

# INDIAN PHARMACEUTICAL INDUSTRY

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Industry grappling with headwinds  
in the European market

OCTOBER 2022





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*Europe accounted for ~21% of India's pharmaceutical exports in FY2022.*

*While no material demand contraction has been witnessed thus far, the industry remains cautious, given the inflationary pressures and an uncertain macro-economic environment in the European market.*

*Overall, impact of these headwinds on revenues of Indian pharma companies is expected to be minimal given that demand is largely inelastic.*



While the US is the largest export market for Indian pharmaceutical companies, Europe accounted for ~21% of India's pharmaceutical exports in FY2022. While no material demand contraction has been witnessed thus far, the industry remains cautious, given the inflationary pressures and an uncertain macro-economic environment in the European market.



On the supply side, while India mainly relies on China for imports of APIs (~65-70%), ~11-13% of India's imports of APIs and intermediates also come from Europe. In stark contrast to the trend in APIs/intermediates imports, Europe accounts for ~50-55% of India's formulations imports, especially in the vaccine and complex therapy segments. However, India's overall import dependence for formulations is low as it imports only ~15% of its formulations' requirements.



In ICRA's view, ongoing input cost inflation in Europe is expected to impact the cost of imports of KSMs/APIs (including excipients), especially for acute therapies. Further, the rising energy cost is likely to have an adverse impact on the cost structure of Indian pharmaceutical companies with manufacturing operations in Europe, although the same are limited for companies rated by ICRA.



Increased level of geo-political uncertainty in the European region has led to weakening of the euro and the GBP against other key currencies in recent quarters. While net importers are likely to benefit from the recent appreciation of the INR against these two currencies (INR appreciated by 7.3% against the Euro between April 2022-September 2022, while it appreciated by 6.8% against the GBP over the same period), the same is likely to impact revenues and margins of pharma companies with sizeable exports to Europe.



Overall, impact of these headwinds on revenues of Indian pharma companies is unlikely to be material, given that demand is largely inelastic. Even as pricing pressures persist, revenues of ICRA's sample set are expected to witness a YoY growth of 4-6% in Europe in FY2023.

# Confluence of headwinds in the European pharmaceutical market

## DEMAND SCENARIO

No material demand contraction witnessed thus far, but industry remains cautious

## ELEVATED INPUT PRICES

Input cost inflation impacting cost of imports of excipients and KSMs\*/APIs, especially for acute therapies

## FOREX VOLATILITY

Appreciation of INR against the GBP/Euro likely to impact revenues and profit margins of pharma companies with sizeable exports to Europe



## PRICING PRESSURE

Elevated pricing pressures, especially in Germany, the UK and Eastern Europe on account of increased competitive intensity

## RISING ENERGY COST

Rising energy cost likely to result in increased cost of production for pharma companies with manufacturing footprint in Europe

## FREIGHT COST

While freight rates have reduced from the peak witnessed during FY2022, they remain higher than the pre-pandemic levels, thus impacting the margins of pharma companies

# Characteristics of key pharmaceutical markets in Europe



## UK

- One of the largest generic markets in Europe, with ~80-85% generic penetration
- Pricing pressures due to distribution channel consolidation
- Increased focus of Indian players on injectables market



## Germany

- Largely a tender-based market
- Normalisation in channel inventory and increasing competition in some of the large volume tenders impacting growth



