

Pharma industry's outlook looks healthy on increasing export, government initiatives

SEP 23, 2015

Indian pharmaceutical industry plays vital role in development of economy contributing towards the welfare of humanity and providing significant socioeconomic benefits to the society. India is among the fastest-growing pharmaceutical markets in the world and has established itself as a global manufacturing and research hub. A large raw material base and the availability of a skilled workforce give the industry a definite competitive advantage.

Indian pharma industry has a strong global foothold with accounting about 2.4 percent of the global pharmaceutical industry in value terms and 10 percent in volume terms and is expected to expand at \$55 billion by 2020. Moreover, generic drugs account for 20 percent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years.

Industry

The Indian pharmaceutical industry is estimated to be worth \$26 billion and is expected to reach \$55 billion by 2020. The Indian pharma industry is on third place in terms of volume and fourteenth place in terms of value worldwide. Branded generics dominate the pharmaceuticals market, constituting almost 80 percent of the total share. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 percent of global exports in terms of volume. Manufacturing cost in India is around 35-40 per cent of that in the US as installation and workforce costs are low, making India one of the lowest manufacturing cost in the world.

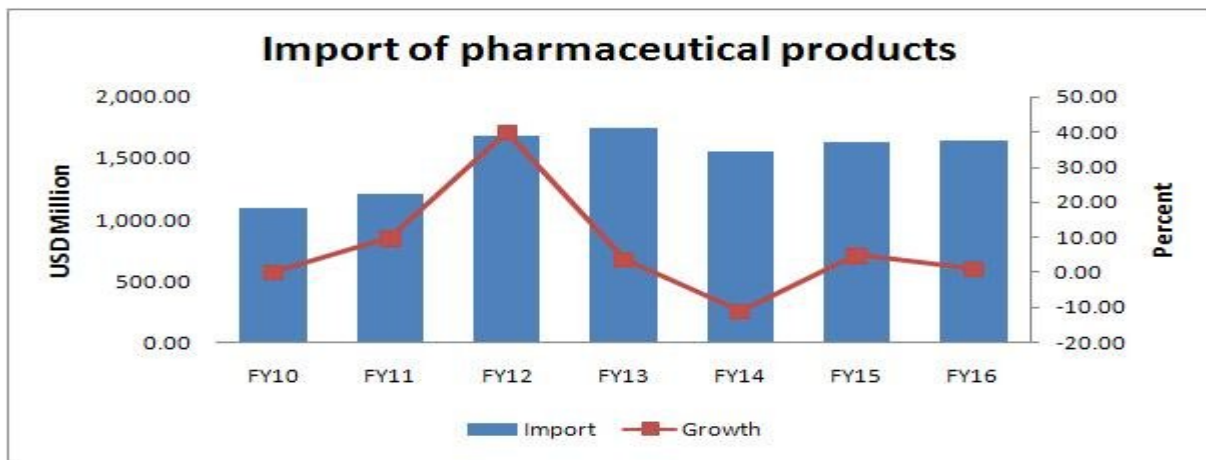
Exports

Export of pharmaceutical products has increased by 11.44 percent to \$12,910.04 million in FY16 as compared to \$11,584.58 million in FY15, as government initiated several measures, including setting up of an inter-departmental committee to look into export-related issues and awareness programmes in emerging markets like Africa. Generic drugs form the largest segment of the Indian pharmaceutical sector, with 80 percent market share (in terms of revenues). India supplies 20 percent of global generic medicines in terms of volume, making the country the largest provider of generic medicines globally. Over-the-counter (OTC) medicines and patented drugs constitute 21 percent and 9 percent share respectively of the total market revenues of \$20 billion. Further, in order to take Indian pharma to the next level, the government has taken the initiative to position the country as a hub for affordable, credible and sustainable pharmaceutical products.



