

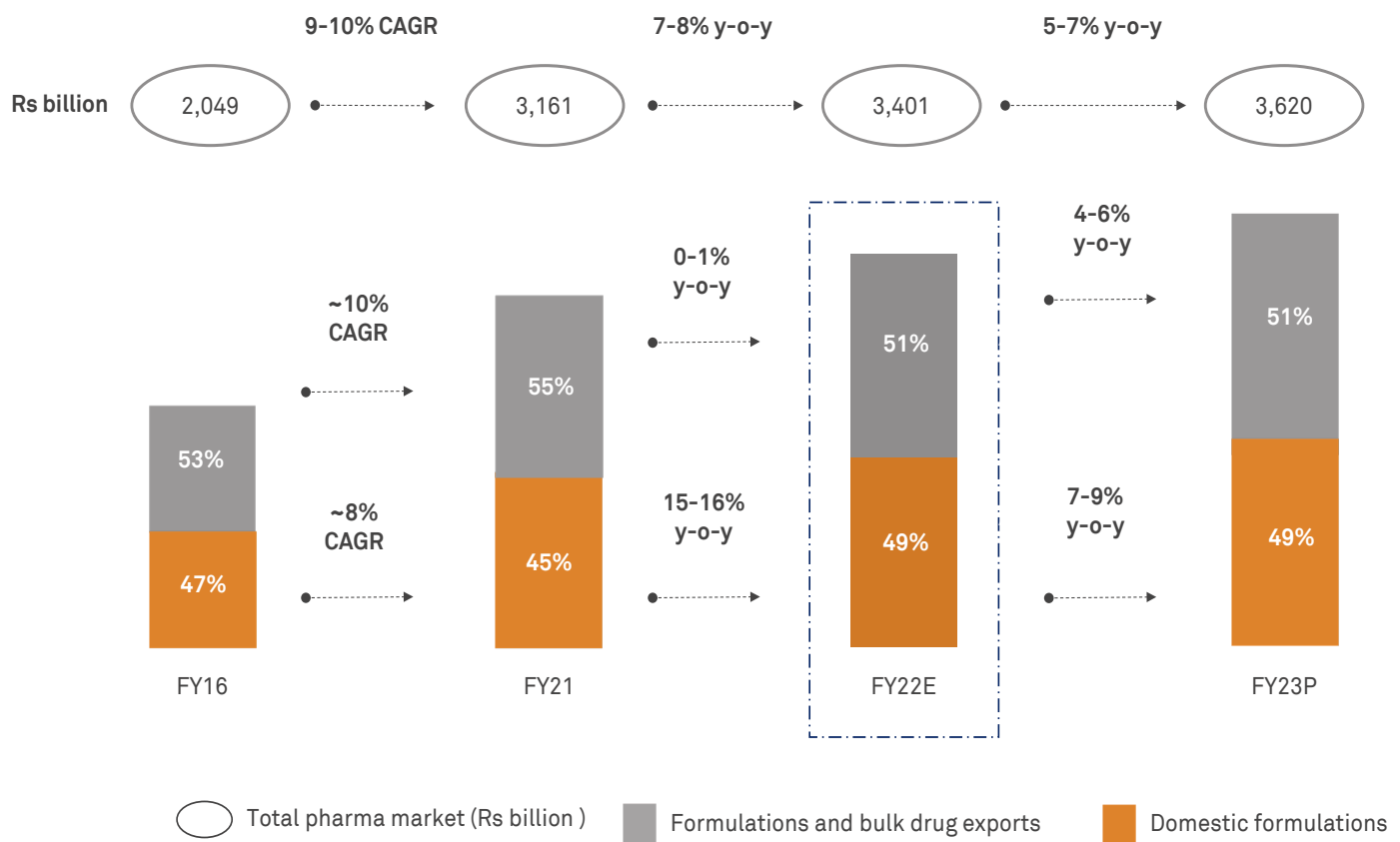
# SectorVector

Reading the topical trends

June 2022

## Prognosis normal

Pharma revenue growth to moderate, margin to remain under pressure



Source: CRISIL Research; Covid-19 vaccination drive is estimated to have created an additional upside of 30-35% of domestic market in fiscal 2022

## Industry to log moderate growth this fiscal

The Indian pharmaceutical market (domestic and exports) logged a high CAGR of 9-10% between fiscals 2016 and 2021. The market expanded 7-8% on-year in fiscal 2022, led by strong growth in the domestic market and exports to semi-regulated markets.

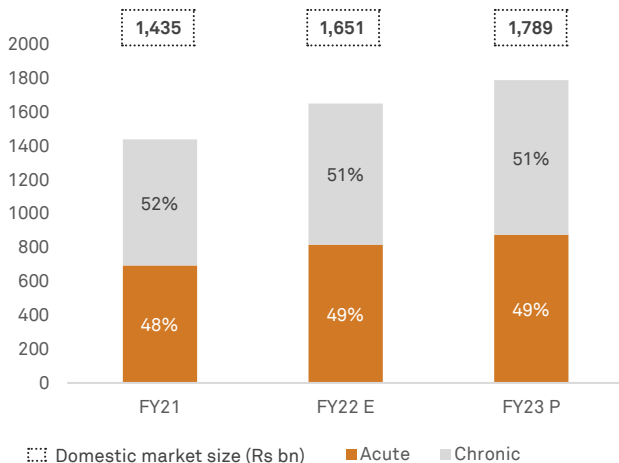
In fiscal 2023, sector growth will moderate to 5-7% on-year owing to pricing pressure in the United States (US) and decent growth in the domestic market.

