Digital push to drive growth for pharmaceutical sector

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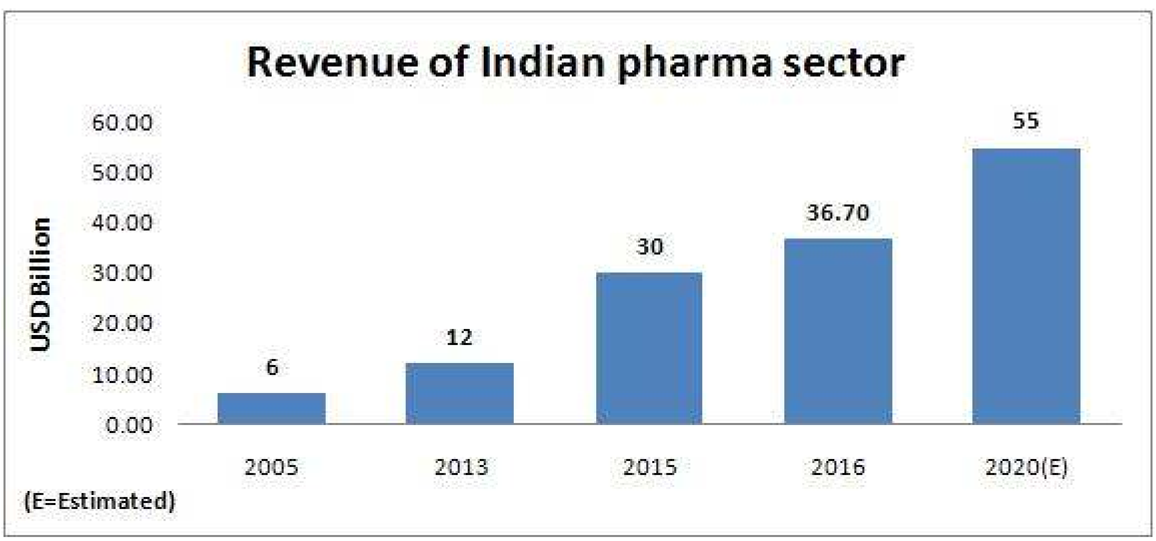
Increasing export, higher spending on R&D to boost pharma sector

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, making it the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume.

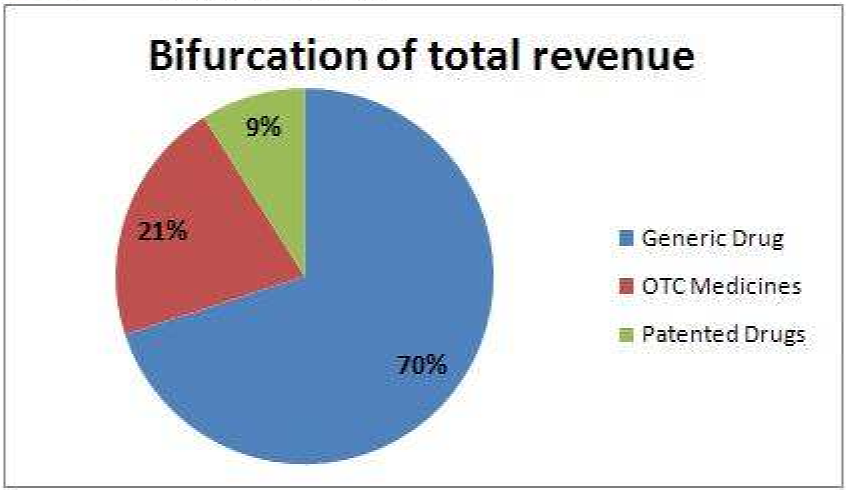
India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immuno Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

Industry

India's cost of production is significantly lower than that of the US and almost half of that of Europe, which gives it a competitive edge over others. Indian pharma industry has maintained its lead over China in pharmaceutical exports with a year-on-year growth of 11.44 per cent to $12.91 billion in FY 2015-16. The industry is expected to grow at a compounded annual growth rate (CAGR) of 22.4 per cent to touch $55 billion by 2020, from $36.70 billion in 2016. By that time, India will be among the top three pharmaceutical markets by incremental growth and sixth largest market globally in absolute size.