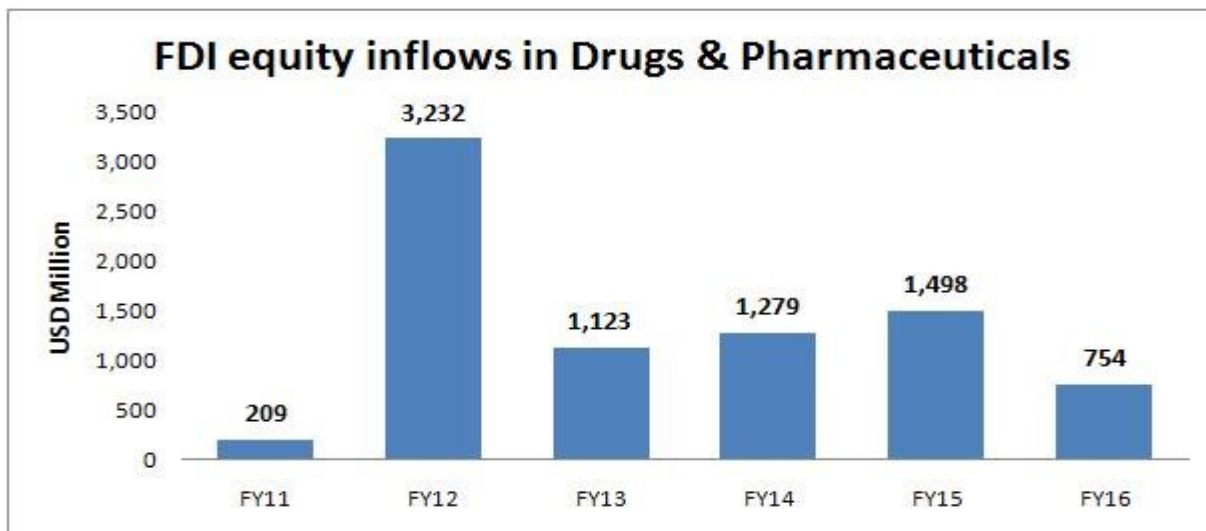
Imports

Import of pharmaceutical products has increased marginally by 0.80 percent at \$1,641.15 million in FY16 as compared to \$1,628.06 million in FY15. Though, India managed to restrict pharma import from past 3-4 years, as government has taken several measures to boost local production. During FY16, Government task force recommended restrictions on the imports of active pharmaceutical ingredients (APIs) and suggested incentives to boost domestic production instead. Major APIs, including those belonging to antibiotic class cephalosporin (used to treat various infections), aren't produced here. Even key intermediates used to make common antibiotics like amoxicillin that contribute to India's exports aren't locally manufactured.



FDI in drug and pharmaceuticals

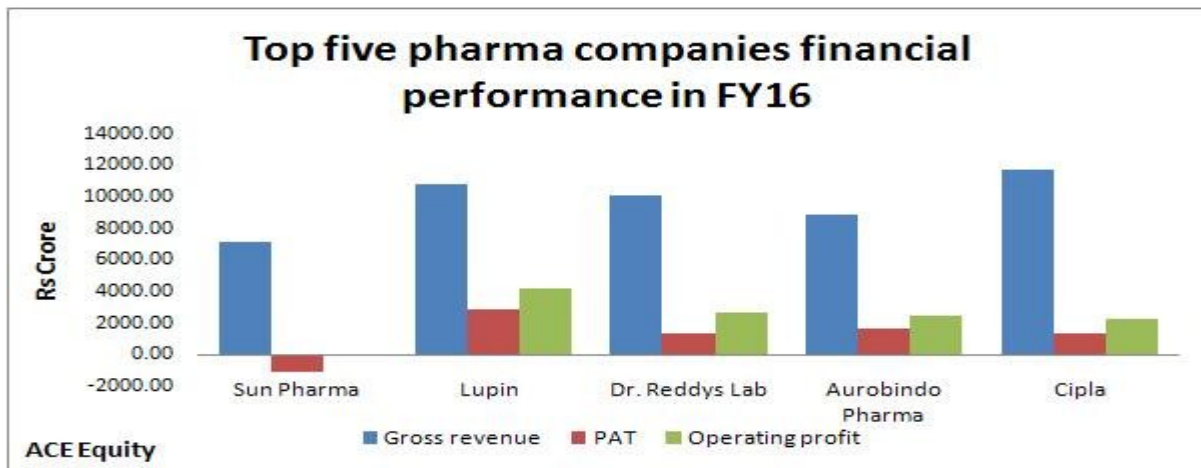
Many Indian pharma companies have received warning letters in FY16 and its impact was quite evident in the foreign direct investment (FDI) inflow numbers in the sector. The industry has attracted FDI equity worth Rs 4,975 crore or \$754 million in FY16 as compared to inflows of Rs 9,052 crore and \$1,498 million in FY15. The sector's percentage of shares in total inflows too declined to 4.80 percent in FY16 from 5.28 percent in FY15.



