



India's API strength endures, China reliance persists

Kinjal Shah, Senior Vice President and Co-Group Head, Corporate Ratings, ICRA Limited shares insights on the Indian API industry. She also emphasised the challenges for the API segment and the opportunities for the contract research, development and manufacturing organisation (CRDMO) segment.

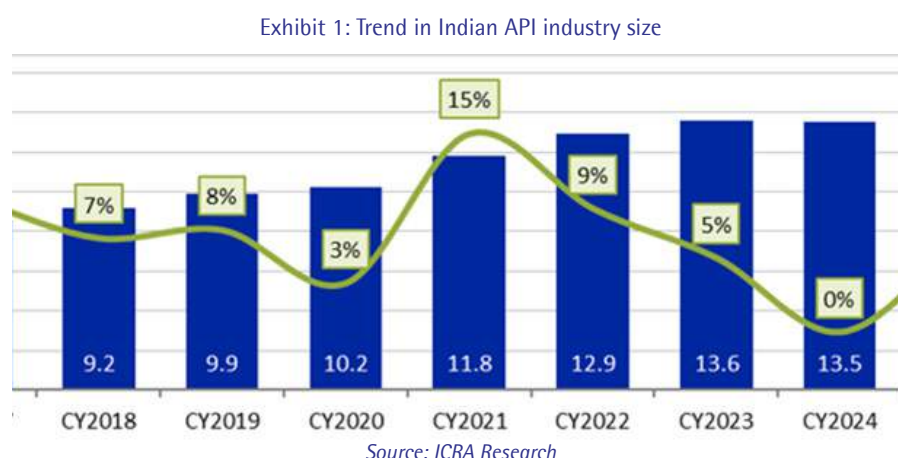
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The Indian API segment

The Indian active pharmaceutical ingredients (API) industry is estimated to be worth about \$13.5 billion in CY2024, accounting for around 25% of the country's overall pharmaceutical industry. Globally, India is the third-largest API producer by volume, behind the United States (US) and China. This prominent standing is largely attributable to the country's competitive cost structure and its vast pool of skilled professionals. Approximately 65% of India's API production is consumed in the domestic market, while the remaining 35% is exported to both regulated and semi-regulated international markets.

From CY2017 to CY2024, the industry recorded a compounded annual growth rate (CAGR) of about 7% in revenues, driven by rising volumes and improving realisations. However, the industry experiences periodic price volatility due to fluctuating raw material costs. In recent periods, the same was observed due to global geopolitical events, supply chain issues, and overcapacity in certain API segments. In CY2024, API realisations declined, offsetting growth in sales volumes, resulting in flat revenues. With expected improvements in both price and volume, the industry's revenues are



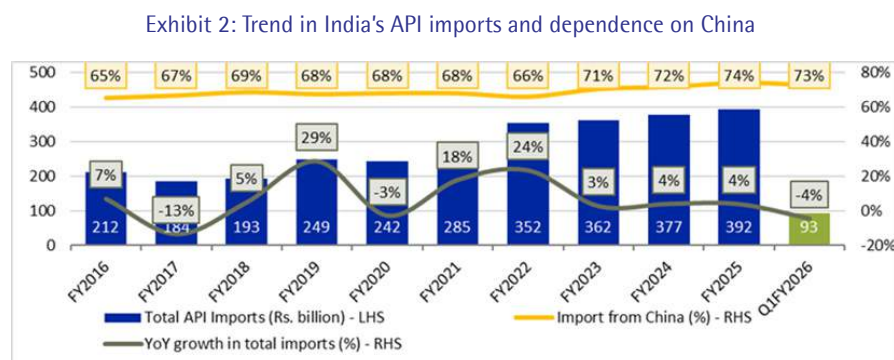
projected to grow by 6-8% YoY in CY2025.

Over the medium- to long-term, the API industry's growth will be supported by steady expansion in the formulations segment. An ageing population, increasing incidence of chronic diseases, and rising demand for contract manufacturing, driven by global companies' initiatives to diversify supply chains away from China, will further bolster the sector.

China accounts for approximately

40% of global API demand. For specific antibiotics, including cephalosporins, azithromycin, and penicillins, China's dominance is even greater, accounting for 90-95% of worldwide production.

In FY2025, India imported APIs and bulk drugs valued at Rs. 392 billion, which accounted for about 35% of the country's overall API needs. China supplied around 74% of these imports. Despite various initiatives undertaken by the Indian Government in recent years (such as the production linked incentive



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[PLI] scheme), the volume of API imports has seen a steady rise and the share of Chinese contribution in Indian pharmaceutical companies' API imports has also continued to rise, and touched around 73% of total API imports in H1 FY2026 (68% in FY2019).

