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ICRA's sample set of Indian pharma cos to grow by 6-7 per cent in FY2023

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Growth of the sample set to be supported by 6-8 per cent growth in the domestic market

The revenue growth of ICRA's sample set of 16 Indian pharmaceutical companies is estimated to moderate to 6-7 per cent in FY2023 after witnessing a Y-o-Y growth in revenues of 8.5 per cent in Q4 FY2022 and 7.7 per cent in FY2022 to Rs 1.87 lakh crore. The sample set revenue growth will be supported by 6-8 per cent YoY growth in the domestic market, 11-13 per cent in the emerging markets and 8-10 per cent in the European business. Growth in the US business, however, is expected to be muted at 1-3 per cent, owing to continued pricing pressures in the generics business.

ICRA expects the operating profit margin (OPM) of the sample set to moderate to 20.2 per cent in FY2023 from 21.5 per cent in FY2022 given the continued pricing pressures in the US generics market and high raw material and other input costs. The extent of the impact on margins will differ from company to company depending on the product portfolio, the geographic mix of revenues and the diversification of the vendor base.

The OPM for the sample set contracted to 18.3 per cent in Q4 FY2022 from 22.3 per cent in Q4 FY2021 and 21 per cent in Q3 FY2022. This was majorly on account of rising costs of raw materials, other input costs such as freight, packaging among others, pricing pressures in the US generics market (which is generally the most profitable market), and inventory write-offs for COVID-19 products for a few companies in the sample.

During Q4 FY2022, the Y-o-Y revenue growth for the sample set in the domestic market was healthy at 13.5 per cent, supported by new product launches, market share gains for some companies in the sample set, and robust performance of both chronic/acute segments.

The emerging markets witnessed a healthy Y-o-Y growth of 14.3 per cent in revenues in Q4 FY2022, although revenues were marginally lower by 2 per cent on a Q-o-Q basis. Overall growth for FY2022 was healthy at 17 per cent on a Y-o-Y basis and was broad-based, spread across all key regions. This was driven by new product launches, low base, strong demand and depreciation of the INR against certain currencies.

ICRA expects the research and development (R&D) expenses to stabilise at current levels of 7-7.5 per cent of revenues for its sample set as companies continue to focus on complex generics, first-to-file opportunities and speciality products, which entail higher R&D expenses. Stable investments in R&D to develop such products will support growth and margin improvement over the medium term.

The outlook for the Indian pharma industry remains stable led by the expectation of continued healthy revenue growth and margins.