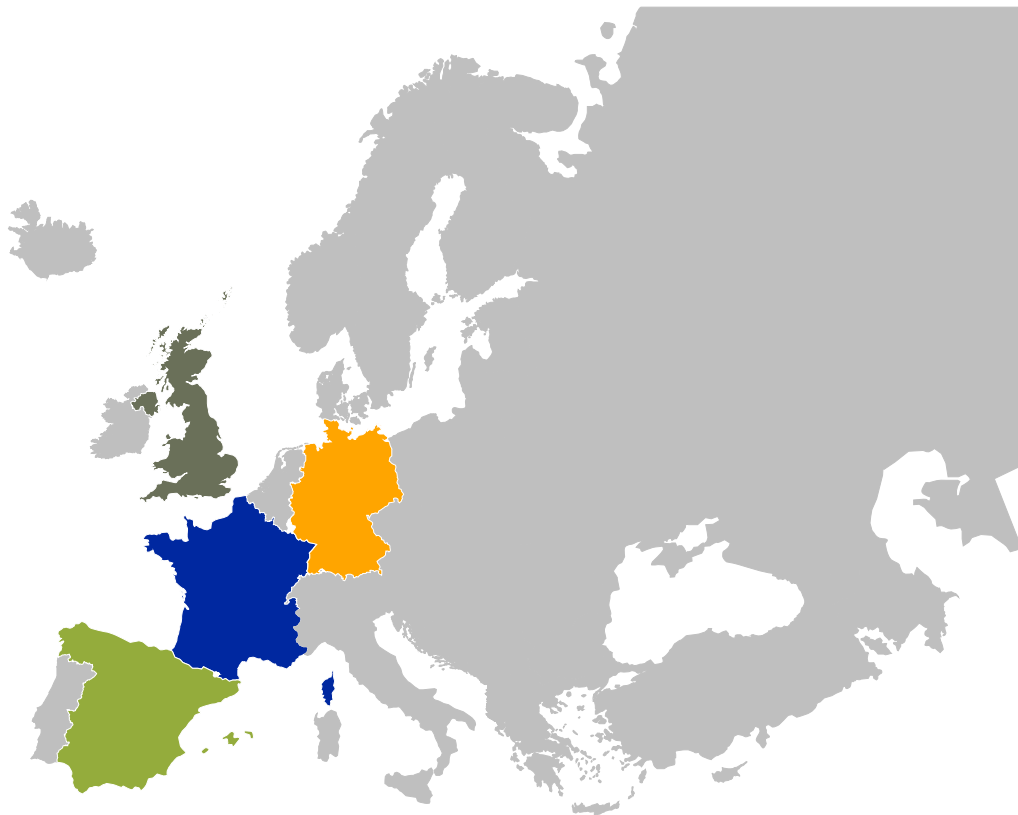
## France

- Largely a tender-based market
- Limited presence of Indian pharma companies due to limited market size and growth opportunities



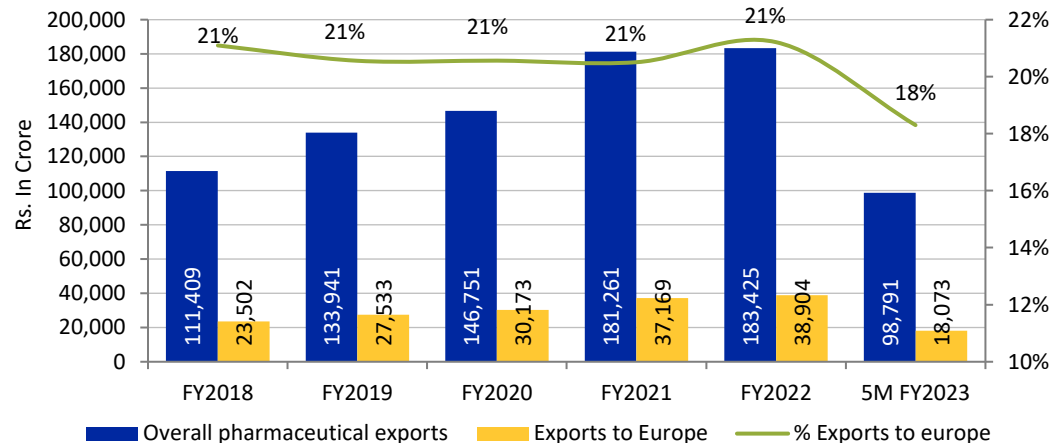
## Spain

- Largely a tender-based market
- Limited presence of Indian pharma companies due to limited market size and growth opportunities

