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Kinjal Shah
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Revenues of Indian pharma companies likely to expand by 9-11% in FY2025: ICRA

Kinjal Shah, Senior Vice President & Co-Group Head - Corporate Ratings, ICRA Limited

ICRA has a Stable outlook on the Indian pharmaceutical industry, led by steady demand in the export and domestic markets and comfortable credit profile of key industry participants.

ICRA expects the revenues of its sample set1 of Indian pharmaceutical companies to expand by a healthy 9-11% in FY2025, albeit a moderation from the YoY increase of 12.6% recorded in FY2024. This will be driven by 9-11% revenue growth from the US and domestic markets, 7-9% from the European market and 11-13% from the emerging markets.

ICRA's sample set companies reported a YoY increase of 9.5% in revenues in H1 FY2025, supported by 11% and 12.5% YoY growth in the domestic and the US markets, respectively.

Kinjal Shah says, "The 11% YoY expansion in the domestic market revenues for the sample set companies in H1 FY2025 was supported by market share gains for some players in chronic therapies, healthy volume growth, and continued benefits from new product introductions and acquisitions in the recent past. ICRA expects domestic market revenues for its sample set companies to increase by 9-11% in FY2025, against 6.4% in FY2024. Measures being undertaken by the companies towards new product introductions and enhanced productivity are expected to support the growth going forward. That said, developments on the trade generic policies will be a key monitorable,"

ICRA's sample set companies witnessed a moderation in YoY growth from the US market to 12.5% in H1 FY2025 due to a high base of FY2024, which had seen 18.3% YoY increase, benefiting from some easing of pricing pressures, due to supply-side constraints witnessed in the market, providing volume expansion and better pricing opportunities.

"Consolidation in the distribution channels had led to pricing pressure of low-to-mid teens between CY2017 and CY2019, which gradually reduced over the years to mid-to-high single digits in Q2 FY2025, due to increasing drug shortages. However, the sustainability of the same remains to be seen. Supported by continued traction for speciality molecules and ongoing product shortages and subdued pricing pressures, revenue growth for the sample set from the US market is expected to remain healthy at 9-11% in FY2025, added ICRA.

Shah added, "Indian pharma companies' operations in the US remain exposed to regulatory risks from regular scrutiny by agencies such as the United States Food & Drug Administration (USFDA), the US Department of Justice (US DoJ) and the US Securities and Exchange Commission (US SEC). Most major companies have ongoing litigations related to patent claims and anti-trust violations, and sizeable provisioning as well as settlement pay-outs have been made against some of these litigations by companies in recent years."

Increasing regulatory scrutiny, resulting in incremental warning letters or import alerts remain a key monitorable. These result in delays in product launches and failure-to-supply penalties. These also entail significant costs for remedial measures like hiring consultants and consuming additional management bandwidth, which impact profit margins.

The European business for ICRA's sample set companies expanded by 9.3% on a YoY basis in H1 FY2025, aided by continued strong performance of existing portfolio and tender business, in addition to new product introductions. While revenue growth has been healthy over the last few quarters, some impact of macroeconomic headwinds is expected going forward. Overall, revenues for the sample set companies in Europe are expected to increase by 7-9% in FY2025, against 15.3% in FY2024.

Revenue for ICRA's sample set companies from the emerging markets witnessed a YoY growth of 10% in H1 FY2025. ICRA expects the same to remain range-bound at 11-13% in FY2025, post ~15% YoY increase in FY2024, which was supported by new product launches, favourable currency movements in some key markets and a lower base effect of the previous fiscal to some extent.

To enhance their market share in select geographies/ therapeutic areas, leading Indian pharmaceutical companies made sizeable strategic acquisitions over the recent past. Most of these were towards strengthening therapeutic coverage, primarily in the US and the Indian markets. This is expected to provide diversification benefits and support revenue growth for these companies, going forward.

The operating profit margin (OPM) of the sample set companies is likely to improve to 24-25% in FY2025 from 23% in FY2024, supported by healthy growth across key markets, higher contribution of complex generics/ specialty molecules and benign raw material price environment. That said, market share movements and quantum of price erosion in the US market will be a key determinant of margin trajectory for the companies going forward. Further, ICRA notes that freight rates have increased in the recent past. Any adverse impact of the same on margins will also be a key monitorable.

The sample set is likely to maintain their capital expenditure (capex) run rate of ₹ 20,000 crore annually in FY2025 towards capacity expansion, maintenance and upgradation. This translates to 6-7% of the revenues. ICRA expects the research and development (R&D) expenses for these companies to stabilise at 6.5-7% of the revenues, with the focus mostly on complex molecules and speciality products, against plain vanilla generics.

The debt metrics of ICRA's sample set companies are expected to remain comfortable, with Total Debt/ OPBDITA of 0.8-0.9 times as on March 31, 2025, despite significant capex in FY2025, supported by generation of healthy internal accruals. Their liquidity profiles remain strong with sizeable free cash and bank balances and liquid investments. ■