Indian Pharma Gets a US Booster Shot

Indian pharma's US business is back on strong footing again. In the 9MFY24, the US segment grew by an average of 22 per cent across the top five companies against a 7 per cent YoY increase last year. There have been structural shifts behind the performance which is reflected in the stock returns as well. The sector indices (Nifty Pharma or BSE S&P Healthcare) have returned more than 60 per cent in the past year with a valuation premium at 20 per cent (one-year forward PE against past five-year average).

There are two primary drivers of the re-rating. Plants exiting US FDA's heightened scrutiny of last three years and complex product profile developed in that period. The two drivers, being structural in nature with impact extending to several more years, valuations have also expanded in tandem.

Plants approvals drive products

By the middle of 2023, plant inspection outcome started turning favourable for Indian companies which started the turnaround for the sector. Only in 2020-22, Aurobindo, Sun Pharma, Lupin, Cipla and Zydus Lifesciences had plants in warning letters or import alerts. Fast forward to 2024, Lupin has cleared three of the five plants under observation, Aurobindo also reported four of its plants receiving favourable outcomes in 2023. Similarly Zydus Lifesciences, Torrent Pharma and others, reported a positive improvement. This has led to a strong growth in product launches. Aurobindo and Lupin for instance have launched 50 and 30 per cent more products in last two years compared to their previous three years. Dr. Reddy's which had its main plant's approval earlier than others, had a strong launch calendar in FY23 itself.

Plant approvals translating to product approvals has a first order impact on the return metrics. Investments made on the plant, personnel and more importantly on R&D and filing expenses (which are significant for US ANDA approvals) have been utilized by way of launches with apparently very low levels of product write offs. Even with plants getting the go-ahead, analysts had expected delayed approvals to impact its relevance in the market, which has not been the case.

Secondly, the high approval rate is crucial for pharma companies with a sizeable portfolio of more than $1 billion. Earlier rounds of buyer consolidation in US generics markets has forced high teens price erosion every year in legacy portfolio. New product launches ranging above 15-20 products would deliver an additional revenue of $120-200 million per year (assuming $8-10 million per launch), in order to overcome a 10 per cent price decline in base portfolio and drive growth. The renewed launch calendar also coincided with softening of price decline in US generics which is currently facing shortages and had to scale back on price discounts.

Scaling up on complexity

Sun Pharma and Cipla, have not witnessed a turnaround in product approval rate (Halol for Sun and Goa for Cipla are under observation). But the revenue growth has matched that of the sector, as the two companies' complex and speciality portfolios, respectively, have delivered strongly. Even amongst others, without a stark uptick in complexity of portfolio, a slow march towards product differentiation is well underway.

Lupin with its extensive respiratory portfolio has transformed a bulk of its revenue base to complex portfolio. There are now injectable, metered sprays, solutions, creams and extended release or delayed release capsules as part of the base portfolio for other players as well. On patent complexity, most of the leading players have got access to gRevlimid, which should deliver until FY26 before competition sets in. Large patent expiries in diabetes and ARV's are expected in next few years, which can support the momentum. Pharmaceutical companies though are not uniform and have to be analysed by their pipelines. A large turnaround in US business has supported the current segment momentum.

The upside in shares and index already reflect these. But going ahead, product approvals, favourable price erosion and large one-time opportunities will have formed part of the base. Growth from such high base will determine each companies' outlook. (Source: Business Line)

Indian pharma industry to witness 11% rise in revenues, propelled by domestic and US markets

The Indian pharmaceutical industry is poised for robust growth this fiscal, primarily because of active growth both in India and the US, new product launches, and a healthy product mix, according to the financial services firm, Sharekhan. The firm projects an 11% year-on-year (YoY) revenue increase to Rs 60,202 crore, Ebitda growth of 24% to Rs 14,971 crore, and PAT growth of 43% to Rs 9,174 crore for the industry.

Sharekhan estimates that Ebitda margins for pharmaceutical companies will rise by 252 basis points y-o-y to 24.9%, buoyed by a robust product mix and RM cost rationalisation. The Indian segment of the industry is estimated to grow by 10% to Rs 14,908 crore.

The firm also expects the US segment to register 12% YoY growth, propelled by product launches to Rs 17,451 crore. Top picks within the industry include leaders like Sun Pharma, Dr. Reddy's, and Cipla, among large caps. Mid-cap favourites are Sanofi, Strides Pharma, and Caplin Point, while Artemis Medicare tops the list among hospital stocks.