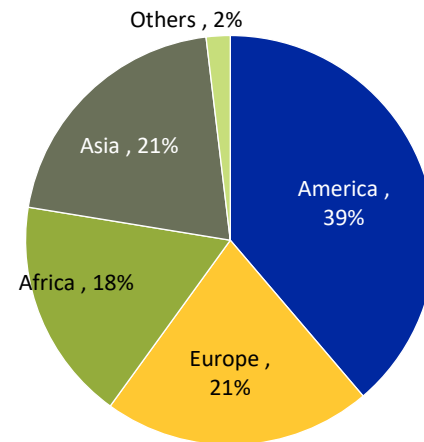


# Europe is the second largest export market for the Indian pharmaceutical industry

EXHIBIT: Trend in pharmaceutical exports from India (in Rs. Crore)



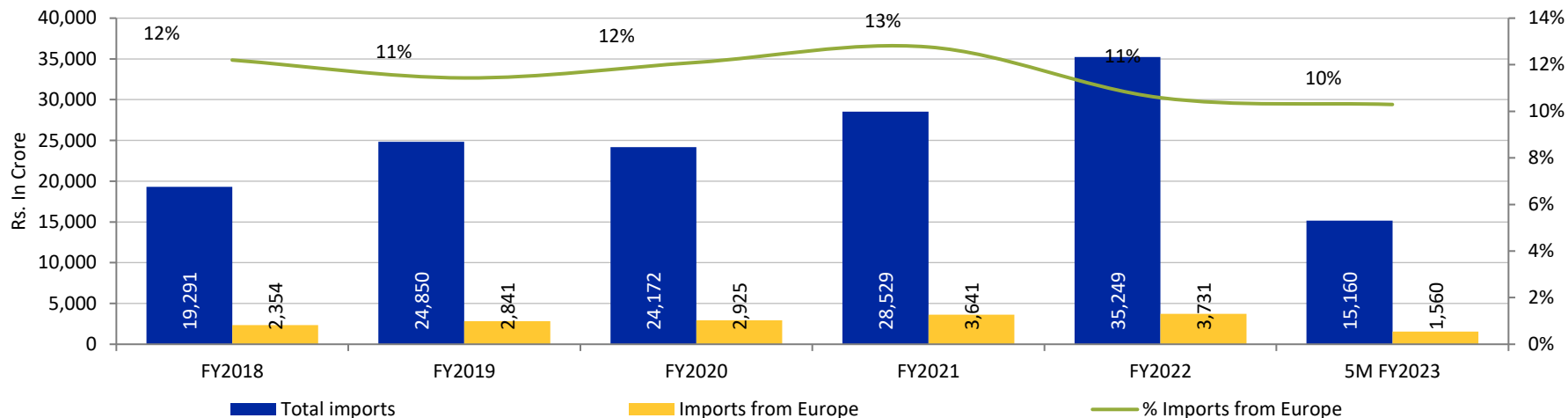
Region-wise exports in FY2022



- While the US is the largest export market for the Indian pharmaceutical companies, Europe accounted for ~21% of India's pharmaceutical exports in FY2022. Exports to Europe have grown at a CAGR of 11% over the past five years.
- Indian pharma companies have increased their focus on Europe and the emerging markets to protect their revenues and margins from the increased pricing pressures and competitive intensity in the US market. This has resulted in increasing quantum of exports to the European market over the last few years.
- While no material demand contraction has been witnessed thus far, the industry remains cautious, given the inflationary pressures and an uncertain macro-economic environment in the European market.

