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INDUSTRY OUTLOOK

PHARMACEUTICAL INDUSTRY: OUTLOOK AND CHALLENGES

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Introduction

Drugs and pharmaceuticals cover a wide ground. The global pharmaceutical industry includes biological, medicinal, and pharmaceutical products in various forms, such as, tablets, capsules, ampoules, ointments, powders, solutions, and suspensions. The overall pharmaceutical market is segmented into prescription-based products and over-the-counter medications. Further, it is also customarily divided into branded drugs and generic drugs. The Indian pharmaceutical sector today is beset with a variety of challenges. Pharma in India is riddled with the problems of high 'out of pocket (oop) expenditure; pricing of patented drugs; prevalence of spurious medicine; shortfall in 'healthcare manpower' spanning pharmacists, nurses and doctors, etc.; public and government pressure to make drug prices more affordable; and inadequate health insurance schemes.



In the overarching context of the global COVID 19 pandemic, most sectors and segments of the Indian economy, as indeed globally, have been crippled. With the first ever vaccination of Covid-19 to the ninety-year old Margaret Keenan, with the Pfizer-BioNTech, as well as the approval of the Pfizer vaccine by UK, global and Indian stock market rallied on the increased visibility of the vaccine production (though, the UK's National Health Service stated that people with significant history of allergies should not currently receive the Covid-19 vaccine after two people experienced reactions from the shots). Three companies, Pfizer Biontech, Serum Institute of India and Bharat Biotech have applied for Emergency Use Authorization for their Covid 19 vaccines from the DCGI (Drug Controller General of India).¹

Considered in a proper historical and comparative perspective, India has emerged as an indisputable pharmaceutical centre. Quality and cost-effectiveness of generic medicines and vaccines are some of the defining features of the Indian pharmaceutical industry. The Indian pharmaceutical industry supplies over fifty per cent of global demand for various vaccines, forty per cent of generic demand in the US and 25 per cent of all medicine in UK.²

The generic drug producers of India are important in the global supply chain and play a catalytic role in the growth of the pharmaceutical industry. India's domestic pharmaceutical market turnover reached Rs 1.40 lakh crore)³ in 2019, growing 9.8 per cent year-on-year from Rs. Rs 1.29 lakh crore)⁴ in 2018. With 71 per cent market share, generic drugs form the largest segment of the Indian pharmaceutical sector.⁵ Some of the major domestic players in the industry include Sun Pharmaceutical Industries, Dr. Reddy's Laboratories, Cipla, Lupin, Aurobindo Pharma, Zydus Cadila, Piramal Enterprises, and Glenmark Pharmaceuticals.

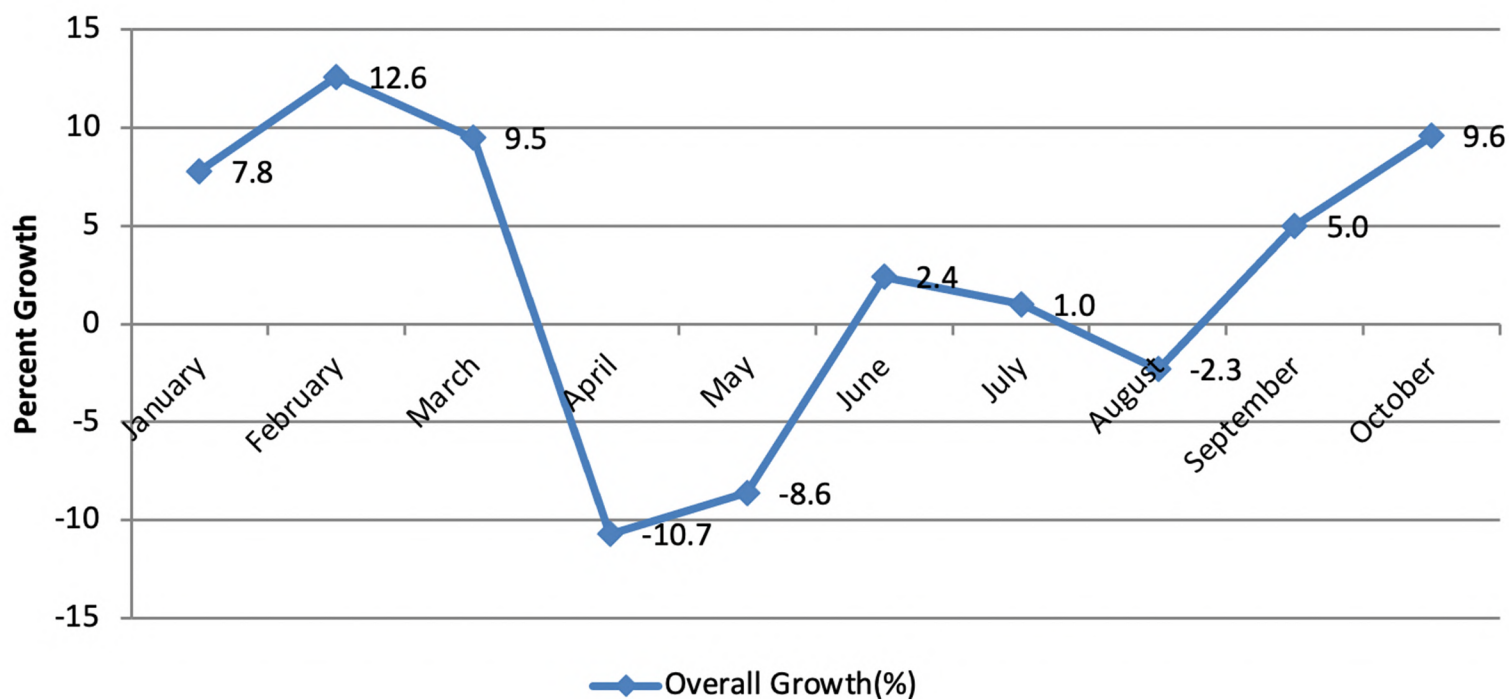
"If you want to give a sick man medicine, let him first be really ill — so that he can see how well the medicine works!"
Old Nigerian proverb