The fourth quarter of the fiscal year 2024 alone is expected to yield an impressive 11.4% YoY growth in sales for pharmaceuticals, with demand expected to rise in the chronics segment and new product launches. The Indian region is predicted to see a YoY growth of 10% while the US region is set to grow by 12%, driven by the launch of complex products. Despite ongoing headwinds such as R&D expenditure and USFDA inspection, Indian pharmaceutical companies are well-positioned to take advantage of growth opportunities due to their global competitiveness and substantial market share.

Sharekhan anticipates the industry will sustain its performance owing to 8-10% growth in the domestic branded business and a focus on complex product launches. The sector forecasts are further bolstered by companies' increasing investment in R&D, with potential medium and long-term growth driven by factors such as rising Loss of Exclusivity (LOE) opportunities, increasing preference towards specialty and complex generics, and emerging opportunities due to the China+1 factor in the Active Pharmaceutical Ingredients (API) space. (Source: Business Today)

Indian Private Hospitals' Revenue Growth Set to Continue, Reaching 11-12% in FY25: CRISIL

Private hospitals in India are predicted to witness a robust 11-12% growth in revenue in the fiscal year 2025, credit rating agency CRISIL said on Tuesday. This comes on the heels of an estimated 14% growth in the fiscal year 2024, primarily fuelled by healthy occupancy levels and a consistent rise in average revenue per occupied bed (ARPOB).

"Healthy demand for healthcare services, increased awareness of lifestyle treatments, rising medical tourism, and increasing health coverage will ensure bed occupancy is sustained at 60-62% even on significantly enhanced capacities in fiscal 2025," said Anuj Sethi, Senior Director, CRISIL Ratings.

Medical tourism, accounting for 10-12% of revenue, is expected to grow at nearly double the overall rate in the mid-term, driven by affordable treatment costs, world-class facilities, and skilled medical personnel, the agency said. The preponderance of medical tourists is seen to come from South-East Asia and the Middle East.

Moreover, the rising trend in health insurance coverage, growing at over 20% in the last two fiscal years, is making quality treatment more affordable and accessible. Demand for healthcare services is also expected to increase due to the rising occurrence of lifestyle diseases and an ageing population.

CRISIL has predicted that in response to this demand, hospital chains will add 2,000-2,500 beds in fiscal 2025, following an estimated addition of 2,000 beds in fiscal 2024.

Poonam Upadhyay, Director, CRISIL Ratings, suggested the growing revenue and healthy operating margins will "ensure strong cash accrual, which will help fund more than 65% of the total planned capex of Rs 4,500 crore by private hospitals in fiscal 2025." However, despite these promising business prospects, CRISIL warned that the sustainability of high occupancy levels and any potential impact of regulations on private hospitals should be closely watched. (Source: Business Today)

Pharma Exports to US Up 15% in April-Feb FY24

In what can be good news for the pharma industry, Indian pharma exports to the US market are surging again this fiscal after a lull year registering a double digit growth. Driven by the boost from the US, the total pharmaceuticals exports too increased 9.34 per cent at $25.04 billion in April - February of Financial year 2023-24 compared to $22.90 billion in the corresponding period of previous fiscal year.

“There has been a significant surge of 15.04 per cent in exports to the US at $7834 million in the April - February period of the current fiscal as against $7547 million in the same period last year,“ R Uday Bhaskar, Director - General, Pharmaceutical Export Promotion Council (Pharmexcil) told businessline.

The export growth to the US has more than doubled this year in the period under review as FY 23 registered only a 6.18% increase in exports to US at $7547 million in FY22, according to Pharmexcil data.

Strong rebuttal

The double-digit spurt in exports to the US this fiscal so far could augur well for the Indian pharma industry which has been facing challenges such as increasing pricing pressure as well as regulatory issues. The US market alone accounts for 30 per cent of overall exports for Indian drug-makers. “In a way, the surge in exports to the US can also be seen as a strong rebuttal to a notion in some sections that the US importers were looking for alternatives to Indian drugs in key areas such as oncology.,“ the Pharmexcil DG said.