# Indian pharma industry has moderate dependence on Europe for imports of APIs

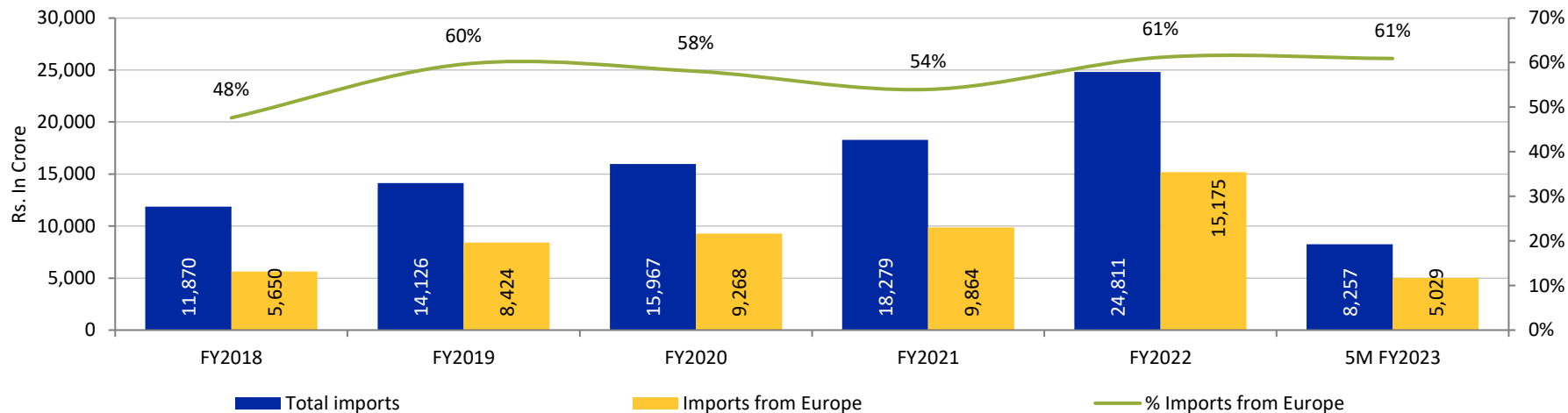
EXHIBIT: Trend in imports and % imports of APIs and intermediates from Europe



- India imports ~70% of its APIs and Intermediates requirements. While India mainly relies on China (~65-70% of total imports), ~11-13% of India's imports of APIs and intermediates is from Europe.
- However, some Indian formulations manufacturers have a high dependence on Europe for sourcing of excipients; and the ongoing cost escalations in the European markets are expected to thus impact margins of such players.

