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Stable input costs, speciality product launches to support performance of Indian pharma cos in FY2024: ICRA

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Revenues of ICRA's sample set are expected to grow by 6-8 per cent in FY2023 and FY2024

ICRA expects the revenues of its sample set of 16 Indian pharmaceutical companies to grow by 6-8 per cent in FY2024, primarily driven by steady performance across key markets (the US and India) and some recovery in growth in the European market. The operating profit margin (OPM) is expected to be steady at 21-22 per cent in FY2024, supported by the stabilisation of raw material prices and increased focus on complex generics/speciality molecule launches in the US market.

Commenting on the growth drivers, Deepak Jotwani, Assistant Vice President & Sector Head, ICRA, said, "New speciality/complex generic molecule launches in the US market by ICRA's sample set of leading pharmaceutical companies will help them offset continued pricing pressure and also support revenue growth of 6-7 per cent in FY2024. As for the domestic market, ICRA expects the revenue growth for its sample set to increase to 6-8 per cent in FY2024, post an estimated growth of 3-4 per cent in FY2023, given the large base of FY2022. Structural factors such as an ageing population and continued rise in lifestyle/chronic diseases, in addition to the WPI-linked price hike for products under the NLEM, new product introductions, and annual price hikes for non-NLEM products are expected to support revenue growth for the industry. Steps being taken by sample set companies towards new product introductions and enhancement in field force are also expected to support their growth going forward."

While India and the US remain the key focus markets for Indian pharmaceutical companies, most companies have also enhanced their presence in emerging markets to fuel their growth. Growth in emerging markets has been driven by new product launches, strong demand, and depreciation of the INR against certain currencies.

Mergers and acquisitions (M&A) in the pharmaceutical industry have picked up considerably over the past year.

Jotwani said, "Leading Indian pharma companies have made sizeable acquisitions in the recent past to enhance market share in select geographies/therapeutic areas, primarily in the US and the Indian markets, which are expected to provide diversification benefits and support revenue growth for these players going forward. However, the sizeable value of most of these M&A deals also indicates the elevated risk appetite of these pharmaceutical companies."

As for FY2023, ICRA expects the revenues for its sample set to grow by 6-8 per cent (against the earlier expectation of 4-6 per cent), closer to ~7.7 per cent growth in FY2022. The same will be supported by 10-12 per cent growth in the US market (driven by robust performance of new product launches including first-to-file molecule, Lenalidomide) in addition to the depreciation of the INR by ~8 per cent against the USD during fiscal, while the revenues from the European market are expected to contract marginally, given the ongoing macroeconomic challenges and the large base of the previous fiscal, which was supported by COVID-19 vaccine sales. The OPM is projected to contract by 50-100 bps to 21-22 per cent in FY2023 due to relatively high input costs in H1 FY2023.

ICRA expects the R&D expenses for its sample set to stabilise at around 7-7.5 per cent of their revenues as companies will optimise their spending, focusing more on complex molecules and speciality products, against generics. Moreover, the annual capex run rate is expected to be maintained at Rs 15,000 crore in FY2024. ICRA maintains its Stable outlook on the pharmaceutical industry, led by expectations of continued steady revenue growth and comfortable profit margins for its sample set. The return indicators (RoCE of 14-15 per cent), capital structure, liquidity profile, and coverage indicators (Total Debt/OPBDITA of 0.9-1.0 times) are expected to remain comfortable, through strong internal accruals.