2020 Growth Trend of the Indian Pharmaceutical Market

The growth of the domestic pharmaceutical industry was in negative territory during April-May, 2020, and it again experienced a moderately negative growth in in August 2020. The industry is, however, experiencing a robust increasing growth trend (Chart 1) since September 2020. The negative growth during April-May 2020 was due to nation-wide lockdown in the wake of the Covid-19 pandemic. Big pharma companies like Sun Pharma, Cipla, Dr. Reddy, Cadila also bounced back.

Chart1: Month wise Growth Trend in Domestic Pharma(%) in 2020 (January-October)



Source: "Indian Pharma a picture of Health" (27 Nov 2020) Business Standard

The Indian Pharmaceutical Market (IPM) registered a growth of 9.6 per cent for the month of October 2020 on top of a growth of 4.5 per cent in September 2020 (Chart1). The Indian Pharmaceutical Market (IPM) recorded sales of Rs. 1,43,999 crore for moving annual total (MAT) basis during October 2020.⁶ Amongst the top ten corporates, Mankind exhibited the highest growth of 8.6 per cent, followed by Torrent Pharma at 7.9 per cent. Himalaya exhibited growth of 14.8 per cent while Glenmark Pharmaceuticals saw growth at 16.6 per cent in October 2020, while amongst the 26 to 50 ranked corporates, Boehringer Ingelheim registered the highest growth of 19.9 per cent followed by Medley at 15.6 per cent, while Danone registered the highest growth of 31.2 per cent.⁷

Cardiac registered a monthly growth of 19.5 per cent in October 2020 as compared to 17.1 per cent in September 2020, while anti-diabetic registered growth of 9.7 per cent compared to 6.5 per cent in September 2020. The respiratory medicines showed marginal improvement and are -6.6 per cent in October 2020 as compared to -10.5 per cent in September 2020. Post unlockdown since June 2020, the struggle for anti-infectives 1.4 per cent in September 2020 continues to display a positive trend with a growth of 6.6 per cent in October 2020.

Associated therapy like gastro exhibited growth of 13.6 per cent in October 2020 as against 5.5 per cent in September 2020, while vitamins bounced back with a growth of 22.6 per cent in October as against 16.3 per cent September 2020. The pain and analgesics are at 2.8 per cent in October 2020 as against -4.3 per cent in September 2020.

Digital marketing strategies and branding techniques with new brand launches and doctor outreach programmes saw a surge and chronic therapies, i.e., regular medicines, e.g., cardiac/hypertension drugs performed well, further October'20 data showed other therapy areas like respiratory ailments saw some revival.⁸ Sales of antivirals have also increased in the anti-infective category. The overall market would get a boost if antibiotic sales also increase. Companies such as Cipla (with a dominant market share in the respiratory inhalation segment) see demand for respiratory drugs growing in especially during winter, particularly at the next wave of the Covid-19 pandemic.

Cipla, Glenmark, Cadila Healthcare, DRL, Hetero that are selling key drugs like remdesivir, favipiravir and so on are witnessing traction in the segment and expect the trend to continue for one or two more quarters. With the easing restrictions and further opening of the economy, sales are likely to increase further. Pharma firms launched brands through digital webinars, but some have also warmed up to targeted digital marketing techniques.

The Growth of e-Pharmacy

With e-commerce flourishing in India, the popularity of e-pharmacy too is on the upsurge. The sale of medicines in India is governed by the Drug & Cosmetics Act (1940) and Pharmacy Act (1948) – both of which were passed decades before the advent of the internet. Indian e-pharmacies, however, have been continually on the radar of Drugs Controller General of India (DCGI) since 2016. ⁹ Though certain issues about the concept of e-pharmacy have been raised by posing issues of safety, lack of dosage instructions, and potentially unregulated sale of prescription drugs, retail pharmacies too suffered from safety issues, like- authenticity of the pharmacist. Another important advantage of e-pharmacies over retail pharmacies is how the former can indirectly improve medication observance; especially among elderly patients with chronic diseases or disabilities with timely door delivery of medicines.

The global e-pharmacy market, estimated at \$69.7 billion in 2019, is expected to grow 17 per cent year-on-year (y-o-y) to \$244 billion in 2027. India's share in the global market is comparatively small. At \$9.3 billion in 2019, it is expected to increase at a compound annual growth rate (CAGR) of 18 per cent to \$18 billion by 2023. ¹⁰ Compared to developed countries like US and Europe, India's e-pharmacy market is relatively unstructured and fragmented.