Financial performance of top pharma companies

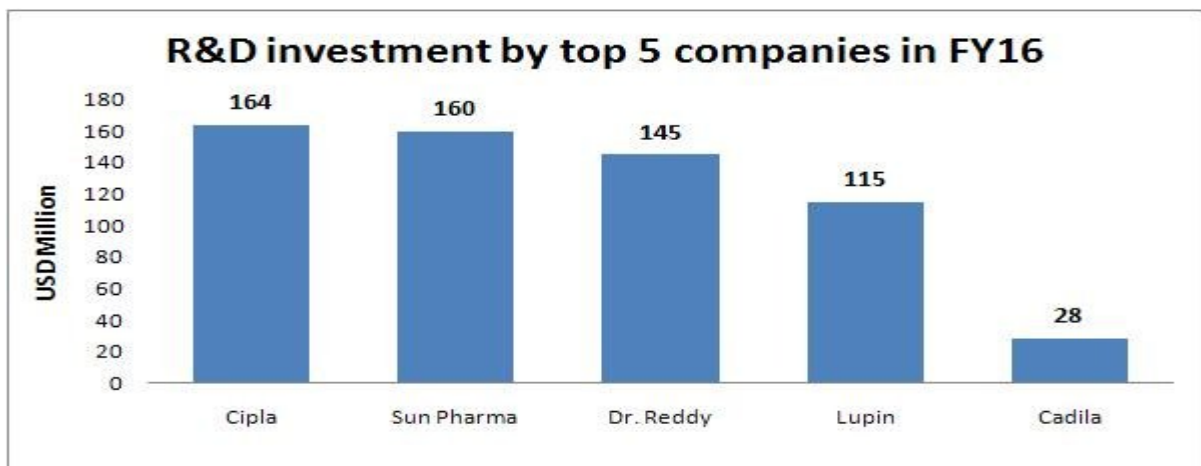
The pharma industry has performed significantly well in FY16, as Profit after tax (PAT) (top fifteen companies according to market cap) grew 41 percent to Rs 16126.08 crore as compared to Rs 11400.02 crore in FY15 on the back of healthy sales growth combined with an over thirty percent rise in operating profits. Among the top performers were, Cipla with a net profit of Rs 11735.18 crore, followed by Lupin Rs 10810.01 crore and Dr Reddy's Rs 10150.60 crore.

The industry's top-line (top fifteen companies according to market cap) improved by 14.45 percent to Rs 86122.23 crore in FY16 as compared to Rs 75249.64 crore in FY15, supported by a healthy growth in the companies' export revenues, especially from the US market. Further, the industry's operating profit surged over 32 percent to Rs 25893.10 crore in FY16 as compared to Rs 19590.52 crore in previous year, on the back of healthy growth in net sales.



R&D investment by top pharma giants

Indian pharma companies spent 8-11 percent of their total turnover on Research and Developments (R&D). In FY16, highest expenditure on research and development has been done by Cipla i.e \$164 million, followed by Sun Pharma (\$160 million) and Dr. Reddy (\$145 million).



Impact of GST on pharma sector

The goods and services tax (GST), India's biggest indirect tax reform is finally a reality after much delay. The implementation of GST is expected to be a win-win situation for Indian drug makers, as it will not only simplify tax structure but also create a level-playing field for pharmaceutical companies. Post GST, Pharmaceutical industry's traditional cost and distribution model will get replaced by supply chain efficiencies. The central tax subsumed under GST and interstate transactions between two dealers will become tax neutral, leading to cost reduction and improve margins of pharma companies.