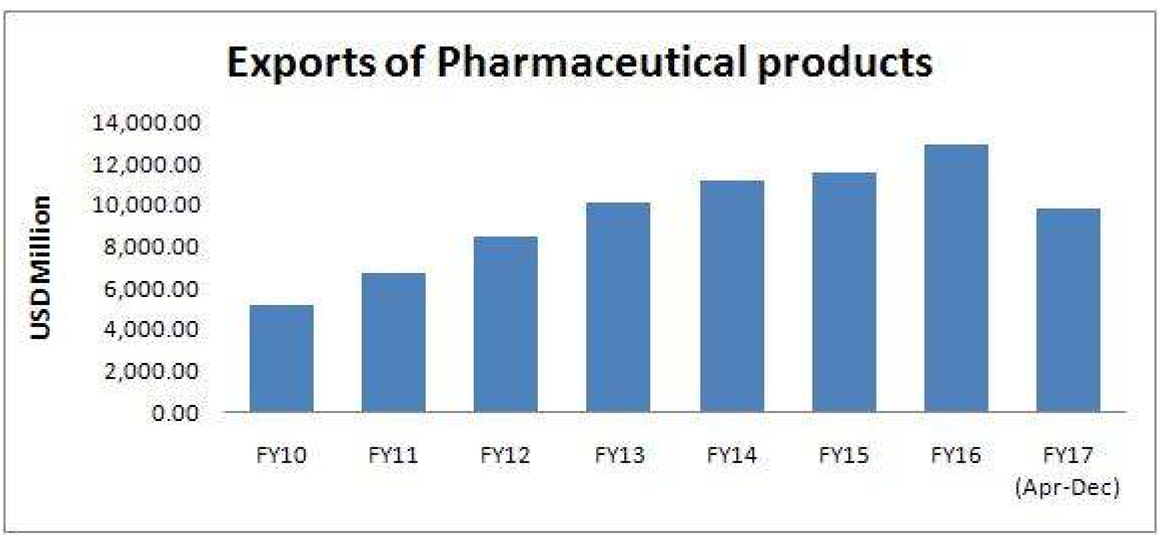


With 70 per cent of market share (in terms of revenues), generic drugs form the largest segment of the Indian pharmaceutical sector. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. Over the Counter (OTC) medicines and patented drugs constitute 21 per cent and 9 per cent, respectively, of total market revenues of $20 billion.



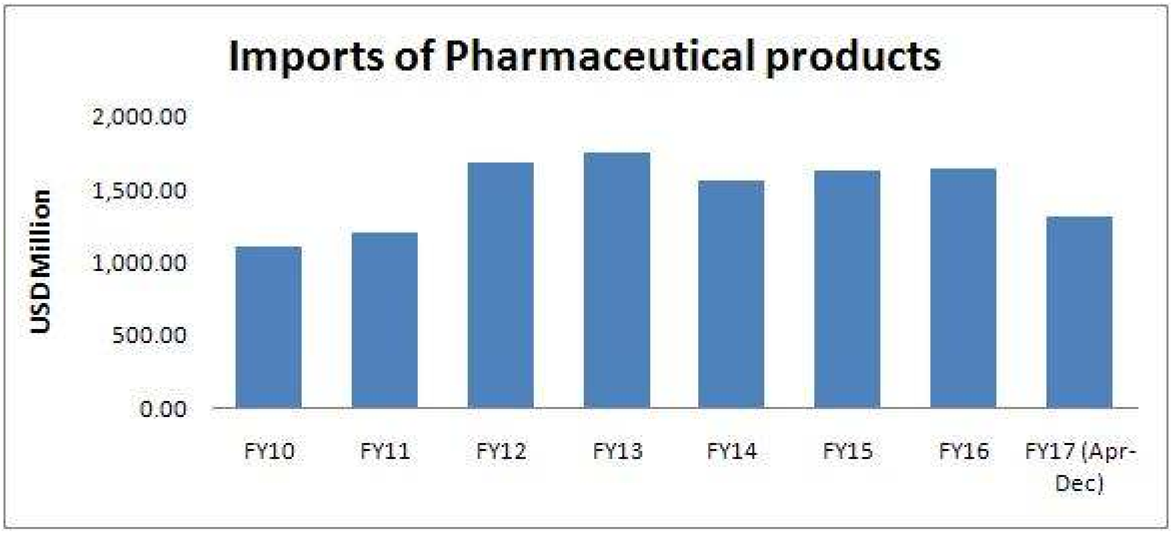
Exports

India is the world's largest provider of generic medicines; the country's generic drugs account for 20 per cent of global generic drug exports (in terms of volumes). Indian pharma companies are capitalising on export opportunities in regulated and semi-regulated market. Exports of Indian pharmaceutical products have done better than many sectorial exports in FY17. India has reported exports of $9,837.11 million pharmaceutical products during April-December 2016, which is more than 76 percent of total pharmaceutical products exported in FY16. Export of pharmaceutical products 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. Indian pharmaceutical exports are poised to grow between 8-10 per cent in FY 2016-17.



