PRESS RELEASE
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Credit profile of Indian pharmaceutical companies to remain healthy in FY2025, despite expected moderation in revenue growth: ICRA

- ***Revenue growth to moderate to 8-10% in FY2025, post a healthy 13-14% YoY expansion in FY2024***
- ***Regulatory risks persist with higher issuances of warning letters/ import alerts by the United States Food & Drug Administration (USFDA)***

ICRA expects the revenues of its sample set of 25 Indian pharmaceutical companies (which account for ~60% of the overall Indian pharmaceutical industry) to grow by 8-10% in FY2025, post a YoY increase of 13-14% in FY2024. Following the high base of FY2024, the revenue growth momentum from the US and Europe markets is expected to moderate to 8-10% and 7-9%, respectively, from the YoY expansion of 18-20% and 16-18%, respectively, estimated for FY2024. The domestic market is expected to see stable growth at 6-8%, while the emerging markets may log in an 8-10% rise in FY2025, against 16-18% in FY2024.

Ms. Mythri Macherla, Assistant Vice President & Sector Head, ICRA, said "*The operating profit margin (OPM) for the sample set companies is expected to improve to 22-23% in FY2024 and remain stable in FY2025, against 20.7% in FY2023. This will be supported by new product launches, especially in the US market, backed by the increased focus on complex generics/ specialty molecules, relatively lower pricing pressure in the base business in the US, and some benefits of volume expansion*."

"*ICRA anticipates the overall credit profile of the Indian pharmaceutical companies remain healthy, supported by their stable earnings profile, comfortable leverage and coverage metrics, and strong liquidity position. Moreover, ICRA expects the research and development expenses for its sample set of companies to remain at 6.5-7% of their revenues as they optimise their spending, focusing more on complex molecules and specialty products against plain vanilla generics*", added **Ms. Macherla**.

The revenue growth of the sample set companies in the US market in FY2024 has been supported by increased new product launches, product shortages in select therapeutic segments, and healthy performance of complex generics (first to file). However, as the base effect plays out, growth is expected to taper in FY2025. While low single digit pricing pressure in the US market is likely to sustain, Indian pharmaceutical companies remain focused on enhancing their revenue contribution from the complex generics in the US market.

In the European market, revenue growth for the sample set picked up considerably in the current fiscal, largely on the back of a low base, uptick in the base business (both branded and generics segment), new product launches (especially injectables) and incremental revenues from new tender wins (in countries such as Germany).

In contrast to the healthy growth from the US and European markets, growth in the domestic market in FY2024 was impacted to an extent by the change in composition of the National List of Essential Medicines (NLEM), which led to a decline in realisations for certain drugs, in addition to an uneven monsoon, which affected acute therapy sales. Furthermore, a one-time reduction in channel inventories by one of the sample set companies also impacted the overall growth. That said, the 6-8% YoY expansion in revenues is supported by sales force expansion and increased medical representatives' (MR) productivity, new product launches with enhanced reach and market share gains for some of the sample set companies. Going forward, sustained price growth and revival in volumes, supported by new product introductions, are expected to continue to support revenue growth from the domestic market. That said, developments on the trade generic policies would be a key monitorable.

Commenting on key risks being faced by industry players, **Ms. Macherla** said: *"The number of warning letters and import alerts issued by the USFDA to Indian pharmaceutical manufacturing companies have increased in the past year. These have led to delays in product launches, translating into failure to supply penalties and entailing significant cost burden towards remedial measures like hiring consultants and consuming additional management bandwidth, thus impacting the profit margins. Given the heightened scrutiny by the USFDA, regulatory risks persist. Further, while the ongoing Red Sea crisis has not had an impact on the Indian pharmaceutical companies as of now, any adverse impact in the form of supply chain disruptions or increase in logistics costs will be a key monitorable. In the domestic market, since price growth has been a key revenue driver, any developments favouring genericisation and inclusion of more products under the NLEM remain key risks for the industry players."*

While there have not been any sizeable acquisitions by the Indian pharmaceutical companies in recent quarters (compared to FY2023), they continue to scout for opportunities to fuel their growth. These are aimed at providing diversification benefits and/or enhancing their market share in select geographies/ therapeutic areas. Without factoring in any large acquisitions, Total Debt/OPBITDA of the sample set companies is expected to remain comfortable at ~1-1.1x as on March 31, 2024 and March 31, 2025, despite high capex (towards capacity expansion, maintenance and upgradation), supported by healthy internal accrual generation. Their liquidity profile remains strong with sizeable free cash and bank balances/ liquid investments.

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