

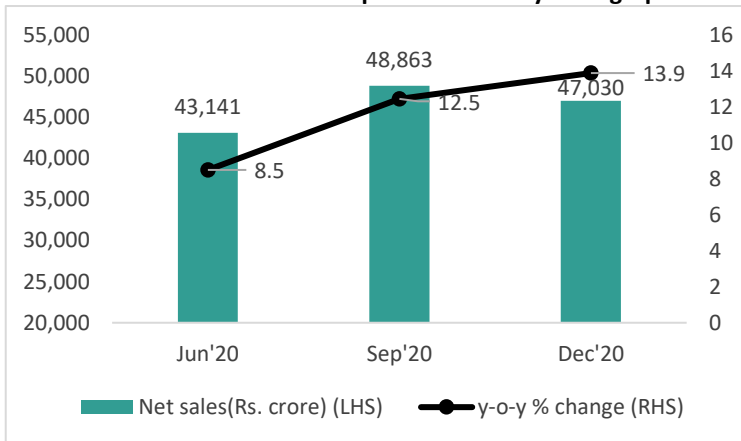
Drugs & Pharma Update: March 2021

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Sales of Indian pharma companies grew by average 11.6% during April-December 2020

The Indian pharma industry's sales increased by 11.6% in the first 3 quarters of FY21 on an average. This is based on sales data of 159 pharma companies in the industry. From Chart 1 below it can be seen that the industry's sales grew by single-digit 8.5% y-o-y in the June 2020 quarter which accelerated to 12.5% and 13.9% in the September 2020 quarter and the December 2020 quarter, respectively.

Chart 1: Trend in sales of Indian pharma industry during April-December 2020



Source: Ace Equity

Note: The sample size includes data on 159 companies

The 11.6% growth in industry's sales during the period April-December 2020 was led by an increase in pharma exports from India which rose by 15.8% in the first 9 months of FY21. This was backed by easing lockdown restrictions, product launches and demand for drugs in the international market for treatment of Covid-19. The increase in pharma exports was lower at 9.8% y-o-y in the June 2020 quarter due to Covid-19 disruptions which improved to 20.6% and 16.8% in the September 2020 quarter and the December 2020 quarter, respectively.

During April-December 2020, the overall domestic pharma market however grew at a slower pace compared to 15.8% growth in pharma exports. This was on account of impacted demand from segments like women healthcare, dermatology and orthopaedic as treatment for such ailments were kept on hold. In addition to this, sales from acute therapy segments like anti-infectives and pain/analgesics were affected as staying and working from home helped people stay healthy. Besides, people have taken care of themselves to stay fit so as to avoid infections and doctor visits. Also, lower number of elective surgeries has resulted in lower prescriptions of anti-infectives, analgesics and gastro intestinal drugs. All these factors are believed to have affected the industry's domestic sales primarily in the first 2 quarters of FY21.

Nevertheless, higher off take was witnessed by low immunity segments dealing with diabetes, cardiology, oncology illness among others. As a result, better off take was seen in chronic therapy segments like cardiology and antidiabetic which supported the sales in domestic pharma market during lockdown period. In the third quarter of FY21, the domestic pharma sales however are estimated to have improved compared to the first 2 quarters of FY21 with increased mobility of patients to clinics and hospitals thereby resulting in better demand of prescription drugs.

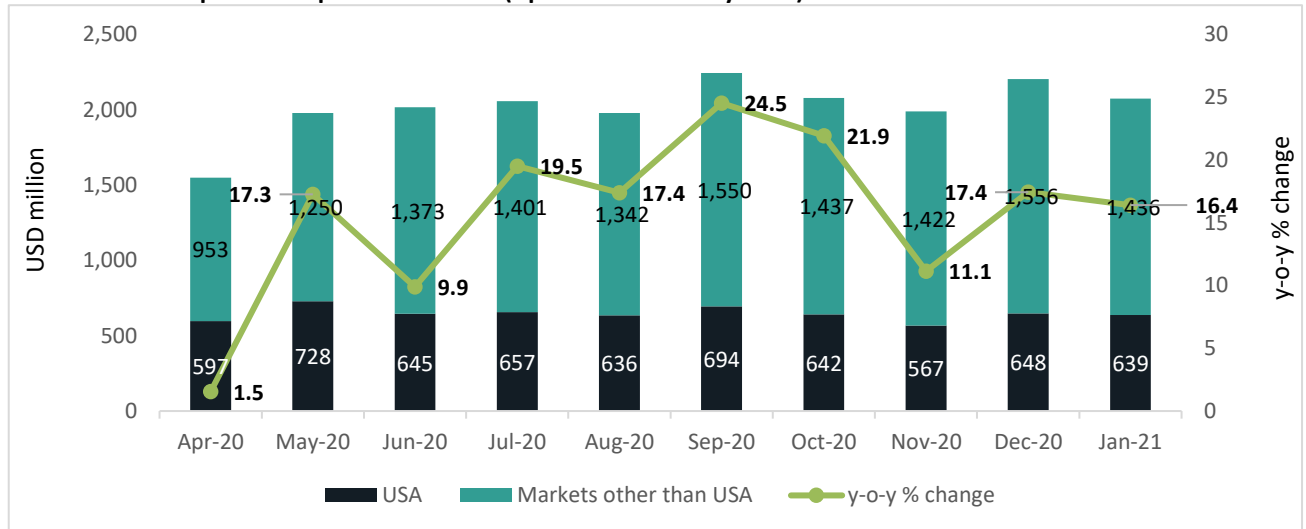
The upward momentum in pharma industry's sales is likely to continue in the March 2021 quarter. Thus, the industry is expected to grow by about 11% and stand at around USD 45 billion during FY21.

