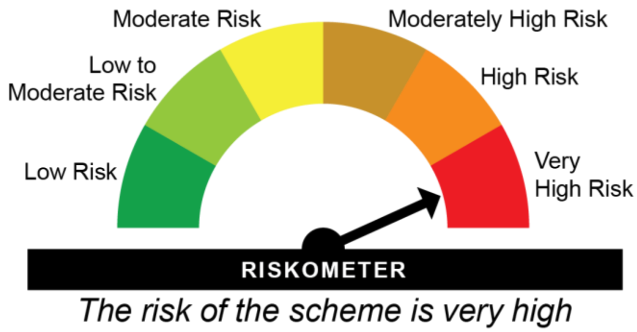
About Tuesday’s Talking Points (TTP)*: TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. Please provide your feedback at this link: https://forms.office.com/r/Cr8JNjMGWk*

Product Labelling and Riskometer of HDFC Pharma and Healthcare Fund

<table>
<tr><td>HDFC Pharma and Healthcare Fund (An open-ended equity scheme investing in pharma and healthcare companies) is suitable for investors who are seeking*:</td><td rowspan="3">Riskometer#

</td></tr>
<tr><td>• To generate long-term capital appreciation
• Investment predominantly in equity & equity related instruments of pharma and healthcare companies</td></tr>
<tr><td>*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.
#For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com .</td></tr>
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The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.