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Small drug firms fear margin erosion will impact long-term growth

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As most pharmaceutical companies have recently agreed to revert to the old trade margins for drugs listed under the Drug Price Control Order (DPCO), the move can come as a major blow for small and medium-sized drug firms, which expect erosion in margins as a result. This leaves SME drug makers strapped for cash, jeopardising their chances of diversifying into non-DPCO products to protect their margins.

Kamlesh Patel, managing director of West Coast Pharmaceutical Works and vice-president of the Indian Drug Manufacturers Association (IDMA), western region, explained that a margin erosion of at least five to six per cent is unavoidable for SMEs in the pharma sector, which would now have to offer the old margins to retailers and wholesalers.

The new DPCO 2013 recommends that margins for wholesalers and retailers be reduced for drugs in the controlled list. While typical wholesale and retail margins are in the region of 10 per cent and 20 per cent respectively, for DPCO drugs a lower margin of eight per cent and 16 per cent respectively was recommended.

The National Pharmaceutical Pricing Authority (NPPA) had brought the prices of 348 essential medicines under control last year, imposing a cap on prices based on the average of the prices of brands with at least one per cent share in a category.

The trade (wholesalers and retailers), did not agree to such an arrangement, and argued that while all pharma companies were not equally impacted by the price control order, everyone was taking advantage of the new order to lower trade margins, which, in turn, significantly eroded the profits of wholesalers and retailers.

Several retailers and wholesalers began avoiding selling drugs manufactured by companies that offered lower margins, and eventually most pharma firms – including big names like Torrent Pharma, Cadila Healthcare, Mankind Pharma, Emcure Pharma, Ranbaxy Laboratories and Lupin, among others – agreed to offer the trade the old margins.

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