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Drug makers post impressive growth in domestic business in the first quarter after being allowed to take price hikes

Pharma cos gain as price-control grip loosens

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Mumbai: After a dismal performance last year, most Indian pharma companies have reported an impressive growth in domestic business in the April-June quarter on the back of price hikes.

Against an average industry growth of 8% for the quarter ended June 30, pharma leaders such as Sun Pharma, Cipla, Dr Reddy's Labs, Glenmark and Lupin even recorded a strong double-digit growth in the local market.

Drug makers had been posting dismal quarterly performance since last year when the government's drug price control order capped prices of drugs, impacting their margins.

The companies were allowed to take price hikes after April, which helped them shore up their domestic business in the June quarter.

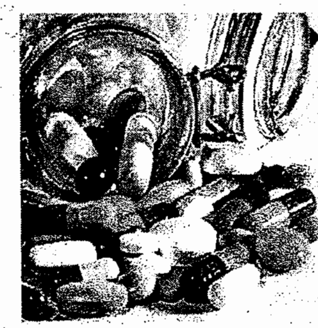
While Sun Pharma and Cipla reported 17% growth at Rs 992 crore and Rs 1,289 crore, respectively in April-June, Dr Reddy's India business increased 15% to Rs 400 crore. Lupin and Glenmark witnessed 29% and 20.87% growth in domestic business at Rs 761.5 crore and Rs 397.15 crore, respectively.

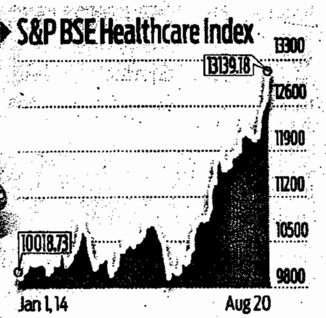
However, the quarter was a mixed bag for multinationals.

While Sanofi India reported an 18.7% increase in net sales at Rs 486.7 crore, Abbott India recorded 20% growth in domestic sales.

On the other hand, net sales of GlaxoSmithKline Pharma and Pfizer India rose marginally by 2.84% and 0.96%, respectively. For Novartis India, net sales during the June quarter were down 7.76%.

GSK Pharma said in a release, "The quarter continued to see the impact of base effect of differential pricing cuts due to price control order, extending coverage to the National List of Essential Medicines (NLEM)."





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Rajesh Garg, global chief financial officer, Cipla, said in a quarterly earnings call recently, "Our India business had a very robust performance, where it outperformed the market with 17% year-on-year growth versus the estimated Indian pharma industry growth at 10%."

Shakti Chakraborty, group president-India, Lupin, told dna, "Our performance during Q1 was largely driven by growth in chronic therapies like CVS, diabetes and respiratory segments. We don't give guidance, but we would focus on growing around 18-20% like we have done in the past within the Indian market."

According to analysts, the domestic market is likely to report a much better performance in the second quarter, and a very strong third quarter due to lower base reported in the December quarter of the last fiscal.

Last year, Department of Pharmaceuticals had notified the Drugs (Prices Control) Order 2013 under which prices of 348 medicines in the NLEM have been brought under price control, thus replacing an earlier order of 1995 that regulated prices of only 74 bulk drugs. The effect of price control was visible on margins of pharma companies since the September quarter of the last fiscal.

Ranjit Kapadia, senior VP-pharma, Centrum Broking, said, "The domestic market is slowly improving. Last year was a difficult year since the price control was announced, followed by the dispute between the companies and the retailers and wholesalers. That resulted in lower sales in the last fiscal. However, March onwards, there were some improvements, though the June quarter has been far better compared with what we saw during the last few quarters."

Kapadia said low prices has also resulted in better volumes. Also, all pharma companies took a price increase of 6.3% for NLEM products (based on wholesale price index) and up to 10% for non-NLEM products.

"For the next two quarters, we are expecting a growth range of 10-12% for the pharma sector," Kapadia said.

According to a recent report by ratings firm ICRA, "While impact of the new policy started to subside from the fourth quarter, the recent inclusion of additional 50 drugs under price controls suggest that the industry is likely to witnessed further expansion of DPCO, which may stall the growth momentum despite structurally favorable demand drivers."

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