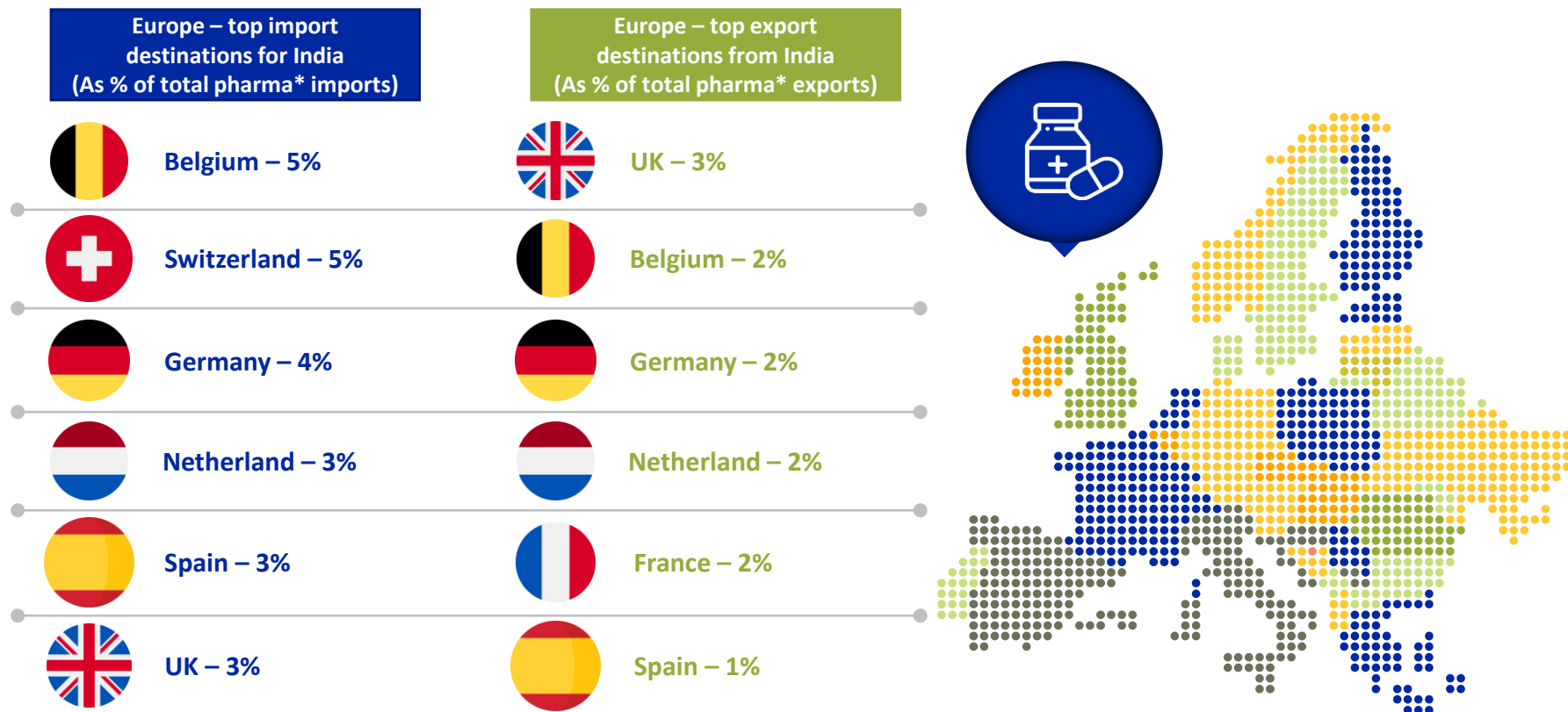
# Industry heavily dependent on imports of formulations from Europe

EXHIBIT: Trend in imports and % imports of formulations from Europe



- In stark contrast to the trend in APIs/ intermediates imports, Europe accounts for ~50-55% of India's formulations imports. However, India's overall import dependence for formulations is low as it imports only ~15% of its formulations requirements.
- Rising input prices and uncertainties in the European market are likely to impact margins of Indian pharma companies who trade in these formulations.

# Diversified exposure within Europe

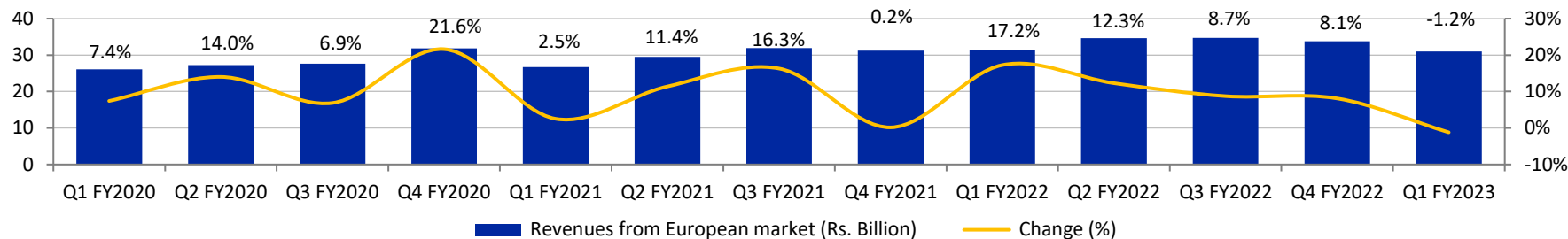


Source: ICRA Research, Country wise share based on FY2022 EXIM data, \* Includes bulk drugs and formulations.