Implementation of GST will be positive for the companies' warehousing strategy. Most of the companies were keeping their warehouses in different states in order to avoid Central Sales Tax (CST) of different states. While, Post GST, manufacturers can set their warehouses at their strategic locations with consolidation of warehouses taking place across the sector, helping the pharma sector as well.

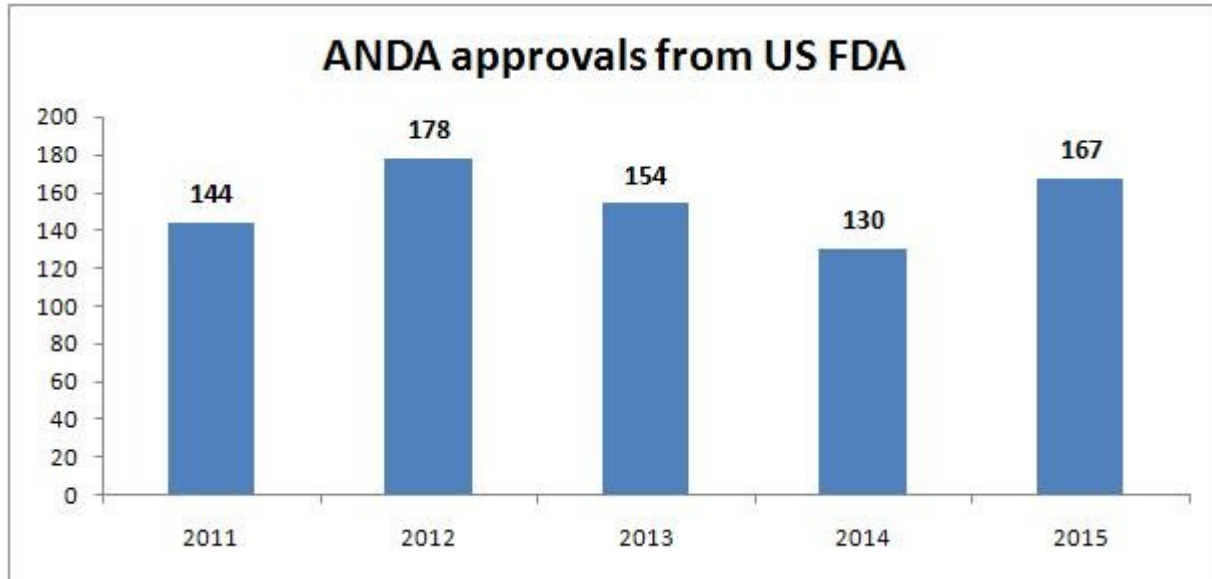
However, the GST will also have some negative impact on the sector, as the medicines which are taxed at 5 percent in some of the states will increase by another 13-15 percent. In addition, it will impact free-drug samples, bonus schemes and the expired material return system followed by companies from the sector.

USFDA approval to Indian companies surges 29% in CY2015

India accounts for around 30% (by volume) and about 10% (value) in the \$70-80 billion US generics market. Over the years, India has become a dominant player in the US generics space with a large number of plants and increased scale of operations, exporting key drugs and injectables from the country. With the growing level of exports (to US) of generic drugs in recent years, the number of US Food & Drug Administration (USFDA) inspections of manufacturing plants has also risen.

The calendar year (CY) 2015 was marked by significantly higher USFDA approvals for Abbreviated New Drug Applications (ANDAs) for Indian companies as compared to steady decline in approvals during the last couple of years. Indian pharmaceutical majors and their subsidiaries secured 167 ANDA approvals in 2015 as compared to 130 and 154 ANDAs in 2014 and 2013 respectively. Indian companies registered strong growth of 28.5 percent in ANDA approvals, as compared to decline of 15.6 percent in 2014 and 13.5 percent in 2013. However, the percentage of Indian pharma companies in total approvals declined in 2015 to 29.6 per cent from 33.8 per cent in 2014 and 38.5 per cent in 2013 on account of warning letters issued to several Indian players in last few years. The tentative approvals by US FDA also increased by 47 per cent in 2015 to 147 approvals from 100 approvals in 2014 and 86 approvals in 2013.