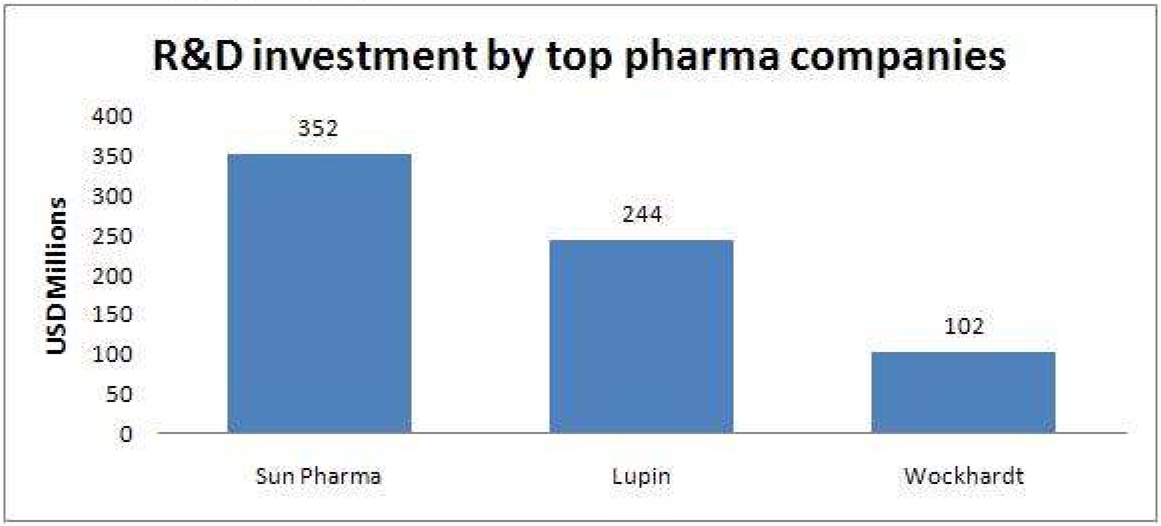
Imports

India managed to control pharma import from past 3-4 years, as government took several initiatives 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. India reported imports of $1,313.99 million during April-December 2016, which is 80 percent of total pharmaceutical products imported in FY16. Imports of pharmaceutical products increased marginally at $1,641.15 million in FY16 as compared to $1,628.06 million in FY15.



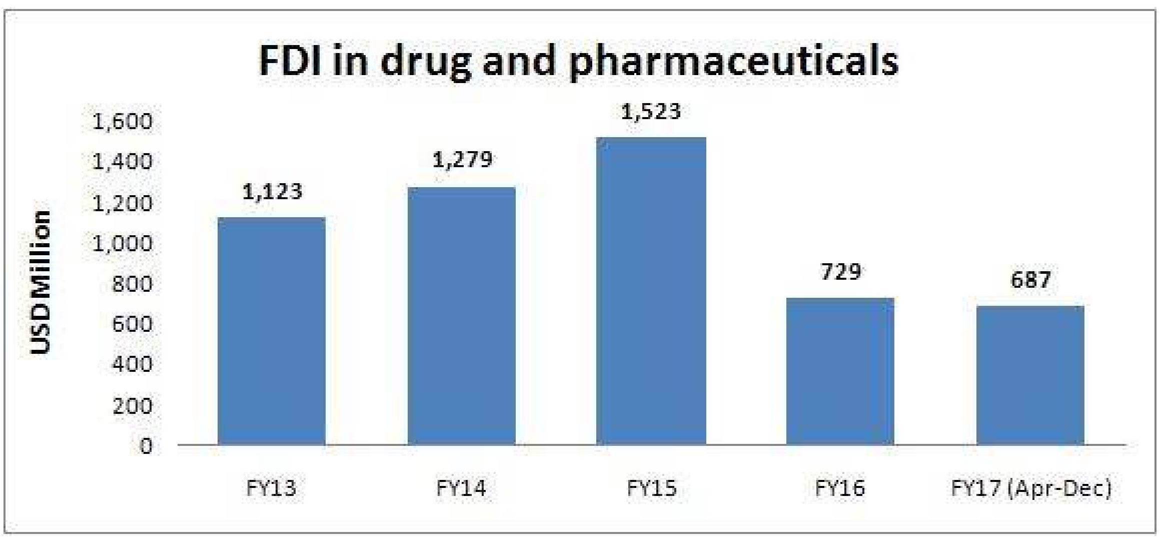
R&D spending by top pharma companies in FY16

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 was by Sun Pharma i.e $352 million, followed by Lupin ($244 million). Sun Pharma's R&D spending was 9.1 percent of the total sales in the March quarter of FY16, which grew at a rate of 23 percent YoY, in comparison with March quarter of FY15. In FY17, Lupin's R&D spending is expected to be 12-15 percent of sales, growing from 12 percent in FY16. Wockhardt has invested $102 million during FY16. In the last 10 years, the company continued to invest in R&D and the number of patents filed by it has gone up by 600 per cent.