Growth Triggers

- Innovation and R&D: Development of new complex generic drugs together with the New Drugs and Clinical Trial Rules and the Atal Innovation Mission.
- Medical Tourism: Quality services at small prices vis-à-vis the US, Europe, and South Asia.
- Infrastructure Development: An elaborate network of institutions, products and processes with a strong track record and the highest number of US-FDA compliant pharma plants outside the US.
- Strong Drug Manufacturing: Core competency in low-cost generic drugs and a movement towards end-to-end manufacturing.
- Pharmaceutical Cluster: Well established clusters in Andhra Pradesh, Gujarat, and Maharashtra.

Growth Drivers for e-pharmacy

- Internet penetration rose rapidly in India due to the availability of smartphones at affordable prices and deployment of 4G. With the Digital India Program, the number of internet users increased significantly.
- Online shopping for essentials and medicines is growing at a fast pace.
- Government initiatives like the Jan Aushadhi Program aim to ensure the general population in the country has access to quality and affordable medicines.



Some well-known e-pharmacy players are Netmeds, EasyMedico and MedLife, and start-ups like 1 mg, Practo, Myra, etc. but they need to go to scale. In August 2020, Reliance Retail acquired a majority stake in startup Netmeds.¹¹ PharmEasy also took a step toward consolidation by merging with Medlife. E-commerce giant Amazon too has launched online drug delivery services. Times of India (ToI) on 10 December 2020 reported¹² US-based private-equity firm TPG is exploring at a 7 per cent stake in the parent company Pharmeasy. According to the news, TPG has incorporated a Special Purpose Vehicle (SPV) in Singapore for carrying out the proposed investment, to deepen its distribution network in India.

“Covid vaccine: Outreach from the lab to the last mile”¹³

With the four pharma giants (Pfizer, Moderna, Oxford and Sputnik) the outreach of the Covid-19 vaccine to the entire nation poses certain challenges in terms of logistical, infrastructure and crowd management. Another big challenge is of cold storage requirements. For instance, vaccines from Pfizer or Moderna require a storage temperature -70 degree centigrade and -20 degree centigrade respectively, which is not possible in Indian conditions. India has more than 6.3 lakh villages and around 7,935 towns. Since the reach of the vaccine in every nook and corner of the country is important, the government needs to choose a medium of transportation, such as, the Railways to ensure connectivity. The train coaches have to be installed with refrigeration facilities and power systems to the cold storage system should be independent. The electronic vaccine intelligence network (eVIN) under the UIP has to be extended to the coronavirus vaccine and the National Cold Chain Management Information system (NCCMIS) can be used to track the inventory levels and distribution. India currently has just 28,000 cold storage units. Companies like Amul, Hatsun and HUL, which are in the frozen desserts category, can share their knowledge and expertise in cold storage.

Government Initiatives

The 'Pharma Vision 2020' by the government's Department of Pharmaceuticals aims to make India a major hub for end-to-end drug discovery. Under Budget 2020-21, allocation to the Ministry of Health and Family Welfare was INR 65,012 crore.¹⁴

INR 6,429 crore¹⁵ was allocated to health insurance scheme Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (AB-PMJAY). In November 2019, the Cabinet approved the extension/renewal of the extant Pharmaceuticals Purchase Policy (PPP) on the same terms and conditions while adding one additional product namely, Alcoholic Hand Disinfectant (AHD) to the existing list of 103 medicines. The Union Cabinet approved on 20 November 2019 extension/renewal of Pharmaceuticals Purchase Policy (PPP) for pharmaceutical Central Public Sector Undertakings (CPSUs) till their closure/strategic disinvestment in order to enable them to generate revenues to pay salaries to their employees, help them in keeping the costly, sophisticated machinery in running condition resulting in higher return at the time of disposal in case of CPSUs under closure and better valuation in case of CPSUs under disinvestment.



Background

Pharmaceuticals Purchase Policy (PPP) was approved by the Cabinet on 30.10.2013 for a period of five years in respect of 103 medicines manufactured by pharma Central Public Sector Units (CPSUs) and their subsidiaries. The policy is applicable to purchases by Central/ State Government departments and their Public Sector Undertakings etc. The pricing of the products is done by National Pharmaceutical Pricing Authority (NPPA). The procuring entity can purchase from Pharma CPSUs and their subsidiaries subject to their meeting Good Manufacturing Practices (GMP) norms as per Schedule 'M' of the Drugs & Cosmetic Rules. The term of the policy expired on 09.12.2018.

Meanwhile, Cabinet decided on 28.12.2016 to close Indian Drugs and Pharmaceutical Limited (IDPL) & Rajasthan Drugs and Pharmaceuticals Limited (RDPL) and strategically sell Hindustan Antibiotics Limited (HAL) & Bengal Chemicals and Pharmaceutical Limited (BCPL), after meeting their liabilities from proceeds of sale of their surplus land to government agencies. Subsequently, Cabinet has modified its decision on 17.07.2019 permitting to sell surplus land as per revised Department of Public Enterprises guidelines dated 14.06.2018.

Separately, Cabinet Committee on Economic Affairs (CCEA) decided on 01.11.2017 for disinvestment of 100% GOI equity in the fifth pharma CPSU, namely Karnataka Antibiotics & Pharmaceuticals Limited (KAPL). It has been proposed to extend the policy till final closure/sale of pharma CPSUs.

Source: 'Cabinet approves extension/renewal of the extant Pharmaceuticals Purchase Policy (PPP) with the same terms and conditions while adding one additional product namely, Alcoholic Hand Disinfectant (AHD) to the existing list of 103 medicines till the final closure/strategic disinvestment of the Pharma CPSUs'(20 November 2019) PIB, Delhi
<https://pib.gov.in/PressReleasePage.aspx?PRID=1592572>.