Aurobindo Pharma, the fourth largest Indian pharmaceutical company by sales secured highest number of ANDA approvals during 2015 securing total 33 ANDA approvals. Lupin, the third largest pharma company, received approvals for 29 ANDAs. Macleods Pharma, a Mumbai based unlisted pharma major with presence in more than 80 countries, received 12 ANDA approvals from US FDA in 2015. Jubilant Generics, Alembic Pharma, Glenmark Pharmaceuticals and Hetero Labs received more than 10 ANDA approvals each. Sun Pharmaceuticals and Torrent Pharma secured 8 ANDA approvals each.



Recent developments

Government to set up new bulk Drug Park to boost pharma industry

The Indian government is likely to invest Rs 600 crore for creating manufacturing facilities for three new bulk drug parks. The government's move to boost the bulk drug or Active Pharmaceutical Ingredients (APIs) manufacturing facilities is aimed to reduce the imports from China that meets 80 percent of India's requirements. Bulk drugs or APIs are the raw materials which are used by pharma companies in the manufacture of medicines. The government had constituted a committee to frame the much-awaited bulk drug manufacturing policy. The committee has since submitted its recommendations. After examining the recommendations, government is now looking into the financial viability of supporting the proposal for providing assistance for common minimum facilities for three greenfield bulk drugs/API parks to the extent of Rs 200 crore each.

Notices issued to 263 pharma companies for overcharging in FY16

The National Pharmaceutical Pricing Authority (NPPA) has issued notices to 263 firms that were found overcharging during 2015-16. NPPA has informed that during 2015-16, demand notices were issued to 263 companies amounting to Rs 928.32 crore. The recovery affected is Rs 12.68 crore. NPPA is mandated to fix and revise the prices of controlled bulk drugs and formulations and to enforce prices and availability of the medicines in the country. It is also entrusted with the task of recovering amounts overcharged by manufacturers for the controlled drugs from the consumers. Besides, it monitors the prices of decontrolled drugs in order to keep them at reasonable levels.

Outlook

The industry has witnessed strong progress in terms of infrastructure development, technology base creation. Even, it has established its presence and determination to flourish in the changing environment. The sector will get major fillip from introduction of GST, creating a fair opportunity for pharma companies and the drug manufacturer will be getting tax structure simplification. Indian companies obtaining around two-fold ANDA approvals from US FDA year-on-year on the back of higher investments in R&D expenditure and focus on new product launches will help in expanding their