FDI in drug and pharmaceuticals

The sector has attracted FDI equity worth Rs 4,584 crore or $687 million in April-December FY17. However, in FY16 many of the Indian pharma companies received warning letters and its impact was quite evident on the foreign direct investment (FDI) inflow numbers in the sector. The industry attracted FDI equity worth Rs 4,816 crore or $729 million in FY16 as compared to inflows of Rs 9,211 crore or $1,523 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.



Impact of Trump's policy on Indian pharmaceutical sector

Pharmaceuticals constitute India's second biggest exports to the US after gems and jewellery, and with the Trump administration's failed attempt at revoking Obamacare. Even a suggestion of replacing Obamacare with new drug pricing rules and social insurance programs had spelt concern for the majority of Indian pharma players. But, one cannot ignore the fact that India offers a low-cost innovation and manufacturing hub and India-made generics sometimes cost almost one-tenth of branded drugs sold in the US. So, any material policy change will be counter-productive from the socio-economic point of view.

Government initiatives

Govt plans eight mini labs at ports, airports to monitor drug quality

The government is planning to set up eight mini drug-testing laboratories across major ports and airports in the country to monitor the standards of imported and exported drugs and reduce the overall time spent on quality assessment. Two of the eight mini labs are expected to come up at the major ports of Chennai and Navi Mumbai. The remaining six have been planned in or around the airports in Mumbai, Delhi, Kolkata, Hyderabad, Bengaluru and Ahmedabad. The move will improve the drug regulatory system and infrastructure facilities, however, may see delays due to inter-ministerial consultations.

Government taking steps to reduce dependence on API imports

The government is working on steps to reduce India's dependence on large scale import of active pharmaceutical ingredients (APIs). The government is quite seized of the issue of the country's dependence on import of APIs and that inbound shipments 'are coming from a particular country and as a result, (there are) national security concerns'. 92 per cent of the APIs are imported, mainly from China and the Chinese APIs were about four times cheaper than those produced in India.

Recent developments

NPPA identifies 634 suspected cases of overcharging

National drug pricing regulator National Pharmaceutical Pricing Authority (NPPA) has identified 634 cases where non-compliance of notified ceiling prices was suspected. As stipulated under the Drugs (Prices Control) Order (DPCO) 2013, NPPA fixes ceiling price of essential medicines of Schedule I. In respect of medicines not under price control, manufacturers are allowed to increase the maximum retail price by 10 percent annually. The calculation for essential drugs is based on the simple average of all medicines in a particular therapeutic segment with sales of more than 1 percent. The government had notified the DPCO 2013, which covers 680 formulations, with effect from May 15, 2014, replacing the 1995 order that regulated prices of only 74 bulk drugs.

Government proposes new e-portal to check AMR, substandard drugs

The health ministry is planning to set up an online portal to regulate and plug gaps in the sale of medicines in India through all platforms, including e-pharmacies. The objective of such regulation would be to ensure availability of right drugs that meet the standards of quality to every person in need of medicines, curbing anti-microbial resistance and also regulating supply of medicines through online/internet. The ministry proposes to establish a 'robust e-enabled' structure to regulate the sales of medicines through an autonomous body.

Sector Outlook - Pharmaceutical Industry

Budget impact on the sector

The Finance Minister Arun Jaitley in his Union Budget 2017-18 proposed to amend the Drugs and Cosmetics Rules to ensure availability of drugs at reasonable prices and promote use of generic medicines.

Broad measures like abolition of Foreign Investment Promotion Board, liberalisation of the FDI policy, reduced corporate tax for the small and medium enterprises will help the sector which has many multinational players as well as small manufacturers of generic medicines.

Outlook

Of late, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented. The Indian pharmaceutical market is expected to grow exceptionally by 2025 on the back of increasing consumer spending, raising healthcare insurance and rapid urbanization. Government effort steps to reduce costs and bring down healthcare expenses too will help the sector in coming time. Moreover, government's steps to reduce India's dependence on large scale import of active pharmaceutical ingredients and increasing production of active ingredients used in drugs to meet the country's need also augurs well for the pharmaceutical companies. 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. Moreover, higher spending on research and development by pharmaceutical companies too will support the sector in coming time.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Abbott India Ltd.	4103.50	8719.65	652.70	0.97	130.19	31.52
Sanofi India Ltd.	4011.35	9238.39	779.54	1.70	120.01	33.42
Albert David Ltd.	289.00	164.94	252.29	1.90	89.58	3.23
Dr. Reddys Laboratories Ltd.	2411.70	39971.93	699.92	0.83	83.51	28.88

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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