With PLI and Bulk Drugs Park schemes approaching their final stages, it remains to be seen how effective they will be in reducing India's reliance on imported APIs. Nevertheless, there is growing optimism within the Indian API industry as profitability metrics have improved, driven by lower raw material costs. Indian API manufacturers are also benefiting from global supply chain shifts, as reflected in a 6% YoY increase in export sales for FY2025, even though domestic industry growth has stayed relatively flat. The industry is increasingly focusing on custom synthesis and contract development and manufacturing organisation (CDMO) opportunities, which involve shared capital expenditure and technology transfers. These strategies contribute to improved pricing flexibility and more secure product offtake arrangements. However, challenges persist, including elevated channel inventory levels for certain molecules in some markets and more frequent adverse regulatory actions, both of which have negatively impacted revenues and profitability for select companies.

The API industry faces high working capital requirements, primarily due to the need to maintain essential raw material inventories for uninterrupted production and the prevalence of longer receivable periods. During the pandemic, these working capital demands intensified as supply chain disruptions became more frequent. However, conditions began to ease in FY2023. Overall, the net working capital intensity, as a percentage of the operating income, has stayed mostly consistent since then, ranging between 29% and 31%. Notably, inventory levels rose in FY2024 as companies sought to maintain

production continuity amid ongoing geopolitical challenges, including those stemming from the Red Sea crisis, which continued to affect global supply chains.

Driven by the growing emphasis on domestic API manufacturing, the industry's capital expenditure rose between FY2022 and FY2024, with a slight easing in FY2025 as several projects reached completion. The capex plans for FY2026 are expected to remain range-bound at the FY2025 level.

The Indian CRDMO segment

India accounts for a relatively small share of the global contract research, development, and manufacturing organisation (CRDMO) industry, holding only 2-3% of the \$140-145 billion market. The US and Europe together command a dominant share of about 70%, while China represents around 20% of the industry. This disparity is partly due to India's continued focus on generic drug production over the past two decades. In contrast, China has simultaneously invested in advanced technologies and infrastructure to manufacture innovative drugs. Despite this, India's CRDMO industry has experienced robust growth, achieving a CAGR of 15% in revenue from CY2019 to CY2024, with projections indicating continued increase at a CAGR of 15-16% over the next ten years.

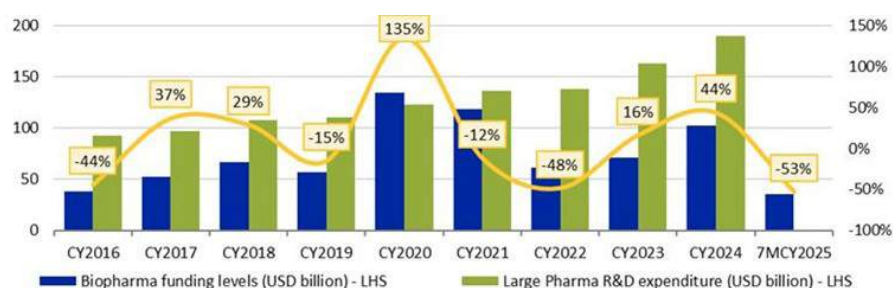
In the short term, growth in the CRDMO industry is likely to be affected by the

recent decline in biopharma funding. Over the past two years, biopharma funding experienced robust double-digit growth, aligning with a significant rise in R&D spending by major global pharmaceutical innovators, reaching more than 25% of their revenues for the first time in CY2024. However, in 7M CY2025, biopharma funding has dropped by 53% YoY. As a result, this decrease is expected to impact the industry's overall growth.

Despite the current downturn in biotech funding, Indian CRDMO companies are seeing new growth prospects as global supply chains shift. The growing autonomy of Chinese innovator firms is prompting international pharmaceutical innovators to seek alternative CRDMO partners. In addition, pricing pressure on major pharmaceutical companies and US Government initiatives, such as the Biosecure Act and the Most Favoured Nation (MFN) policy, could further encourage outsourcing of CRDMO services to regions like Southeast Asia, where cost advantages exist compared to the regulated markets of the US and Europe.

However, to fully capitalise on these opportunities, Indian CRDMO companies must address several challenges. These include building a sufficiently skilled talent pool and obtaining regulatory approvals that satisfy the standards of regulated markets. Biopharma funding will also remain an important factor to monitor, going forward.

Exhibit 3: Trend in global biopharma funding and R&D expenditure of big global pharmaceutical companies



Source: IQVIA, ICRA Research