

Indian Pharma sector growth to moderate at 8-10% CAGR over FY'2018-21 period: ICRA

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High base for domestic business impacted Q3FY2019 growth



The growth trajectory for the Indian pharmaceutical industry is likely to be moderate at 8-10% over FY2018 to FY2021, on the back of healthy demand from the domestic market given increasing spend on healthcare along with improving access. The growth would however be constrained by regulatory interventions and slowing growth from the US given the relatively moderate growth prospects. According to an ICRA report covering a sample of 21 firms in the industry the concerns in the domestic market pertain to price control and mandatory genericisation whereas US concerns pertain to relatively moderate proportion of large size drugs going off patent, increased competition leading to price erosion albeit at moderate pace, generic adoption reaching saturation levels and; regulatory overhang along with base effect catching up.

According to Gaurav Jain, Vice President & Co-Head, ICRA, "The revenue growth from US remained healthy at Q3FY2019 at 16.2% (9.6% 9mFY2019) compared to -13.1% in FY2018 led by currency depreciation, new product introductions, and consolidation benefits. During the quarter, INR depreciated by 11.4% on an average on Y-o-Y basis. The growth momentum for US business is likely to remain moderate for FY2020, led by limited near term first to file (FTF) generic opportunities, pricing pressures and product rationalization for US base business. The base business in US continuing to face mid-to-high single digit price erosion (compared to low to mid-teens in CY2017 and 10-12% in CY2018) and; regulatory overhang for select companies."

Aggregate revenues of sample grew at 14.0% in Q3FY2019 (12.3% 9mFY2019) vis-à-vis the prior year as against FY2018 growth of 0.1%. The aggregate domestic growth was 7.8% in Q3FY2019 (10.1% 9mFY2019) compared to 4.6% in FY2018. The lower growth during the quarter was on account of high base of last year led by reversal of channel inventory de-stocking seen during Q1FY2018 led by GST implementation. The growth during Q3FY2019 was supported by 3.4% WPI linked price increase on National List of Essential Medicines (NLEM) portfolio, volume as well as new product introduction. Growth from European markets benefitted from higher tender wins, new product introduction in B2B segments and low base effect though healthcare reforms resulting in price cuts continue to pose challenge.

Unlike in the past, when several Indian pharma companies ramped up their R&D spend, targeting pipeline of specialty drugs, niche molecules and complex therapies, this time around companies are optimising their R&D spend. This is led by challenging US market conditions characterized by steep pricing pressures, high competitive intensity led by faster ANDA approvals and lower than expected revenue growth. Also with competitive pressures expected to sustain in the near to medium term, companies are exiting product development of easy to manufacture, simple generics with multiple players and focusing on complex generics and specialty products.

The aggregate R&D spends of top few domestic companies which had increased from 5.9% of sales in FY2011 to close to 9.0% in FY2017, moderated to 8.8% during FY2018 and further to 7.8% in 9mFY2019. ICRA expects R&D budgets to remain at 7.5%-8.5% given the growing focus both on regulated markets and complex molecules/therapy segments such as injectables, inhalers, dermatology, controlled-release substances and bio-similars. Indian companies have gained adequate scale and drug development capabilities over last decade of growth which will keep them in good stead to capture new opportunities in the developed market.

“The credit metrics of leading pharma companies are expected to remain stable in view of future growth prospects in regulated markets and relatively strong balance sheets. The capital structure and coverage indicators are expected to remain strong despite pressure on profitability and marginal rise in debt levels given inorganic investments. The key sensitivity to ICRA’s view remains productivity of R&D expenditure, increasing competition in the U.S. generics space and operational risk related to increased level of due diligence by regulatory agencies”, Gaurav added.

As for industry’s profitability, the same has remained moderated over the last few years with aggregate EBITDA margins of 20.9% 9mFY2019 (vis-a-vis 22.9% FY2017). This is due to growth pressures along with sustained R&D and compliance related investments. Though margins remain healthy, the lower margins are due to pricing pressures for the US base generics business and lack of limited competition products. Higher share of domestic business and operational efficiencies has however provided overall cushion to margins.