Decent Response from the Production-Linked Incentive (PLI) Scheme

As Livemint has reported on (2 December 2020),¹⁶ the production-linked incentive (PLI) schemes received 215 applications from 83 bulk drug makers and 28 applications from 23 medical device manufacturers,¹⁷ indicating positive response against the PLI scheme. The PLI Schemes for Bulk Drugs and Medical Devices was approved by the government on 20 March 2020.¹⁸ Looking at the increasing imperative of drug security, support to domestic production capability in bulk drugs would ensure higher resilience of the Indian pharmaceutical industry to external shocks. The PLI scheme for medical devices will help meet the objective of product diversification and production of innovative and high-value medical devices in India. These initiatives have the potential to contribute significantly to achieving higher objective of affordable healthcare in the country and globally on a sustained basis.



India pushes for API manufacturing and Investments, amid Covid-19 outbreak

The novel coronavirus pandemic has caused a host of problems in the global pharmaceutical supply chain—particularly in China, a major producer of drug ingredients. This could be an opportunity for India to work on a plan to supersize its own ingredient manufacturing to combat Chinese dominance in the market, by escalating domestic production of pharmaceutical ingredients to counteract a perceived over-reliance on Chinese imports now hampered by COVID-19 shutdowns.

At the beginning of the pandemic, the central government of China imposed a lockdown in Huawei and other cities in the Hubei province to contain the spread of the novel coronavirus that causes the infectious disease, COVID-19. Subsequently, major Indian pharmaceutical companies expressed concerns India will face shortages in the supply of important production inputs. Hubei province alone is host to some 42 pharma manufacturing facilities, of which a large number produce inputs for medicaments or so-called Active Pharmaceutical Ingredients (APIs).²⁰

China provides 70 per cent of the raw materials that Indian companies use for the manufacture of pharmaceutical products. The Directorate General of Trade Remedies (DGTR) on April 30, 2020 recommended extending the anti-dumping duty on imports of sodium citrate²¹ from China for another five years, after an investigation found that there was continued dumping of the Chinese product in India hampering the domestic industry.²²

Further, with the Covid-19 pandemic getting the Indian drug regulatory system working in a faster gear, a Government panel is considering measures for faster approval process and use these to overhaul the drug regulatory system.²³ The explorations include how the Central Drugs Standard Control Organization (CDSCO's) manpower can be efficiently utilised to make the approval faster, while another measure under discussion was on giving clearances to clinical trials faster.

India has identified production of over fifty raw materials and active pharmaceutical ingredients (APIs) as part of its "China-plus-one" policy to fill in supply gaps of affordable medicines.²⁴ The plan includes investing INR 9,889.10 crore²⁵ in domestic pharmaceutical producers and potentially reviving state-run companies to ramp up production. In early March 2020, India stopped exports of many APIs and drugs from China and enhancing production of paracetamol and antibiotics penicillin and ciprofloxacin.

In the U.S., which relies on Indian APIs for a range of medications, the federal government has sparred with its South Asian supplier to keep the taps open, particularly for antimalarial hydroxychloroquine. The longtime generic med has received a raft of interest—including from President Donald Trump—as a possible treatment for COVID-19. Earlier, India walked away from a full-scale export lockdown on hydroxychloroquine. India, which produces around 47 per cent of the U.S. supply of hydroxychloroquine, according to Bloomberg Intelligence, agreed to license its stock of hydroxychloroquine to "badly affected" countries and others that rely on its supply of the drug.²⁶

India Export of Pharmaceuticals

Indian drugs are exported to many countries in the world, with the US as the key market. Generic drugs account for 20 per cent of global exports in terms of volume, making the country the largest provider of generic medicines globally. Pharmaceutical exports from India include bulk drugs, intermediates, drug formulations, biologicals, Ayush & herbal products and surgicals.



India's pharmaceutical industry has been growing with the large-scale production of low-cost medicines, whereas low-income countries have an average India-dependency of 27.2 percent.²⁷ There are variations between countries; e.g., countries with extremely high dependence on Indian health-related goods: Nepal, for instance, more than 60 percent of all health-related imports come from India; Malawi, meanwhile, gets more than half of such goods from India. Burundi, Mozambique, Tanzania, Uganda, and Guinea—are not only recording an above-average dependence on India but also an above-average dependence on foreign goods in general.

However, due to Covid-19 crisis and the subsequent lockdown measure, India's pharmaceutical exports took a hit by about \$1.5 billion due to export restrictions on a few drugs and supply disruptions, resulting in \$20.58 billion for FY20, against the estimated target of \$22 billion. Overall in FY 20 the growth of exports is 7.5 per cent in FY20 compared to FY19 (up to March), but due to Covid-19 crisis and lockdown the export growth declined by 23 per cent in March FY 20 compared to FY19.

Drug formulations and biologicals, which contribute almost 72 per cent of exports, showed 9.5 per cent growth in FY20. However, export of bulk drugs and drug intermediates posted negative growth (-0.73 per cent).²⁸ India has exported pharmaceuticals to more than 200 destinations during FY20 with North America as the largest exporting region with 34 per cent share.²⁹ About \$6.7 billion worth of drugs was exported to the US with 15.8 per cent growth. This constituted almost 32.74 per cent of India's total exports followed by Africa with 17 per cent share and Europe with 15 per cent share. India's export to China in FY19 was \$230 million and in FY20, it is \$228 million.³⁰ India is still dependent on China to an extent of 60-70 per cent of its needs of bulk drugs and has faced disruption in the supply chain due to Covid-19.