footprints in US markets. Significant increase in exports and well controlled imports will also provide strength to the sector, supported by government's several initiatives to boost exports and domestic production. The government apart from setting up new bulk Drug Park has formed a committee to look into export-related issues and awareness programmes in emerging markets like Africa, while it has imposed restrictions on the imports of APIs and suggested incentives.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Sanofi India Ltd.	4294.10	9889.58	756.72	1.51	126.31	34.00
Abbott India Ltd.	4749.80	10092.99	556.09	0.74	124.75	38.08
Albert David Ltd.	306.20	174.75	244.37	1.80	83.83	3.65
Torrent Pharmaceuticals Ltd.	1645.15	27839.87	237.73	2.13	83.03	19.81
Dr. Reddys Laboratories Ltd.	3147.95	53760.33	698.24	0.64	75.40	41.75
Lupin Ltd.	1528.30	68937.07	280.42	0.49	72.38	21.11
Piramal Enterprises Ltd.	1890.10	32616.15	720.56	0.93	66.39	28.47
Glenmark Pharmaceuticals Ltd.	929.75	26234.58	276.59	0.22	58.55	15.88
Pfizer Ltd.	1994.15	9122.78	480.47	0.75	54.43	36.64
Alkem Laboratories Ltd.	1733.30	20724.20	318.76	0.73	53.40	32.46
Ajanta Pharma Ltd.	2042.20	17972.38	139.12	0.39	49.24	41.48
Divis Laboratories Ltd.	1328.65	35271.48	175.24	0.75	43.93	30.24
Biocon Ltd.	963.25	19265.00	169.85	0.52	42.34	22.75
Glaxosmithkline Pharmaceuticals Ltd.	2794.95	23674.07	211.26	1.79	41.82	66.84
Caplin Point Laboratories Ltd.	1310.75	1980.54	90.80	0.46	39.54	33.15
Alembic Pharmaceuticals Ltd.	652.70	12304.43	87.53	0.61	39.34	16.59
Coral Laboratories Ltd.	475.30	169.81	204.68	0.63	35.20	13.50
Merck Ltd.	729.50	1210.92	374.53	1.03	34.48	21.16
Neuland Laboratories Ltd.	1003.45	891.39	217.23	0.20	32.45	30.92
TTK Healthcare Ltd.	950.20	737.92	176.93	0.53	30.34	31.32
Aarti Drugs Ltd.	568.80	1377.47	151.82	1.19	27.49	20.69
Aurobindo Pharma Ltd.	857.15	50157.81	123.07	0.29	27.42	31.26
Hester Biosciences Ltd.	765.75	651.41	124.98	0.54	24.17	31.68
JB Chemicals & Pharmaceuticals Ltd.	374.40	3175.66	140.49	1.34	22.63	16.54
Jenburkt Pharmaceuticals Ltd.	361.95	168.28	90.63	1.99	21.89	16.54
NGL Fine-Chem Ltd.	366.00	226.12	77.93	0.00	20.65	17.73
Themis Medicare Ltd.	587.90	530.89	105.00	0.00	18.32	32.09
Strides Shasun Ltd.	1030.10	9205.59	353.70	0.39	16.28	63.28
Lincoln Pharmaceuticals Ltd.	236.70	386.08	86.62	0.42	15.83	14.95
Amrutanjan Health Care Ltd.	440.00	643.07	83.87	0.88	15.62	28.18
Cadila Healthcare Ltd.	391.75	40105.12	61.56	0.82	15.50	25.28
Shilpa Medicare Ltd.	559.20	4311.54	90.24	0.10	14.68	38.10
Emami Ltd.	1201.20	27263.35	61.69	0.58	12.78	94.00
Cipla Ltd.	608.95	48972.40	155.73	0.33	12.27	49.63
Bajaj Healthcare Ltd.	248.00	171.11	70.86	0.00	11.88	20.87
RPG Life Sciences Ltd.	509.00	841.69	86.75	0.31	11.70	43.50
Mangalam Drugs & Organics Ltd.	167.95	265.84	42.69	0.00	11.43	14.70
Natco Pharma Ltd.	632.20	11011.30	79.04	0.20	11.27	56.09

