

Pharmaceutical Industry In Pakistan

January 2017

Industry Structure ¹

Local Players 630
 MNC's 25
Total Players 655

Top 50: 90%
 market share

Listed companies
 on PSX:
 9

Listed
 companies: 44%
 market share

Market Share
 Local : MNCs
 63 : 37

Active Products:
 Approx. 9,000

Revenue CY15:
 USD 2,800mln

Exports CY15:
 USD 200mln

Industry
 Structure

Growth
 Dynamics

Production

Pharma
 Prices

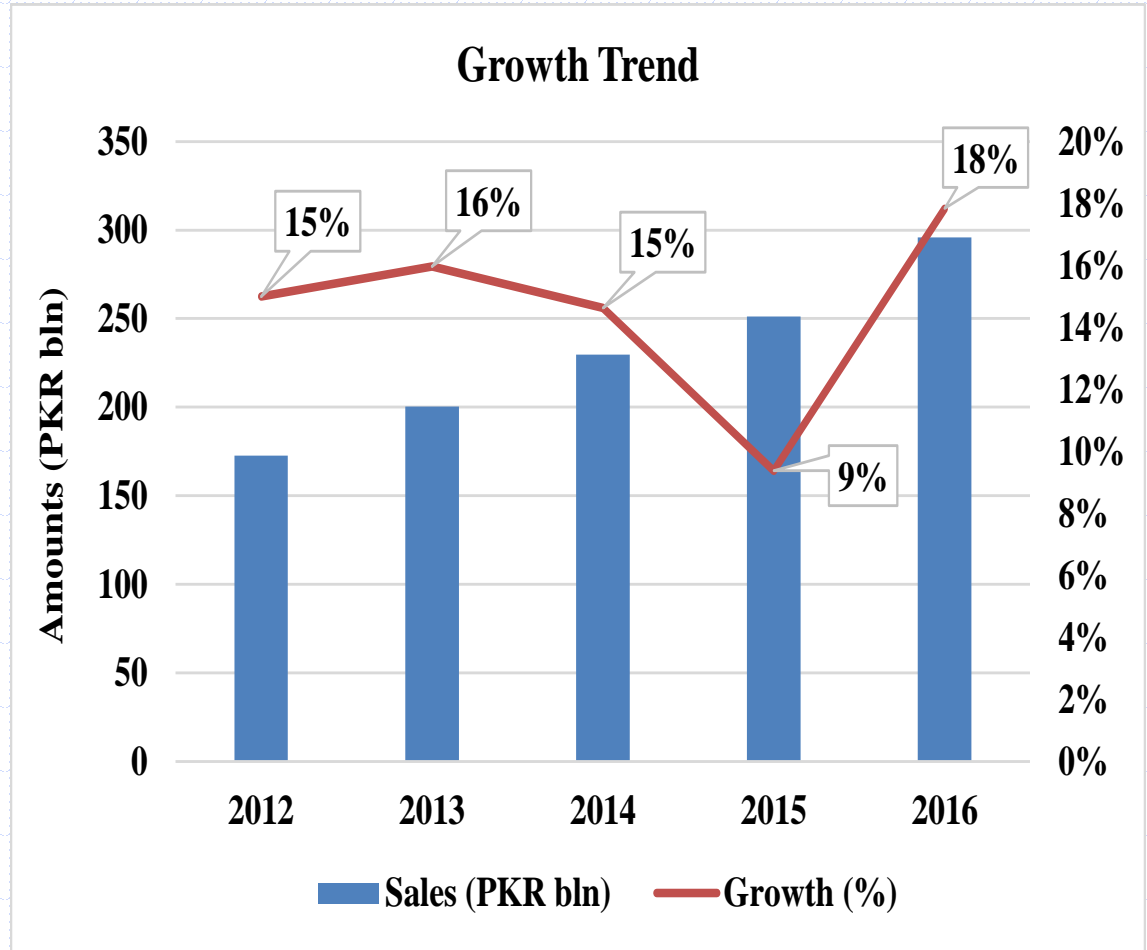
Industry Mix

Profitability
 Analysis

Risk Profile
 and Future
 Outlook

Revenue Growth Dynamics¹

- Consistent double digit Growth, except 2015, despite pricing issues taken up with the regulator; CAGR 14%
- 2016 Growth in existing products clocks in at 13%, whereas new products contributed 5% in the overall growth
- Pakistan Pharma sales contributes 0.29% of the world's market, which is very small