## High demand for Covid-19 drugs had lifted growth in first half of last fiscal

Domestic markets grew 15-16% in fiscal 2022, riding on robust growth in the first half due to increased demand for Covid-19-related drugs. In the first quarter of the fiscal, the market expanded ~39% due to high demand for acute therapy drugs such as anti-infectives and vitamins, thereby helping the industry expand robustly.

For the full fiscal, growth was led by an increase in volume as well as price. Vaccines have provided the industry an one-off opportunity, albeit limited to the top vaccine manufacturers.

## Chronic therapies will dominate the market this fiscal



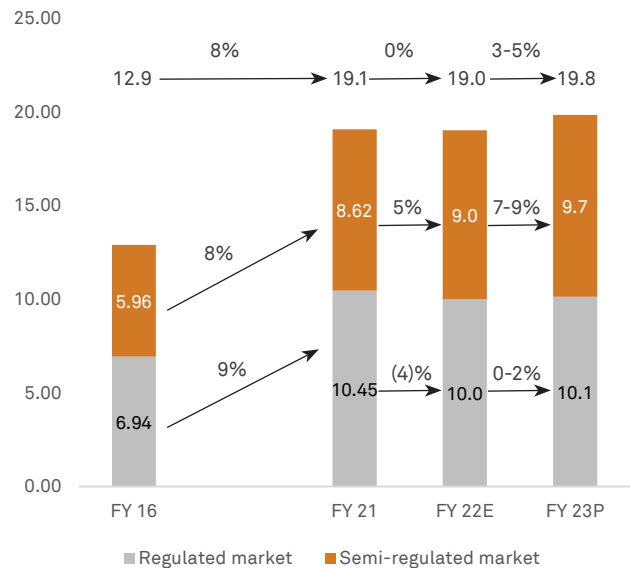
Source: CRISIL Research; domestic market

In fiscal 2023, the domestic market is expected to grow at a moderate 7-9%, led by an increase in price, followed by launch of new products. The return of OPDs, IPDs, and elective surgeries to pre-Covid-19 levels will drive the acute therapy drugs market, too.

## Exports were flat last fiscal due to high base and pricing pressure in the US

Growth in formulation exports is estimated to have been flat last fiscal, given a high base of fiscal 2021 — which had seen 19-20% on-year growth (constant currency terms) — and decline in exports to the US, where the players faced persistent pricing pressure.

The impact of pricing pressure has been exacerbated by lower abbreviated new drug application (ANDA) approvals and fewer new drug launches. Strong exports to other geographies — to semi-regulated markets, Europe, and other regulated markets — have helped offset the US decline.



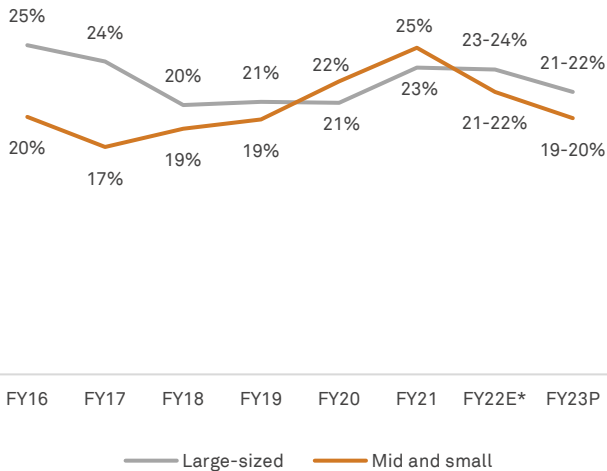
Note: All are in \$ bn  
Source: CRISIL Research

## Semi-regulated markets will drive the exports growth this fiscal

Formulation exports are likely to grow 3-5% in fiscal 2023. Lower ANDA approvals in calendar 2021 and persistent pricing pressure in the US will weigh on export growth this fiscal. However, increasing launches of complex and specialty drugs will drive medium-term growth in US markets. Sharpened focus of other regulated markets on reducing healthcare costs through generic penetration will improve demand for the exports. Increasing healthcare penetration and accessibility to drugs will drive growth in semi-regulated markets.

### Margins will remain under pressure this fiscal

Ebitda margins of formulators



Note: Classification by turnover: large size: >Rs 45 billion (seven companies; 60% of total formulations revenues); medium size: Rs 45 billion - Rs 5 billion; small size: < Rs 5 billion

\*One-time impairment cost of one of the leading companies in the third quarter of fiscal 2022 is excluded from Ebitda calculation

Source: CRISIL Research

In fiscal 2021, Ebitda margins of mid- and small-formulation players had expanded 250 basis points (bps) to 25%, driven by the benefit of lower operational expenses and high realisation on one-time institutional sales due to Covid-19.

In fiscal 2022, Ebitda margins for mid and small formulators is estimated to have contracted by 300-350 bps to 21-22% owing to high raw material prices. For large formulators, Ebitda margins remained flat at 23-24% in fiscal 2022 owing to lower travel and marketing spend amid the pandemic and on better sales realisation.

Sustained increase in raw material prices is expected to affect margins of players in fiscal 2023. Sharper focus on complex and niche drugs indicates the need for higher R&D spending. Selling and other expenses, which were lower in fiscal 2022, are expected to increase in fiscal 2023 as the economy re-opens. Led by this, margins are expected to contract 200-250 bps in fiscal 2023 for large, mid-, and small formulators.

---

## Analytical contacts

### Aniket Dani

Director  
CRISIL Limited  
aniket.dani@crisil.com

### Sehul Bhatt

Associate director  
CRISIL Limited  
sehul.bhatt@crisil.com

---

#### About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint. It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

#### About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

#### CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfill your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit [www.crisil.com/privacy](http://www.crisil.com/privacy).