# Revenue growth in the European market contracted in Q1 FY2023

Revenues in Q1 FY2023 contracted on a YoY basis on account of large base of the previous year, in addition to pricing pressures

Exhibit: Quarterly trend in revenues from European markets for ICRA sample set



Source: Company data, ICRA Research; ICRA sample set includes Torrent Pharma, Cadila Healthcare, Lupin, Sun Pharma, Dr. Reddy's, Glenmark, Wockhardt and Aurobindo

- In Q1 FY2023, the revenues from European business for companies in the ICRA sample set witnessed a YoY contraction of 1.2% (this includes the Middle East and Africa businesses for Lupin).
- The contraction in revenues was on account of ~50% YoY decline in Wockhardt's revenues in these regions due to the large base of the previous year, which included revenues from vaccine sales in the UK even as Lupin's revenues from the region more than doubled in Q1 FY2023 supported by strong increase in volumes for select products. The cumulative revenue growth of the other companies for the region remained positive in Q1 FY2023.
- Moreover, pricing pressures and higher channel inventory also impacted the revenue growth of sample set companies from Europe in Q1 FY2023.
- Going forward, market conditions in Europe are expected to remain challenging even as the same are expected to be mitigated selectively to a certain extent by expansion in product offerings, market share gains in existing products and entry into new geographies in Europe.
- Overall, revenues for the sample set are expected to grow by 4-6% in the European market in FY2023.

# Geography-wise revenue mix of key Indian pharma companies

EXHIBIT: Geography wise revenue mix of major Indian pharma companies in FY2022

		Domestic	United States of America	Europe	Rest of the World
1	Intas Pharmaceuticals	33%	16%	39%	12%
2	Aurobindo Pharma	-	47%	28%	25%
3	Glenmark	34%	25%	13%	28%
4	Torrent Pharma	50%	13%	11%	26%
5	Lupin Limited	36%	38%	9%	17%
6	Dr. Reddys	20%	8%	8%	37%
7	Cadila Healthcare	46%	39%	2%	13%
8	Sun Pharma	33%	30%	*	37%
9	Cipla Limited	45%	20%	-	35%

Source: Company data, ICRA Research \*Europe revenue included in Rest of the world for Sun Pharma.

# Key ICRA-rated major entities in formulations manufacturers

Name of Issuer	LT Rating	Outlook / Special Symbol	ST Rating
Bharat Biotech International Limited	[ICRA]AA	(Stable)	[ICRA]A1+
Biocon Limited	[ICRA]AA+&		[ICRA]A1+&
Biological E. Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Concord Biotech Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Dr. Reddy's Laboratories Limited	[ICRA]AA+	(Stable)	
Indoco Remedies Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Intas Pharmaceuticals Limited	[ICRA]AA+	(Stable)	[ICRA]A1+
Natco Pharma Limited	[ICRA]AA	(Stable)	[ICRA]A1+
Strides Pharma Science Limited	[ICRA]A-	(Negative)	[ICRA]A2+
Sun Pharmaceutical Industries Limited	[ICRA]AAA	(Stable)	[ICRA]A1+
Torrent Pharmaceuticals Limited	[ICRA]AA+	(Stable)	[ICRA]A1+
Unichem Laboratories Limited	[ICRA]A-	(Stable)	



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## Contact Details



**Shamsher Dewan**

**Kinjal Shah**

**Deepak Jotwani**

**Mythri Macherla**

*Group Head*

*Co-Group Head*

*Assistant Vice President*

*Assistant Vice President*



shamsherd@icraindia.com

Kinjal.shah@icraindia.com

deepak.jotwani@icraindia.com

mythri.macherla@icraindia.com



0124 – 4545 328

022 – 6114 3442

0124 – 4545 870

0180 – 4332 6407





ICRA

## Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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