ICRA

Indian Pharmaceutical Industry

Pricing pressures and regulatory overhang to result in moderation in margins in FY2023

DECEMBER 2022

Agenda

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1 Q2 FY2023 Financial Performance

2 Geography-wise Growth Trends and Challenges

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Highlights – Q2 FY2023

Q2 FY2023 revenue growth at 7.0% on a YoY basis for ICRA's sample set; revenues from the US and domestic markets witnessed growth, while those from Europe witnessed contraction.

Operating profit margins for ICRA's sample set improved on a QoQ basis on the back of moderation in raw material prices and other costs, in addition to improved earnings due to new FTF launches in the US market.

- Revenue growth for ICRA's sample set[1] in Q2 FY2023 was 7.0% YoY, supported by 11.4% YoY growth in the US market and 6.2% YoY growth in the domestic market even as revenues from the European markets witnessed contraction, given the ongoing macroeconomic challenges and large base supported by vaccine sales.
- **Domestic Market:** In Q2 FY2023, ICRA's sample set reported a 6.2% YoY growth in revenues, against a 13.1% YoY growth for the Indian pharmaceutical market (IPM). The lower growth for ICRA's sample set, vis-a-vis the industry, was due to the large base of the previous year which benefitted from sale of Covid-19 related drugs. ICRA expects 5-7% growth for the sample set in FY2023.
- **US Market:** In Q2 FY2023, ICRA's sample set reported a 11.4% YoY growth in revenues, against 4.2% YoY growth in Q1 FY2023. The revenue growth was supported by robust performance of new product launches in addition to the depreciation of the INR against the USD. ICRA expects mid-to-high single digit pricing pressure to continue to exert pressure over the near term.
- The operating profit margin (OPM) for ICRA's sample set stood at 21.8% in Q2 FY2023, against 19.9% in Q1 FY2023 and 23.0% in Q2 FY2022, supported by moderation in raw material prices and improved earnings due to first-to-file (FTF) launches in the US market. However, the OPM is expected to contract by 50-100 bps in FY2023 due to high input costs during H1 FY2023 and continued pricing pressures in key markets of the US and Europe.
- With the USFDA re-commencing physical inspections of manufacturing facilities and some companies receiving form 483s/ warning letters, regulatory risks are a key monitorable. Any adverse outcome in the form of warning letters or import alerts for key facilities could impact industry players' business prospects.
- The R&D expenses for the sample set moderated from a high of 8.4% of revenues in FY2017 to 7.0% in FY2021. Indian companies have been optimising R&D expenses and going forward, it is likely to remain at 7-7.5% for the sample set.
- Introduction of the production-linked incentive (PLI) schemes and promotion of bulk drug parks augur well for the IPM by reducing dependence on imports of critical APIs as well as promoting production of value-added products such as biosimilars, complex generics, etc., thereby supporting exports.

[1] ICRA's sample set of 16 leading listed pharma companies includes Wockhardt Limited, Torrent Pharmaceuticals Limited, Pfizer Limited, Abbott India Limited, Cipla Limited, Indoco Remedies Limited, Natco Pharma Limited, Unichem Laboratories Limited, Zydus Lifesciences Limited, Lupin Limited, Sun Pharmaceuticals Limited, Dr. Reddy's Laboratories Limited, Glenmark Pharmaceuticals Limited, Aurobindo Pharma Limited, Jubilant Pharmanova Limited, Biocon Limited; bebt protection indicators are based on consolidated financials

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Thank You!