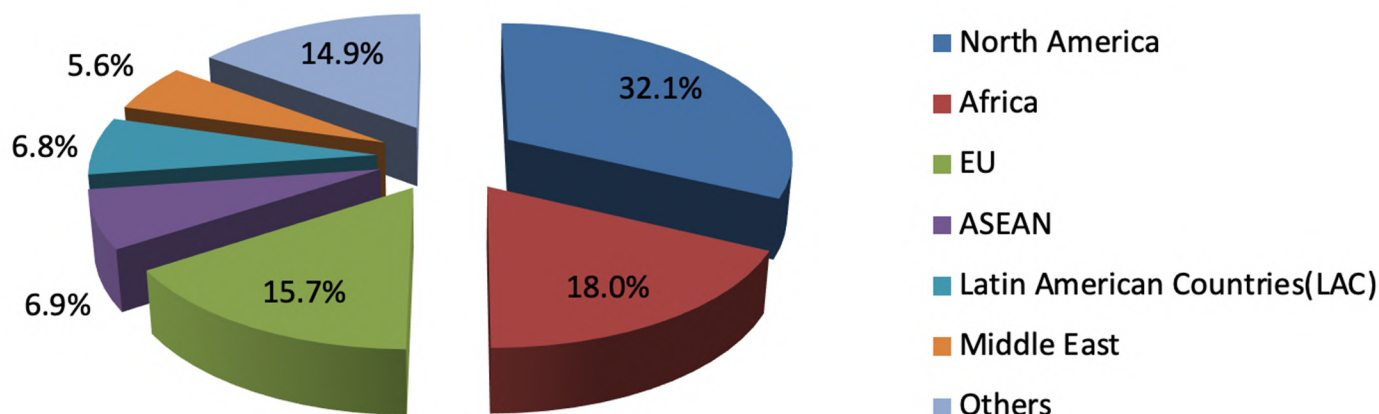
India's Pharmaceutical Exports FY20 vs FY19 (USD million)

Month	FY19	FY20	Per Cent Change (%) in FY20 vs FY19
April	1428	1523	7%
May	1518	1683	11%
June	1583	1830	16%
July	1414	1711	21%
August	1688	1671	-1%
September	1657	1790	8%
October	1513	1693	12%
November	1484	1779	20%
December	1660	1866	12%
January	1586	1772	12%
February	1610	1734	8%
March	1997	1533	-23%
Total (Up to March)	19138	20585	7.5%

Source: <https://www.idma-assn.org/pdf/idma-bulletin-21-may-2020.pdf>

Major Export Destinations in India's Pharma Export in FY20 (%)

India's Pharma Exports to Countries/Regions in FY20(%)



Source: "Indian Pharmaceutical Industry" (4 December 2020) India Brand Equity Foundation (IBEF).

Major Projects in Pharmaceuticals in India

The Telengana state government in Hyderabad also trying to expedite the Hyderabad Pharma City (HPC) Project, in light of firms planning to shift out of China post Covid-19. The government has acquired earlier 8,400 acres for the project; and planning to acquire another 6,800 acres in next three months. According to the HPC Master Plan, the project is to be completed in three phases by 2025.³² HPC, which is coming up at Mucherla village in Rangareddy district has link roads and other infrastructure facilities.