Unichem Laboratories Ltd.	263.00	2389.87	115.74	0.76	11.04	23.82
Ipsca Laboratories Ltd.	613.30	7739.79	186.50	0.00	9.52	64.43
Advanced Enzyme Technologies Ltd.	1702.10	3800.11	100.52	0.06	9.36	181.88
FDC Ltd.	226.70	4031.48	61.45	0.99	9.11	24.88
Indoco Remedies Ltd.	334.25	3080.13	65.55	0.48	8.99	37.18
Anuh Pharma Ltd.	251.50	630.16	49.16	0.99	8.65	29.08
Suven Life Sciences Ltd.	189.70	2414.55	51.56	1.05	8.43	22.50
Wockhardt Ltd.	899.05	9938.82	97.47	0.00	6.70	134.13
Brooks Laboratories Ltd.	115.70	187.28	76.42	0.00	6.65	17.40
Bliss GVS Pharma Ltd.	147.95	1526.06	43.23	0.34	6.21	23.83
Hikal Ltd.	202.35	1663.33	57.21	0.49	6.13	32.98
Granules India Ltd.	122.35	2656.48	30.90	0.53	5.81	21.05
BDH Industries Ltd.	76.05	43.78	43.91	2.63	5.80	13.11
Panchsheel Organics Ltd.	94.70	47.50	42.05	1.06	5.56	17.03
Dishman Pharmaceuticals & Chemicals Ltd.	217.80	3515.17	57.89	0.46	5.43	40.14
Astrazeneca Pharma India Ltd.	965.10	2412.75	66.63	0.00	5.24	184.04
SMS Pharmaceuticals Ltd.	105.30	891.39	35.85	0.19	5.15	20.45
Makers Laboratories Ltd.	67.70	33.29	55.77	1.48	4.22	16.05
Concord Drugs Ltd.	58.60	42.45	21.64	0.00	4.01	14.61
Natural Capsules Ltd.	89.50	55.78	89.88	1.68	4.01	22.32
Alpa Laboratories Ltd.	34.85	73.33	45.99	0.00	3.33	10.46
Gujarat Themis Biosyn Ltd.	48.45	70.39	3.42	0.00	3.15	15.36
Smruthi Organics Ltd.	131.65	50.23	81.13	0.00	3.00	43.95
Panacea Biotec Ltd.	106.50	652.32	15.34	0.00	2.96	36.04
Lactose (India) Ltd.	78.20	72.41	21.71	0.00	2.42	32.28
Nectar Lifesciences Ltd.	37.75	846.59	42.57	0.26	2.42	15.63
Nutraplus India Ltd.	80.75	107.69	43.68	0.62	2.23	36.20
Kopran Ltd.	55.90	241.76	43.65	0.00	2.21	25.26
Bal Pharma Ltd.	96.65	136.98	44.69	1.03	2.06	46.99
Auro Laboratories Ltd.	30.85	19.23	14.58	0.00	1.96	15.71
Kerala Ayurveda Ltd.	64.35	67.93	22.14	0.00	1.95	32.93
Venus Remedies Ltd.	105.10	120.26	389.45	0.00	1.91	55.04
Medicamen Biotech Ltd.	176.50	195.39	20.46	0.00	1.66	106.13
Godavari Drugs Ltd.	45.25	34.08	19.72	0.00	1.60	28.21
Samrat Pharmachem Ltd.	36.90	11.40	45.33	0.00	1.55	23.85
Relish Pharmaceuticals Ltd.	55.95	8.76	90.77	0.00	1.35	41.52
Jagsonpal Pharmaceuticals Ltd.	37.00	96.93	34.80	0.27	1.31	28.26
Link Pharma Chem Ltd.	11.68	5.19	20.43	0.00	1.20	9.69
Lyka Labs Ltd.	68.25	150.42	27.51	0.00	1.20	56.68
Emmessar Biotech & Nutrition Ltd.	18.00	8.99	2.58	0.00	1.19	15.11
Marksans Pharma Ltd.	50.45	2064.99	10.04	0.24	1.18	42.79
Tyche Industries Ltd.	70.75	72.52	45.27	0.71	1.17	60.69
Gufic Biosciences Ltd.	38.10	294.70	4.72	0.13	1.14	33.35
Everest Organics Ltd.	47.05	34.29	13.89	0.00	1.02	45.91
Vivimed Labs Ltd.	87.65	710.13	45.77	0.00	1.01	87.16
Alembic Ltd.	38.40	1025.40	10.89	0.39	0.88	43.63
Sandu Pharmaceuticals Ltd.	28.85	20.43	26.58	0.00	0.76	37.76