Pharma export market

On a cumulative basis, pharma exports from India increased by 15.8% to USD 20.2 billion during the period April 2020-January 2021. This was backed not only by 14.1% growth in outbound shipments to USA (India's major export destination accounting for around 32% of the total pharma exports from India) but also by exports to markets other than USA that increased at a faster pace of 16.6% in the first 10 months of FY21.

The growth in overall exports was on account of easing of lockdown restrictions, product launches and demand for drugs in the international market for treatment of Covid-19 which includes introduction of antivirals, antimalarials and antibiotics by the Indian pharma industry.

Chart 2: Trend in pharma exports from India (April 2020 – January 2021)



Source: CMIE

As can be seen from the above chart, pharma outbound shipments from India had increased in double-digits in most of the months during April 2020 – January 2021 except for the month of April 2020 where exports were hit hard and were up only by a marginal 1.5% due to Covid-19 disturbances and the month of June 2020 where the outbound shipments grew by 9.9%.

Covid-19 vaccine to drive Indian pharma industry's growth in FY22

The domestic and international markets of the Indian pharma industry are expected to continue with the growth momentum in FY22 as well. The increase in domestic market will be on account of rise in presence of chronic diseases, increasing per capita income, improvement in access to healthcare facilities and penetration of health insurance. The increase in exports will be backed by the need of affordable healthcare in developed and pharmemerging nations which will support the outbound shipments of branded generics to these countries. Also, rising per capita incomes in pharmemerging nations will contribute to the rise in branded generics exports from India. Moreover, the Indian pharma companies are likely to focus on development of specialty medicines or complex generics to augment their portfolio which will help increase the Indian companies to gain share in world exports.

Considering these factors, the Indian pharma industry is expected to grow at the rate of about 10%-11% in FY22 under normal scenario. However, when we consider the one-time opportunity that India has on account of Covid-19 vaccines, it is expected that the Indian pharma industry will augment by around 14%-15% in FY22 which is explained below.

On 3 January 2021, Serum Institute of India's (SII) Covishield along with AstraZeneca and Bharat Biotech's Covaxin were approved for restricted use in emergency situation by the Indian government to support the vaccination drive in India. The vaccination program in India was launched by the government on 16 January 2021 with an aim to inoculate population of about 30 crore by July-August 2021. This program is conducted in phases where the first phase includes healthcare and frontline workers and the second phase includes persons who are over 60 years of age and who are 45 years of age and above with specified co-morbid conditions. The vaccination for second phase has commenced from 1 March 2021 and the vaccination for first phase including healthcare workers started 16 January 2021 onwards while vaccination for frontline workers commenced from 2 February 2021. It is to be noted that each individual requires 2 doses to complete the inoculation process and each dose is priced Rs.200-Rs.250 approximately. On 27 February 2021, government scaled up private sector participation in the vaccination drive with fixing a ceiling price of Rs.250 per dose. Of this, Rs. 150 will be earned by vaccine producer while private hospitals will earn Rs.100 to administer each dose. As per the government, over 2.4 crore vaccine doses have been administered across India as on 10 March 2021 (till 7 am). The government has allocated Rs.35,000 crore for Covid-19 vaccination drive in FY22 Union Budget.

It is important to note that India produces about 60% of the vaccines in the world which shows the capability of India in making vaccines. Considering this dominant position, the Indian pharma industry has gained major attention in this tough time of Covid-19. As a result, India is aiding the world to get equitable access to Covid-19 vaccine by being a part of COVAX initiative led by Gavi, the Coalition for Epidemic Preparedness Innovations (CEPI) and World Health Organisation (WHO). COVAX is global initiative that involves collaboration of governments and vaccine producers to make sure that Covid-19 vaccines are available across the world to higher-income as well as lower-income countries. Covid-19 vaccine exports by India stood at Rs.338 crore till 8 February 2021. Of this, 62.7 lakh doses were exported as

gifts to friendly countries which were worth Rs.125.4 crore and 1.05 crore doses amounting Rs.213.3 crore were paid exports.

Among the vaccines available for use in India, Covishield vaccine was authorised by the WHO under emergency use on 15 February 2021 and Covaxin announced its Phase III results on 3 March 2021. Apart from these two, there are other vaccine producers in India which are under different stages of process and have aims to launch their respective Covid-19 vaccines in India.

Considering the above mentioned developments with respect to Covid-19 vaccines, it can be understood that vaccines by India to the domestic and export markets are expected to play a pivotal role in Indian pharma industry's growth in FY22. This however will be primarily dependent on the implementation of vaccination drive in India and India's contribution towards COVAX initiative.

Concluding remarks

- The upward momentum in pharma industry's sales is likely to continue in the March 2021 quarter. Thus, the industry is expected to grow by about 11% and stand at around USD 45 billion during FY21.
- In FY22, the Indian pharma industry is estimated to grow at the rate of about 10%-11% under normal scenario backed by demand from domestic and export markets.
- Considering the one-time opportunity that India has on account of Covid-19 vaccines, it is likely that the Indian pharma industry will augment by around 14%-15% during FY22.

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