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Rising input costs to hurt profitability of Indian pharma sector in 2022-23: Report

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New Delhi [India], July 19 (ANI): Faced with rising prices of active pharmaceutical ingredients (/topic/active-pharmaceutical-ingredients) (APIs), and other key inputs coupled with a rise in freight and energy costs (/topic/rise-in-freight-and-energy-costs), the operating profitability of Indian pharmaceutical companies (/topic/operating-profitability-of-indian-pharmaceutical-companies) is expected to decline by 200-250 basis points (or 2.5 percentage points) in the financial year 2022-23, said a rating agency report.

"Due to supply chain disruptions and prevailing lockdown in China, the prices of some APIs have increased between 25 per cent to 120 per cent while prices of excipients have risen between 15 per cent-200 per cent during the last 12-18 months," said rating agency CareEdge.

Apart from the cost of raw materials, the cost of packing materials also saw an upward movement of 25-100 per cent during the past 12-18 months.

Besides, the cost of power, fuel, and coal witnessed a rise of more than 50 per cent during the last one year while the cost of freight saw a jump of more than 2 times, it added.

"During the past six months (January to June 2022), it has been observed that many Indian pharma companies have received Form 483 observations on their manufacturing facilities. Rising instances of audit observation by USFDA impacts the compliance cost and in turn, hurts the profitability of the pharma sector," it noted in the report.

Any adverse observations from the regulatory authorities can also lead to a delay in the launching of new products or may even impact the revenue stream, thus denting its prospects at least for the medium term.

"The ability of the Indian pharma companies to successfully sail through the inspections carried out by the regulatory authorities would be critical in determining their future growth plans and profitability margins."

However, India's drug pricing authority allowing a price hike of 10.7 per cent for scheduled drugs, considering the rise in the cost of production, may lend support to the profitability of the pharma sector to some extent, it added.

Furthermore, the recent sharp depreciation of the Indian currency rupee against the US Dollar is also expected to support the profitability of the sector considering it is a net exporter. (ANI)