Ortin Laboratories Ltd.	16.60	28.12	14.26	0.00	0.73	22.79
Unjha Formulations Ltd.	10.98	4.92	1.75	0.00	0.70	15.62
Celestial Biolabs Ltd.	22.85	46.81	43.08	0.00	0.66	34.62
Fervent Synergies Ltd.	22.30	66.90	12.95	0.00	0.65	34.45
Morepen Laboratories Ltd.	24.80	1115.57	4.74	0.00	0.48	51.43
Biofil Chemicals & Pharmaceuticals Ltd.	6.94	11.29	3.35	0.00	0.46	14.98
Ishita Drugs & Industries Ltd.	13.55	4.05	18.95	0.00	0.43	31.41
Beryl Drugs Ltd.	16.85	8.55	13.33	0.00	0.40	42.31
Roopa Industries Ltd.	11.54	9.08	11.32	0.00	0.31	37.66
Aayush Food & Herbs Ltd.	20.15	6.54	12.71	0.00	0.26	77.84
Source Natural Foods and Herbal Supplements Ltd.	38.10	24.52	8.69	0.00	0.21	179.01
Gennex Laboratories Ltd.	7.42	93.87	2.28	0.00	0.19	38.06
Syncom Formulations (India) Ltd.	2.53	197.51	1.42	0.79	0.14	18.39
Kabra Drugs Ltd.	6.25	2.74	6.19	0.00	0.13	49.87
Phaarmasia Ltd.	17.85	12.19	11.24	0.00	0.07	259.28
Sequent Scientific Ltd.	142.20	3387.72	39.15	0.00	0.06	0.00
Safal Herbs Ltd.	7.58	75.80	0.88	0.00	0.00	0.00
Sang Froid Labs (India) Ltd.	1.63	0.83	4.30	0.00	-0.07	0.00
Zenith Health Care Ltd.	0.80	4.30	1.02	0.00	-0.10	0.00
Bacil Pharma Ltd.	6.21	3.66	9.71	0.00	-0.14	0.00
Saamya Biotech (India) Ltd.	7.85	19.53	11.43	0.00	-0.18	0.00
Kilitch Drugs (India) Ltd.	33.75	44.66	88.58	0.00	-0.21	0.00
Vista Pharmaceuticals Ltd.	20.80	52.00	4.60	0.00	-0.50	0.00
Bharat Immunologicals & Biologicals Corporation Ltd.	19.15	82.69	8.24	0.00	-0.60	0.00
Vivanza Biosciences Ltd.	75.15	19.16	-5.05	0.00	-0.69	0.00
Syncom Healthcare Ltd.	7.79	31.16	39.74	0.00	-0.83	0.00
Piramal Phytocare Ltd.	115.05	298.67	1.90	0.00	-0.85	0.00
iStreet Network Ltd.	20.90	44.10	1.51	0.00	-1.21	0.00
Syschem (India) Ltd.	6.11	9.72	10.18	0.00	-1.27	0.00
Parnax Lab Ltd.	35.65	30.32	14.50	0.00	-1.63	0.00
Hemo Organic Ltd.	14.45	5.01	1.31	0.00	-2.35	0.00
Advik Laboratories Ltd.	5.05	9.65	7.80	0.00	-2.44	0.00
IOL Chemicals & Pharmaceuticals Ltd.	154.40	867.81	33.07	0.00	-3.08	0.00
Ambalal Sarabhai Enterprises Ltd.	6.13	46.98	5.91	0.00	-3.34	0.00
Sun Pharmaceutical Industries Ltd.	786.50	189291.20	88.61	0.13	-3.48	0.00
Denis Chem Lab Ltd.	102.70	92.86	14.06	0.00	-3.64	0.00
Laurel Organics Ltd.	9.05	6.68	-5.38	0.00	-3.97	0.00
Avon Lifesciences Ltd.	7.22	16.99	4.71	0.00	-4.61	0.00
Zenotech Laboratories Ltd.	39.75	136.85	-15.07	0.00	-5.67	0.00
Bafna Pharmaceuticals Ltd.	31.90	72.27	26.82	0.00	-6.13	0.00
Wanbury Ltd.	43.85	87.57	-102.49	0.00	-8.24	0.00
Krebs Biochemicals & Industries Ltd.	71.90	98.82	-10.99	0.00	-12.60	0.00
Sterling Biotech Ltd.	4.12	112.13	17.71	0.00	-13.87	0.00
Ind-Swift Laboratories Ltd.	38.50	159.71	51.50	0.00	-14.29	0.00
Alchemist Ltd.	23.95	32.48	17.47	0.00	-15.05	0.00
Wintac Ltd.	167.40	167.81	7.55	0.00	-19.61	0.00



Sector Outlook - Pharma

Sanjivani Paranteral Ltd.	16.45	9.70	27.96	0.00	-26.91	0.00
Orchid Pharma Ltd.	38.65	343.85	10.24	0.00	-34.48	0.00
Ind-Swift Ltd.	4.74	23.86	-60.71	0.00	-38.44	0.00
Parenteral Drugs (India) Ltd.	27.35	81.55	-3.24	0.00	-39.15	0.00
Sharon Bio-Medicine Ltd.	13.40	159.37	-32.26	0.00	-40.24	0.00
Parabolic Drugs Ltd.	6.10	37.75	-141.51	0.00	-78.47	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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