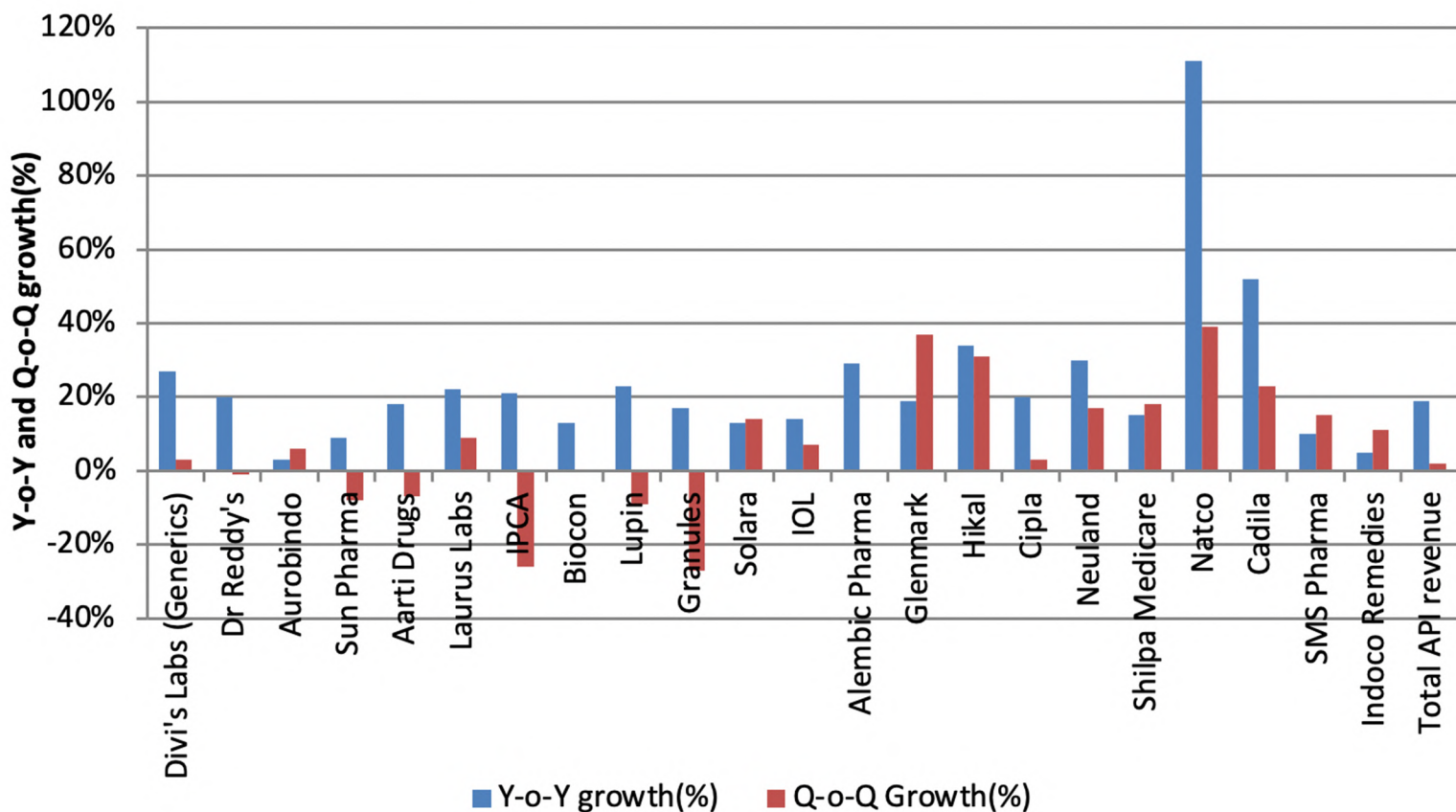
The Chaygaon, Kamrup Rural project with a 100 acre project and with an approximately Rs. 153.64 project cost unveils that there is good potential for the pharmaceutical industry in the region and therefore it is an important destination for investments into the entire range of activities involved in pharma manufacturing. This presents an opportunity for Pharma manufacturing companies can set up units in Assam to serve both the local markets and the markets in Bhutan and Myanmar, and Active Pharmaceutical Ingredients (API) markets in Bangladesh.

Major Players/Investors

Sl No.	Name of the Company	Details
1	AstraZeneca	AstraZeneca India was established in 1979 and is headquartered at Bengaluru, Karnataka. AstraZeneca Pharma India Limited (AZPIL) is the operating company and covers manufacturing, sales and marketing activities of the company in India. It is a listed company and is a subsidiary of AstraZeneca Plc, UK. It has a workforce of over 1400 employees across the country that is committed to deliver life-changing medicines to patients through innovative science and global excellence in development and commercialization.
2	Johnson & Johnson	Johnson & Johnson spread its roots into India 70 years ago. Since then, the Company has brought many innovative ideas, products and services to improve the health and well-being of people in India.
3	GSK Glaxosmithkline	GlaxoSmithKline Pharmaceuticals Ltd is an Indian subsidiary of GlaxoSmithKline plc, one of the world's leading research based pharmaceutical and healthcare companies.
4	NIPRO	Nipro Corporation is a Japanese medical equipment manufacturing company. Founded in 1954, the company is headquartered in Osaka and is listed on the Tokyo Stock Exchange and the Osaka Securities Exchange. As of 2013 the company has 58 subsidiaries in Japan, Asia, North and South America and Europe.
5	Otsuka	Otsuka Pharmaceutical Co., Ltd., abbreviated OPC, is a pharmaceutical company headquartered in Tokyo, Osaka and Naruto, Japan. The company was established August 10, 1964.
6	Teva Pharmaceuticals Industries Ltd.	Teva Pharmaceutical Industries Ltd., also known as Teva Pharmaceuticals, is an American Israeli pharmaceutical company with dual headquarters in Petah Tikva, Israel and Parsippany, New Jersey, U.S
7	Pfizer	Pfizer Inc. is an American multinational pharmaceutical corporation headquartered in New York City. It is one of the world's largest pharmaceutical companies. It is listed on the New York Stock Exchange, and its shares have been a component of the Dow Jones Industrial Average since 2004

Source: Information compiled from company websites.