¹Moving Average Total (MAT) sales at end-Mar

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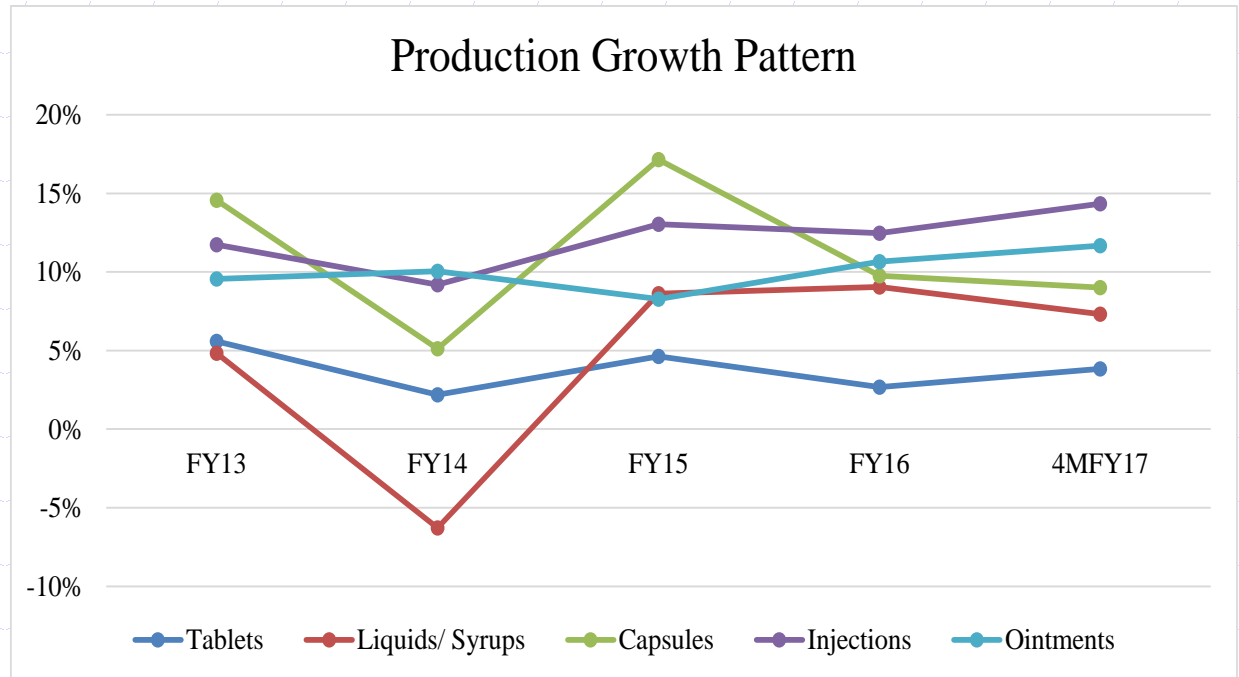
Profitability Analysis

Risk Profile and Future Outlook

Production

Production Growth Trend ²

- Tablets and liquids have been growing at a steady pace less than 10%
- Capsules, injections, and ointments have been taking double digit growth due to changing medical practices and disease patterns – mostly related to new breed of injections curing Hepatitis in Pakistan



Pharmaceutical Production	FY12	FY13	FY14	FY15	FY16	4MFY16	4MFY17
Tablets ('000' Nos.)	23,507,509	24,821,427	25,363,352	26,535,885	27,244,484	8,977,602	9,322,772
Liquids/ Syrups ('000' Litres)	92,754	97,246	91,139	98,996	107,956	34,265	36,772
Capsules ('000' Nos.)	2,195,887	2,515,853	2,644,465	3,098,139	3,400,640	972,028	1,059,645
Injections ('000' Nos.)	642,314	717,691	783,611	885,732	996,150	330,651	378,099
Ointments ('000' Kgs.)	2,136	2,340	2,575	2,788	3,085	1,028	1,148
Galenicals (tincture) - '000' Litres	41	34	64	75	47	13	12



Pharma Prices – Regulated

Pharma prices are regulated by DRAP

Drug Pricing Policy – 2015³

- MRP to be frozen at approved level of Oct'13 until Jun'16
- Reduction of originator/ brands prices to the extent of 10% every year

Industry players obtained stay order from Sindh High Court and raised prices

DRAP has allowed following formulae, w.e.f Jul-16, to raise pharma prices

- a. Scheduled drugs upto 50% of CPI (with a cap of 4%),
- b. Non-scheduled drugs up to 70% of CPI (with a cap of 6%); and
- c. Lower priced drugs shall be allowed maximum increase equal to CPI once in any financial year till MRP / cap of threshold as specified in para 11 of the Drug Pricing Policy-2015 is achieved.

