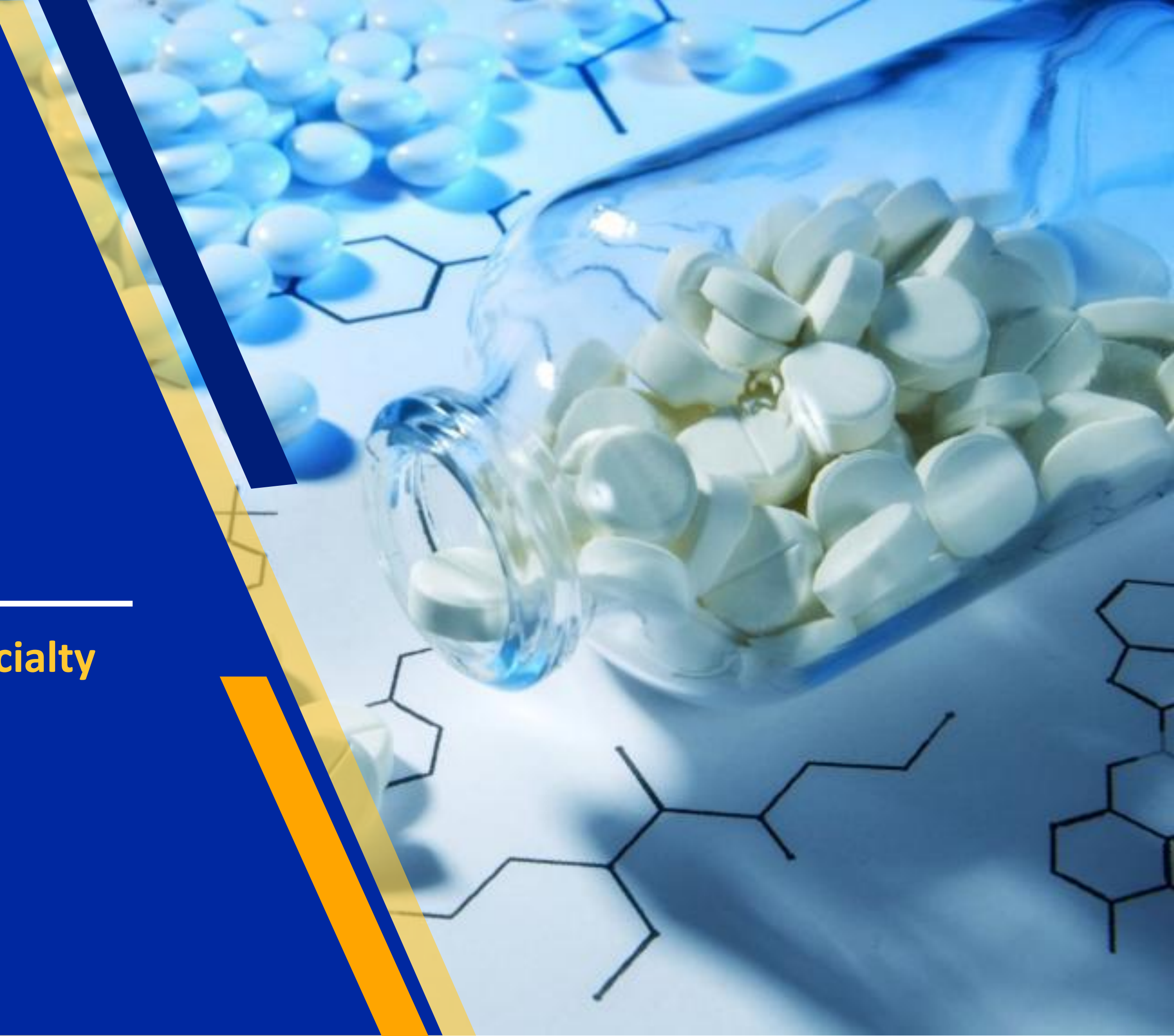
ICRA

Indian Pharmaceutical Industry

Stability of input costs and specialty product launches to support performance in FY2024

MARCH 2023



Agenda

1 Q3 FY2023 Financial Performance

2 Geography-wise Growth Trends and Outlook

3 ICRA's Outlook on the Industry

4 Peer Comparison

5 Rating Actions

Highlights – Q3 FY2023

YoY growth of 12.7% in revenues for ICRA's sample set in Q3 FY2023 largely driven by 21.2% growth in the US market and 6.4% growth in the domestic market.

Operating profit margins for ICRA's sample set remained stable on a QoQ basis given the stabilisation in raw material prices and continued robust earnings from FTF launches in the US market.

- Revenue growth for ICRA's sample set[1] in Q3 FY2023 was 12.7% on a YoY basis, supported by 21.2% YoY growth in the US market and 6.4% YoY growth in the domestic market, even as revenue growth in the European market was marginal, given the ongoing macroeconomic challenges. ICRA expects its sample set to witness a revenue growth of 6-8% each in FY2023 and FY2024
- **Domestic Market:** In Q3 FY2023, ICRA's sample set reported a 6.4% YoY growth in revenues, against a 11.6% 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 6-8% growth for the sample set in FY2024 post a 3-4% growth in FY2023.
- **US Market:** In Q3 FY2023, ICRA's sample set reported a 21.2% YoY growth in revenues, supported by robust performance of new product launches (including FTF Lenalidomide) in addition to the depreciation of the INR against the USD. ICRA expects the revenue growth for its sample set to moderate to 6-7% in FY2024 post a 10-12% growth in FY2023 due to the base effect and continued pricing pressure.
- The operating profit margin (OPM) for ICRA's sample set stood at 21.9% in Q3 FY2023, against 21.8% in Q2 FY2023 (21.0% in Q3 FY2022), supported by stabilisation in raw material prices and improved earnings supported by first-to-file (FTF) launches in the US market. The OPM is expected to contract by 50-100 bps to 21-22% in FY2023 due to relatively high input costs in H1 FY2023, while remaining relatively stable in FY2024.
- 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 7.3% in FY2022. Indian companies have been optimising R&D expenses and going forward, it may remain at 7-7.5% for the sample set, with focus on complex therapy areas.
- To enhance market share in select geographies/therapeutic areas, leading Indian pharmaceutical companies have made sizeable acquisitions in the recent past. This is expected to provide diversification benefits and support revenue growth for these players going forward.

[1] *ICRA's sample set of 16 leading listed pharma companies*

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Thank You!