2QFY21 API Sales Growth(Y-o-Y and Q-o-Q) in %



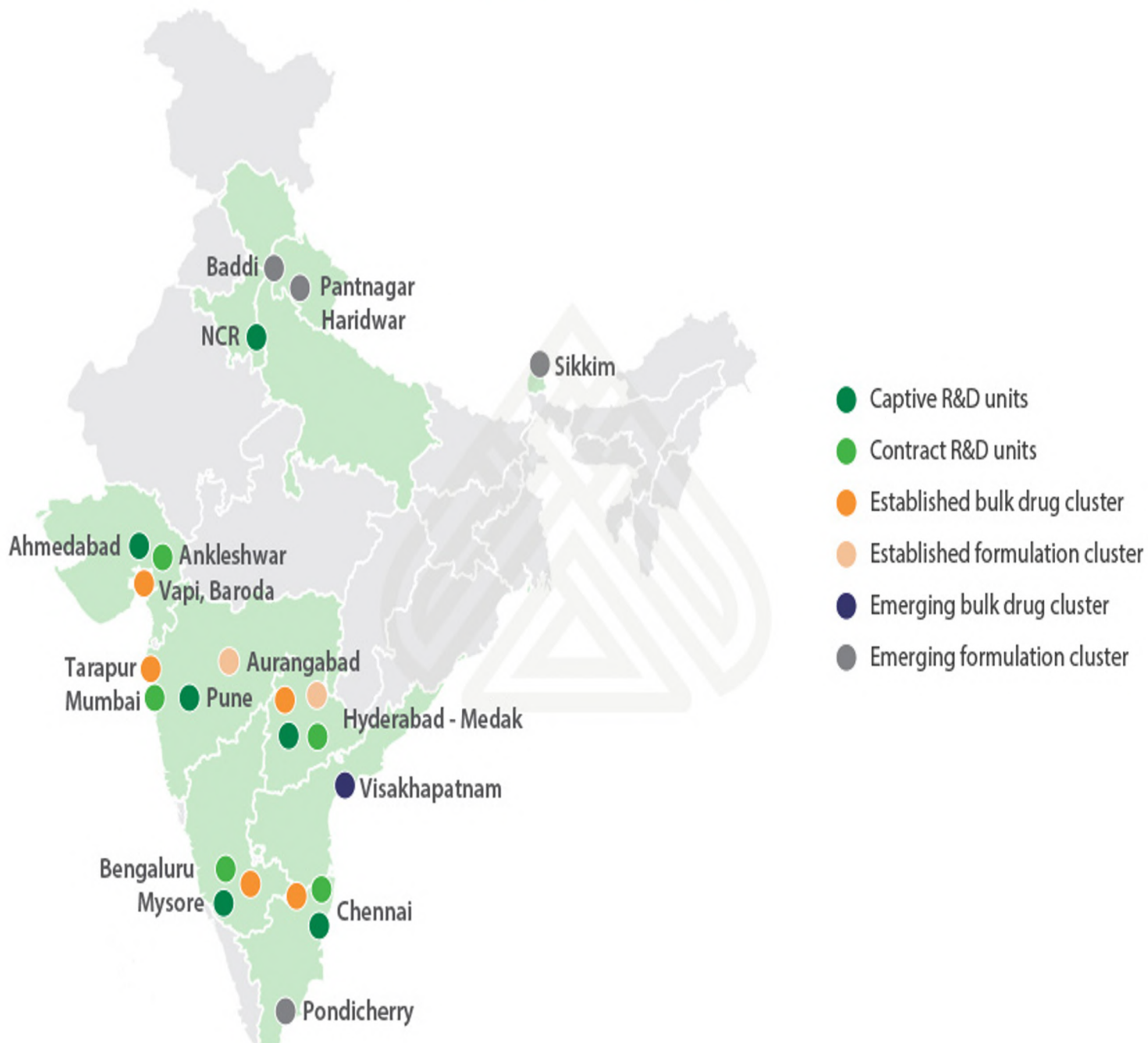
Source: Compiled from company websites/Earnings Calls/Quarterly Disclosures/Financials.

According to the Indian Drug Manufacturer's Association (IDMA) [30 May 2020]³⁴ bulletin, in a webinar on 'Medical Devices and API sector: Challenges & Emerging Opportunities' was held on 22nd May, 2020 for business and trade collaboration between India and Japan in the post COVID-19 scenario, Japanese Companies were invited to invest in Indian Pharmaceutical and Medical Devices industry.³⁵ The webinar was organized by the Embassy of India, Tokyo in partnership with the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, Government of India.

Representatives of Japan Pharmaceutical Traders Association and Japan Federation of Medical Devices Associations deliberated on the Post COVID-19 challenges & opportunities for Pharmaceutical & Medical Device sectors and its impact on the global supply chain and suggested that cooperation between the two countries can contribute to stabilize the supply-chain of especially APIs and Medical Devices.

ZNZ pharma, (a London-based bio-pharmaceutical platform) has acquired majority-stake in Hyderabad based specialty generics company Celon Laboratories Private Limited.³⁶ ZNZ Pharma is backed by CDC Group, the UK's publicly owned impact investor, Development Partners International (DPI) through its ADP III fund and the European Bank for Reconstruction and Development (EBRD). The platform is planning to invest in Celon's development of a new, state of the art oral and injectable manufacturing facility for both critical care and oncology that will serve a wider set of markets.

Seeing a sharp rise in the demand for its suite of nutraceutical products after the Covid-19 outbreak, Bengaluru-based Juggat Pharma will be investing ~60 crore in FY22 for two new manufacturing units in Uttar Pradesh and Madhya Pradesh.³⁷ The company is part of the over 50-year-old Jagdale Industries. While the company will have separate lines for its nutraceutical products at the two new factories, it will also have tetrapak packaging lines for environment friendly packaging. The company has five manufacturing plants, one each for pharmaceutical, nutraceutical and ayurvedic products, and two others for tetrapak packaging. The company's nutraceutical range has six products in the market. The firm is ready to launch two more products — an anti-obesity drink and a low-sugar variant for the cardiac segment.