Further, the growth has come in the wake of tumultuous geopolitical situations including the Ukraine crisis and the Red Sea Crisis. The council data also shows export growth in all markets except the CIS region.Going by current rate of growth, total pharma exports for the full year 2023-24 could close somewhere between $27.5 billion to $28 billion, as per Pharmexcil estimates. (Source: Business Line)

IFF to Sell Pharma Unit to France's Roquette in $2.85 Bln Deal

International Flavors & Fragrances said on Tuesday it would sell its pharma solutions business to French plant-based ingredients maker Roquette in a deal valued at $2.85 billion, as it looks to focus on higher-margin businesses.

The move comes at a time when IFF is seeing demand slow for its food ingredients and solutions business, especially from end-users such as consumer goods companies, amid higher interest rates and inflationary pressures.

New York-based IFF has been on a spree of divesting some of its "non-core" business units over the past year in an attempt to improve its organizational structure as well as reduce its outstanding debt.

Family-owned Roquette, which has annual sales of about 5 billion euros ($5.42 billion), bought Japanese drug capsule maker from Japan's Mitsubishi Chemical last year as it aims to expand its global footprint in the pharmaceutical business.

The two companies said they expected to close the deal in the first half of 2025. In late 2022, IFF had agreed to sell its savoury solutions business to private equity firm PAI Partners in a $900 million deal. In 2021, the company also sold its microbial control business to German specialty chemicals company LANXESS in a $1.3 billion deal.

IFF's pharma unit accounted for about 8% of total group sales in 2022. Excluding the pharma solutions arm, the company has three other reporting segments — namely food & beverage, health & biosciences and scent — each of which has several sub-units within them. (Source: Reuters)

Medical Device Companies Pay Millions To NHS While Pushing Products, Says Study

Medical device companies are paying millions of pounds to hospitals in the UK to fund staff places, as well as training and awareness campaigns, while pushing sales of their products, including implants, heart valves and diagnostic equipment, a new report reveals.

An analysis of disclosures by medical device companies found that between 2017 and 2019 they reported €425m (£367m at today's rates) in payments to healthcare organisations in Europe, according to the study in the journal Health Policy and Technology.

The businesses reported paying more than €37m to hospitals and other healthcare bodies in the UK over the three-year period. The disclosures include payments to some of the biggest hospital trusts in England. James Larkin, one of the authors of the study and a postdoctoral researcher at the Royal College of Surgeons in Ireland.

The filings did not include consultancy fees for medical staff and many companies did not register their payments. This is just the tip of the iceberg," he said. "There is a huge number of payments that are not being disclosed. The descriptions for payments which are disclosed are very vague and it is not completely clear what they are for."

There are concerns that payments from pharmaceutical and medical companies to health organisations can influence clinical decisions to use certain drugs and products. The Observer revealed last year that payments to UK health organisations and professionals reached a record £200m in 2022. The Association of the British Pharmaceutical Industry (ABPI) has published a database called Disclosure UK since 2016 under which drug companies disclose payments to healthcare organisations and individuals. It does not include payments by medical device companies.

The new report analysed the disclosure database recording payments made by members of MedTech Europe, the European trade association representing the medical technology industries, from diagnosis to cure. The disclosures, logged on the transparentmedtech.eu database, cover educational grants, fellowships and public awareness campaigns. The pharmaceutical multinational Johnson & Johnson disclosed the highest value of payments, with €184m to 27 countries. US company Abbott Laboratories paid €44m.

The report stated: "These payments provide medical device companies with an opportunity to influence a range of organisations such as hospitals, universities, and professional training bodies, all of which significantly influence healthcare practice." It said the potential conflicts of interest highlighted the need for a publicly mandated disclosure database.

The UK, Johnson & Johnson, which manufactures products including hip implants and surgical robotics, has made "educational" payments to several hospital trusts, including Guy's and St Thomas' NHS Foundation Trust, Barts Health NHS Trust and South Tees hospitals NHS foundation trust.

The US company Edwards Lifesciences, which makes heart valves, has made payments to at least five NHS hospital trusts. They include a 2022 grant of £67,650 to fund a "nurse educator" at King's College hospital NHS foundation trust to support the delivery of a valve implantation programme. A review published by Julia Cumberlege in July 2020, entitled First Do No Harm, which examined how the health system in England responds to reports from patients about side effects from treatments, flagged up concerns over payments from manufacturers to doctors and healthcare organisations.

Lady Cumberlege's report said there were public concerns that such payments could influence medical practice and proposed a mandatory register. The government had a consultation last year on the possible introduction of regulations mandating the disclosure of industry payments to the healthcare sector. (Source: The Guardian)