

## Expectations from Budget 2019- Saurabh Gurnurkar

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### **Over view of API in 2018 across globe with substantive mention of API India**

The Global Active Pharmaceutical Ingredient (API) Market has seen a steady growth in volume and value mirroring the growth drivers for the overall pharmaceutical industry. However clearly this year has seen a significant impact of supply disruptions from the conventional supplier base i.e China and India impacting either API availability or economics. At Uquifa, we make API and we have seen the input prices for quite a few products in our portfolio go up. There are several factors which have contributed for the raw materials prices to go dearer, key reason being environmental concerns in China which have forced the government to rationalize manufacture in many zones. The lack of supply or higher prices of inputs have meant the escalation in API prices with a spillover to the finished drug in some cases too. At Uquifa, we are typically buying 60% of our raw material inputs from China and clearly the volatility in supply and pricing impacts us meaningfully.

### **Rupee depreciation and Crude oil price effect on raw material**

Solvent prices are well linked to crude oil trends wherever the basic constituent is a crude derivative. So on increase in crude oil prices in such cases also places pressure on solvent and indirectly API cost of manufacture.

Price increases of API happened due to, Increase in the KSM (key starting material) prices which are building blocks for the API (active ingredient). This is being driven by the supply uncertainties emerging out of China which is where a lot of the KSM manufacture base has been located, the situation there as we hear is due to the focus on environment which is leading to closure or relocation of manufacturing units. Even in India (another key base for KSMs) there had been instances of units being impacted by pollution concerns, leading to supply issues and thus impact on product pricing- though clearly to a lesser extent than China.

As KSM manufacture starts to pick up outside China, the locations increasingly priced their products as per their own economics and this too impacts KSM pricing and spills over to API pricing as well.

Crude oil price trends / Depreciation of Rupee have also impacted the solvents market, which is also an important part of the cost composition when it comes to manufacture of API or intermediates.

The above quantitative factors apart, formulation companies focused on regulated markets are also closely weighing the compliance position of their supply chain partners i.e API and advanced intermediate manufacturers. Given that- companies with a good compliance track record are the port of first call and in a better position to pass on the pricing pressures from the downstream to their customer bases

### **Business outlook for 2019**

For the overall industry, Increasing healthcare needs / awareness have resulted in healthcare expenses to grow. Among the other factors, rising numbers of chronic diseases such as cardiovascular diseases, obesity, diabetes and others have given a boost to the need for APIs of that therapy area in the market. Also the need for reduction in healthcare expenses in the West underpins increased generic penetration and offtake.

For Uquifa, we are focused on the CDMO and Generic sectors, and our growth outlook is underpinned by new product launches which we have for 2019, increased market shares in commercial products and the growth in CDMO which we see post our acquisition of Soneas. This has given us increased coverage of service offering as well as adding to our portfolio new geographies and an enhanced Technology Tool Box. Given these drivers, we are targeting in both the Generic and CDMO portfolios to grow ahead of the market.