Source: "India's Pharmaceutical Industry – Foreign Investment Opportunities, Incentives" (25 November 2020) India Briefing; <https://www.india-briefing.com/news/indias-pharmaceutical-industry-investment-trends-opportunities-incentives-18300.html/>

Industry Risk

Sales volume growth remains volatile due to slower volume growth; e.g. volumes declined in November 2020 by 6.9 per cent y-o-y as against a 0.6 per cent growth in October 2020. 38 One of the reasons of decline may be the lower sales of acute therapy drugs due to better hygiene. Within acute therapies, anti-infective growth fell to 0.2% in November 2020 against 6.6% in October 2020. In addition, there was some stocking at user ends in October too, which led to a lower take-off in November, 2020. 39 On the other hand, chronic therapies such as cardiac have shown growth, and anti-diabetic registered a modest growth. While revenue growth might remain subdued, but profitability is likely to increase due to lower expenses. Production at pharmaceutical units continues to be impacted due to the lockdown-driven disruption, with companies facing challenges in distribution, manufacturing and logistics. The market was pulled down by acute therapies, with demand for these medicines crumbling by nearly 21% in April 2020 (YoY). 40

With prescriptions for anti-infectives down, sales of pain, gastro and vitamins were also impacted. Among the therapies, chronic saw low single-digit growth of around 5%, aided by pre-buying from patients in cardiac and diabetes categories. In this chronic therapy category, cardiac (13% YOY) and anti-diabetes (10% YoY) segments managed growth.

The decline in pharma growth over March 2020 stood at 7 per cent, when the lockdown had just started, while trailing 12-month growth stood at 8.6 per cent YOY. Pricing has driven nearly 60 per cent of growth for the industry on the trailing 12-month basis, with volume growth attributing an insignificant 0.7 percentage point and contribution from new launches at 2.8 percentage points. The current low production is due to a host of factors brought on by the pandemic: lockdown restrictions causing shortage of labour, delay in transporting raw material and finished goods, social distancing measures complicating processes etc. Shortage of labour at manufacturing sites and ancillary units, key raw materials being stuck at ports, and a delay in transportation of raw materials and finished products to and from the market are some major issues.

In FY21, the domestic pharmaceutical market is expected to grow at 1-5 per cent, with a muted 4-8 per cent YOY growth for major companies. Earlier, the pharma market valued at around Rs 1.49 lakh crore (\$20 billion) typically recorded strong YoY growth of 10-12 per cent.⁴¹ Developing a domestic vibrant market of APIs by reducing dependence from Chinese imports is crucial for India. However, India depends on China for raw materials of drugs, which makes Indian companies vulnerable to supply disruptions. While India is an exporter of certain APIs, the country depends especially on China for fermentation and intermediates; and when supply disruptions happened from Wuhan the paracetamol went up 40 per cent in India.⁴² India needs to focus on cost-effectiveness, quality and technological advancements for steady development of this sector, which has immense latent potential both for the domestic economy and for exports.



Critical Success Factors

Massive disruptions caused by the COVID 19 and the strife with China have unmistakably brought home the necessity of an uninterrupted supply chain and the development of an enabling ecosystem. Such diversification in conformity with India's "Look East" policy will diffuse concentration risks and the concomitant factors and provide an impetus to domestic manufacturing. This is a tall order and necessitates, inter-alia, revamped structure of the pharma industry and concerted efforts by all stake-holders. Towards this end, the government of India launched new policies and programmes to boost local access and affordability to quality healthcare by wide spectrum measures. Such measures include targeted financial incentives to promote manufacturing of raw materials and to induce a greater domestic production of APIs.

The Union Cabinet's strategic action of setting up three API parks with common utilities, identifying and reducing the dependencies on China for 53 APIs and the contextually significant accent on Production linked incentives (PLIs) scheme provide an impetus to this sector. Welcome Production linked incentives (PLIs) of INR 1.45 lakh crore to the ten identified sectors-cell battery, auto, pharma, textile, food, telecom will help them go to scale, create jobs, enhance skills, strengthen the Make in India mission, cut costs, attract investment and boost exports.

Since about 35-40 per cent of the capacity is idle, effective use of the existing API units is necessary for the welcome transition to be self-reliant. This thesis can be substantiated by the McKinsey report, which underscored the need for incentivization of the local production of APIs. The process of steady development of the sector is, however, constrained by dearth of delivery points and the lack of accessibility to drugs. Rise in disposable income, greater spending on healthcare, government sponsored programmes, heightened consciousness of health issues and expanding insurance coverage will provide a fillip to this sector. Given the humungous potential of the pharma sector, synchronized efforts are called for to develop innovative business models for equilibrium in drug price controlling and local manufacturing costs. It is commonly observed that higher healthcare public spend brooks no delay. But it is not so commonly realized that India's healthcare public spend of 1.3 per cent of GDP (up from 0.9 per cent two decades ago) is grossly inadequate for a robust health system. The proposed higher public healthcare spend is projected to increase to 2.5 per cent by 2025. This requires medical college hospitals in underserved areas to improve health outcomes, enhance human productivity and employment.



The Fifth National Health Survey revealed greater vaccination, falling fertility rate, better sanitation, etc. But stunting, wasting and marked state-wise differences cause concern. Improved vaccination, reproductive health, fertility ratio, sanitation, infant and child mortality, climate change and environmental damage need to be holistically considered for a comprehensive examination of the pharmaceutical industry in India. The emerging policy prescriptions from Fifth National Health Survey also have important implications for the growth and sustenance of this sector in India, particularly in the wake of data- and technology-driven changes sweeping the industry. Such tectonic shifts require the pharmaceutical industry to effect a paradigm shift from their traditional sales-based model to an access driven commercial model. Such changes acquire a sense of urgency because of the emerging challenges of demand forecasting, price fluctuation assessment, risk management, inventory management, role of online medicine aggregators/distributors/ e-commerce and increasingly stiffer regulatory requirements.

ENDNOTES

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