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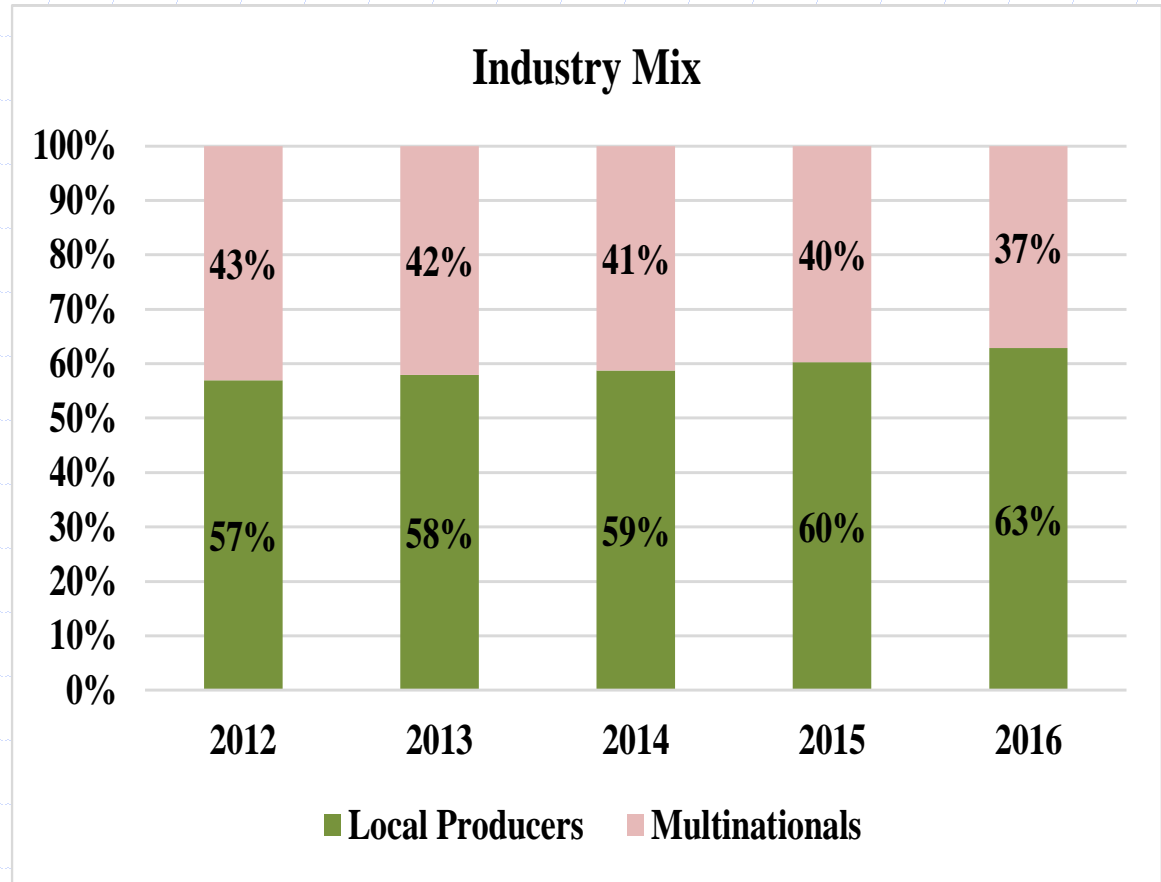
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Industry Players' Mix¹

- Multinationals' exiting Pakistan market, because of pricing issues
- Local brands are gradually capturing market, which has grown by CAGR of 17% since 2012
- Indication of more acquisition and mergers, going forward



