

ICRA: Market-based pricing to impact near-term pharma earnings

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ICRA: Market-based pricing to impact near-term earnings of pharma companies



ICRA expects the latest proposed market-based pricing mechanism for the Indian pharmaceutical Industry would impact near term earnings of pharma companies with relatively higher dependence on the Indian market. With the National List of Essential Medicines (NLEM) estimated to cover almost 20 percent of the Rs 728 billion domestic formulation business, an expected price cut of 15-20 percent will erode the market by 3-4 percent. Its impact on earnings will be higher as much of this will directly eat into the relatively higher margin India business.

According to ICRA, companies with higher dependence on the Indian market (i.e. Indian arm of MNCs, mid-size pharma companies), premium-pricing strategy and greater share of acute therapy segments (i.e. 70 percent of NLEM) will be impacted the most.

Conversely, the impact of the new policy would not be substantial on companies that have sizeable share of earnings from regulated markets, especially the US generics. In ICRA's view, companies are likely to review their portfolios over the medium-to-longer term but in the near-term cost rationalization measures like scaling down promotional/marketing budgets and consolidating field force appear to be more achievable goals. Unlike earlier, price revisions (in line with change in WPI or otherwise for drugs that are not under NLEM) may become a common phenomenon now.

The Department of Pharmaceuticals recently released a detailed note paving the way for the implementation of the proposed pricing policy for the Indian pharmaceutical industry. In line with the earlier proposal, the policy has adopted a market-based pricing mechanism where in the ceiling price for each branded drug or a generic version will be determined by taking a simple average of all drugs with market share equal to or greater than 1 percent. The policy will control prices of 348 drugs that are classified as "Essential" and form part of the National List of Essential Medicines (NLEM). The companies will be allowed to revise prices of these molecules once a year in line with the change in the Wholesale Price Index (WPI). For all other drugs (i.e. not in NLEM), an annual price hike of 10 percent will be allowed. To encourage investments in R&D, completely new innovations and even drugs developed through new processes or involving novel drug delivery mechanism will be exempt from price control for a period of five years. Having issued the detailed guidelines, the government will now notify the ceiling

prices, post which the policy will come into effect in the next 45 days. Companies will have to adjust their MRPs within this period which would result in some inventory de-stocking/rationalization in the coming few months by the distribution channel.

Overall, a market-based pricing mechanism is more acceptable to the industry and over a longer-period may limit the adverse impact on the industry. There would however be some challenges and uncertainties in its implementation. For instance, while the government has put in place certain measures to ensure availability of drugs, but events like sharp hike in prices input materials and consequently reduced viability could be a possible challenge for the government. The policy has also tightened the norms, for pricing drugs that involve any changes; especially combination therapies (involving even a single molecule from NLEM) will fall under price control. Besides benefitting the consumers, the policy's key positive is the shift that it brings in from a cost-based approach to a market-based mechanism, which according to many market players is expected to bring in greater transparency, says ICRA.