

# The indian pharmaceuticals industry economics essay

[Economics](#)



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BUSTER**

Indian Pharmaceuticals industry is expected to grow from USD 14 bn in 2011 USD 70 bn by 2020 with CAGR of ~17%. It is expected to grow at 19 % in 2013 as per CII report. India is expected to be in top 10 pharmaceuticals market in the world by 2015 as per McKinsey report. It ranks third globally by drug volume and accounts for 10 % of global share. It ranks fourteenth by drug value and accounts for 1% of global share. As per new policy, price cuts of 10-15% are expected, thus impacting as a whole by 3-5%. High impact will be on MNCs with premium pricing policy and higher product concentration. In long run however it will help in increasing size of generics market which is beneficial for India. Patient Protection and affordable care act (Obama care) will help bring more Americans under insurance net. This will directly benefit generic Indian pharmaceuticals companies. Similarly Generic Drug Use Fee Act (GDUFA) will benefit Indian generic players as it will expedite pending ANDA approval process in the US. Many patent are about to expire in coming years, ANDA approvals are going to speed up and generic spending in India is increasing on basis of availability and affordability factors. These are beneficial factors. R & D activity in 2012 was more than 20 INR bn and it is increasing yoy. It is going to strengthen product base of India.

he R&D spends of the top five companies is about 5% to 10% of revenues. This ratio is still way below the global average of 15% to 20% of sales. M& A activity is raising in case of Indian pharmaceuticals companies. This will help in improving infrastructure and expertise in R & D and expansion activities of Indian Pharmaceuticals Industry. Rise in income level, health insurance coverage, population, lifestyle related diseases, government expenditure on health, chronic diseases, economy, affordability, accessibility and

acceptability. Govt has planned to increase healthcare expenditure to 2.5% of GDP in 2017 from average of 0.9% of GDP in March, 2012. Planning commission has planned to increase allocation to public health to USD 77 bn from USD 13.6 bn in five year period. "Pharma Vision 2020" prepared by DoP to set goals for future. Figure 1: Global pharmaceuticals market sales projections of 2020: Source: Pwc report: From vision to decision Pharma 2020

**Pharmaceuticals sector is expected to grow at 17% CAGR to USD 70 bn in 2020:**

**The market size of the domestic pharma industry stood at INR 69338 crore, growth of 14.3% YoY for MAT 201. After slowdown to 4.1% in Nov 2012 mainly, it gained to 5.1% in Dec 2012, thereby depicting strength of industry.**

**Demand of medicines is rising very rapidly in growth markets, insinuating future growth of pharma industry in India and other pharmerging countries**

**The middle class population is rapidly acquiring the purchasing power necessary to afford quality western medicine due to an increase in disposable income. It is nother growth driver for pharma sector.**

Figure 2: Indian Pharmaceuticals Industry facts and aggressive projections:

Source: McKinsey India Pharma -2020 Figure 3: Indian Pharmaceuticals

Industry revenue and its aggressive projections: Source: AIOCD-AWACS

database Figure 4: Global Consumer Demand Projection: Source: Pwc report:

From vision to decision Pharma 2020 Figure 5: Middle class growth

projections: Source: Pwc-CII Pharma Summit Report, Nov 2012

**India's population is currently just over 1.1 billion and is projected to rise to 1.4 billion by 2026 and 1.6 billion by 2050. More population increases demand for more medicines.**

**Increase in income per capita can be seen in rural as well as urban areas of India thereby increasing lifestyle related ailments and affordability for drugs**

**Health insurance is critical to the growth of to the growth of the pharma market in India. Health insurance penetration is expected to increase to ~45% of population by 2020. Recent increase in FDI limit in insurance sector will boost it.**

**Increase in lifestyle related ailments will rise strongly even for chronic diseases in coming years as per reports.**

Figure 6: Indian population growth expectations: Source: Mc Kinsey India

Pharma-2020 and Indian Planning Commission report, 2012

Figure 7: Indian Rural and Urban income per capita projections in USD: UrbanRuralSource: Mc

Kinsey India Pharma-2020

Figure 8: Health Insurance premium collection trend and observed : Source: Pwc-CII Pharma Summit Report, Nov 2012

Figure 9: Increase in lifestyle related ailments over the years in percentage: Source:

MEG Strategic Analysis

**India pharma has 60% revenue from export operations and highest drug exports are to US of around 204 INRbn to US in 2012. In January to October 2012, exports were INR620.0bn, up about 28% yoy. Exports are projected to register high value in 2020.**

**US patent expiries will generate huge generics market for India and it is expected to be 12.7 USD billion which means large cash inflow and revenue**

**Patented medicines will play small role in 2020 as compared to generics in pharma industry as per a report which is good sign for growth markets such as India.**

Some major players of Indian pharmaceuticals industry  
 Figure 10: Indian Drug exports facts and projections: Source: Department of Pharmaceuticals, Annual Report 2011-12  
 Figure 11: Indian patent expiries: Source: Indian Pharmaceuticals Outlook 2012, JP Morgan Stanley  
 Figure 12: Indian patent expiries: Source: Business Monitor International  
 Figure 13: Company Name Sales in INR Billion  
 Cipla 69.77  
 Ranbaxy Lab 76.86  
 Dr Reddy's Lab 66.86  
 Sun Pharmaceuticals 40.15  
 Lupin Ltd 53.64  
 Aurobindo Pharmaceuticals 42.84  
 Jubilant Life 26.41  
 Cadila Health 31.52  
 Ipca Labs 23.52  
 Wockhardt 26.5  
 Top Indian Pharmaceuticals companies:

**India's rising global share in world GDP depicts stronger economy and stronger sectors such as Pharma in future due to strong infrastructure, more R & D, high income level and more government expenditure on healthcare and so on.**

**India stable GDP and rupee in comparison to world at present is India's strength.**

**Analysis of financial performance of 47 listed companies shows that asset utilization has improved which is going to improve EBITDA margins and hence revenue. This is indication of growth of pharma sector**

**BSEHC had outperformed broader BSE Sensex in April 2012, performed less better later due to weak domestic formulation sale. But robust export growth and future high expectations show optimistic future if Indian pharma industry even on stock markets.**

Source: Corporate Catalyst India Figure 14: India's share of world GDP:

Source: Pwc-CII pharma summit report Nov 2012 Figure 15: Indian

pharmaceuticals sector performance: Source: India Ratings Analysis Figure

16: S & P BSE Healthcare (BSEHC) vs S & P BSE Sensex index comparisons:

Source: BSE Website Key to EDUCORPORATEBRIDGE investment rankings:

BUY = Expected to outperform the local market by > 10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by > 10%. Performance is defined as 12-month total return (including dividends).

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