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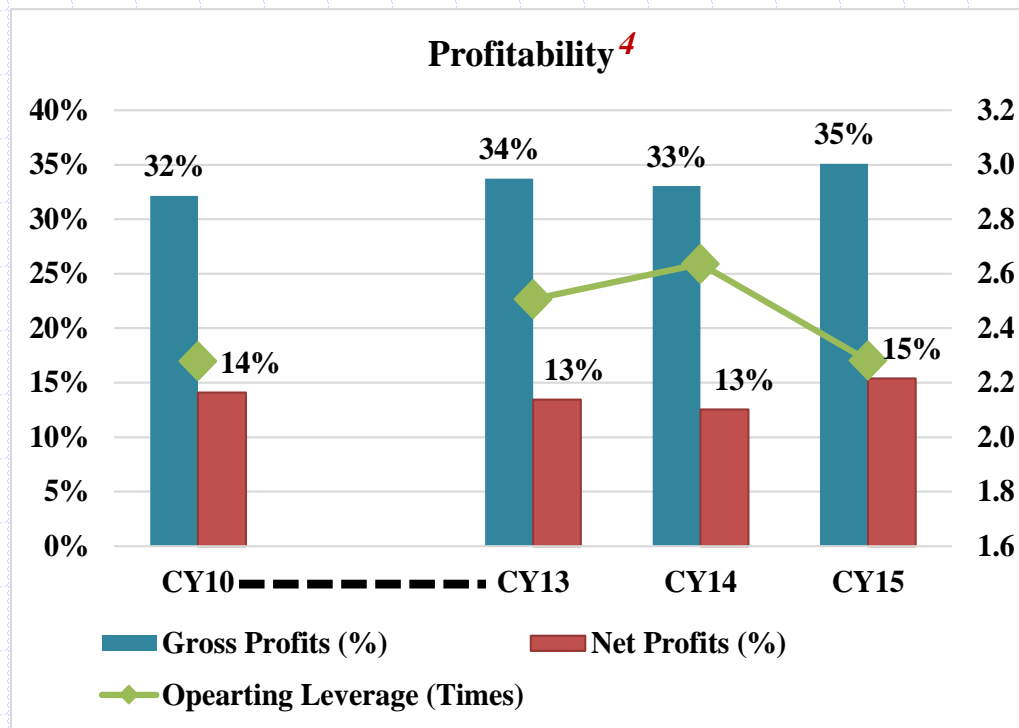
Risk Profile and Future Outlook

Profitability Analysis*

Gross Profit margins stagnant and have stayed above 30%; after witnessing a drop of 1% in CY14, margins regained 2% due to rise in prices

Raw material cost:

- constitutes 33% of the industry's cost of sales
- API – main raw material, is predominantly imported, exposes the industry to currency fluctuation (CY13: -8%, CY14: +5%, CY15: -4%, 9M16: 0%)
- Raw material cost Increased by 6% YoY in CY15, however, compensated by 13% rise in revenue price (selected sample)



*Analysis is based on a sample representing 33% of the market share

Operating Leverage (OL)

Pharma industry's OL, though dropped in CY15 to 2.3times from 2.6times in CY14 on the back of sale price increase, the ratio still remains greater than 2times. A 10% rise in revenue has the potential to translate into 23% rise in operating profit. This is because higher sales shall absorb fixed cost; mainly marketing cost which is traditionally high for the pharmaceutical industry; a strategy used to induce prescription based medicines.

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Risk Profile and Future Outlook

- + DRAP new CPI linked criteria to raise prices is expected to bode well for industry's growth, going forward
- + One-third of revenue translates into gross profits
- + High operating leverage ratio of the industry reflects potential profitability given the prices are raised in the light of above mentioned decision by DRAP
- + Expansion opportunities for local players through mergers and acquisition, in the wake of multinationals gradually taking exit from Pakistan Market
- Cost of API exposed to foreign currency fluctuation
- Multinationals are housed with continuous research and development activities as compared to locals; as they are gradually taking exit from Pakistan the quality of locally produced medicines may be impacted
- Slow registration of new products; as reflected by recent approval of 24 products out of 500 pending applicants by Drug Pricing Commission (DPC) under DRAP

+ : Strengths
— : Risks

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2. Pakistan Bureau of Statistics, Government of Pakistan | Industry | Quantum Index of Large Scale Manufacturing Industries (QIM)
3. Drug Pricing Policy-2015 issued by the Drug Authority of Pakistan with the approval of its Policy Board and the Federal Government | <http://www.pcdapakistan.com/wp-content/uploads/2015/03/Pricing-Policy-2015-Final.pdf>
4. PACRA's in-house research and database – A sample of players representing approx. 33% of the market share

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