



INDIAN API INDUSTRY

**Indian API Industry: A significant
ingredient of Aatmanirbhar Bharat**

March 2023



Around 40% of global API requirement is fulfilled by China. India's share remains relatively low at 8%.

While the Indian API industry continues to witness pressure on margins, sequential improvement is expected over the next few quarters due to the stabilisation of raw material prices.



The Indian Active Pharmaceutical Ingredients (API) Industry has grown at a CAGR of 8.4% between CY2017 to CY2022E. It is expected to grow at a CAGR of ~7% over the next few years supported by expectation of steady growth in the formulations industry and increasing demand for contract manufacturing with players across the globe looking to diversify their supply chain.



China has accounted for 65-70% of total API imports of India. However, with increasing focus of the Government with initiatives like the production-linked incentive (PLI) scheme and bulk drug parks scheme, the dependence is expected to reduce over the medium to long term.



Indian API industry has been impacted by a confluence of headwinds including rising input costs (raw material, freight, and energy) and supply chain disruptions, resulting in a decline of ~780 bps in operating profit margin (OPM)¹ in 9M FY2023 (to 12.4%) over FY2021. However, with the moderation in energy and freight costs as well as softening of raw material costs, margins are expected to improve over the near to medium term.



The debt metrics and return indicators of ICRA's sample set of API companies witnessed some moderation over FY2022 and FY2023 largely due to continued pressure on margins leading to lower cash accruals. However, metrics are expected to remain healthy over the medium term, notwithstanding some moderation, supported by the expected gradual improvement in margins.



Growth drivers over the medium to long term include Government support through the PLI scheme for APIs with expected incentives of ~Rs. 70 billion and the bulk drug parks scheme offering incentives of around Rs. 30 billion. Imports from China are thus expected to reduce materially over the medium to long term.

¹ Aggregate of six listed API companies: Aarti Drugs Limited, Anuh Pharma Ltd, Everest Organics Ltd., Hikal Limited, NGL Fine Chem Ltd, Supriya Lifescience Ltd; Financials for Supriya Lifescience Limited have been added since Q3 FY2021

1 Overview of the Indian pharmaceutical industry



2 High dependence on China for import of APIs



3 Confluence of headwinds impacting the domestic API industry



4 Financial performance of the Indian API industry



5 PLI scheme to help India become Atmanirbhar in APIs



6 ICRA-rated entities in the API industry





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