

Pharmaceutical Industry In Pakistan

May 2018

Industry Structure¹

Local Players 598
 MNC's 27
Total Players 625

Top 50: 89.29%
 market share

Listed companies
 on PSX:
 11

Listed
 companies:
 25.14% market
 share

Market Share
 Local : MNCs
 68 : 32

Active Products:
 Approx. 8,776

Revenue CY17:
 USD 3,266mln

Exports CY17:
 USD 200mln

Industry
 Structure

Growth
 Dynamics

Production

Pharma
 Prices

Industry
 Mix

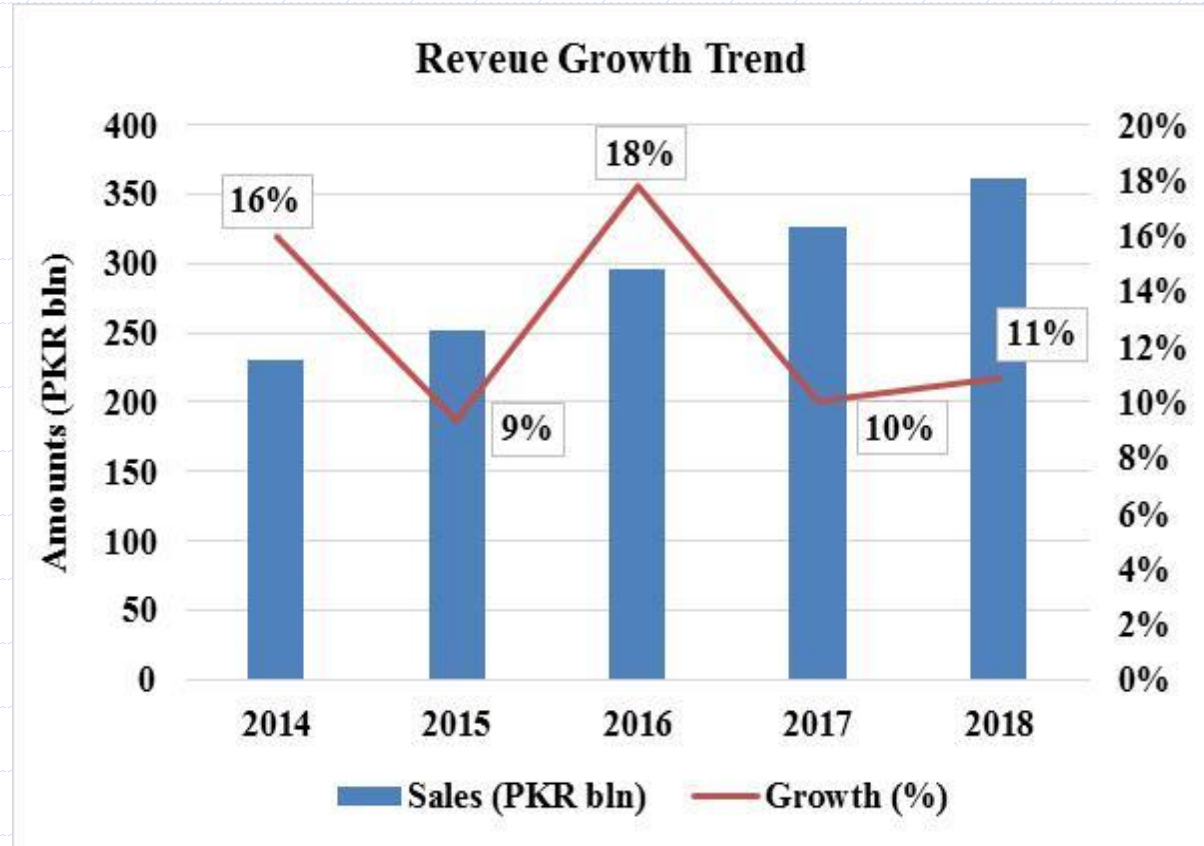
Industry
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Profitability
 Analysis

Risk Profile
 and Future
 Outlook

Revenue Growth Dynamics¹

- Consistent double digit Growth, except 2015, despite pricing issues taken up with the regulator; CAGR 12%
- 2018 Growth in existing products clocks in at 18%, whereas new products contributed 0.59% in the overall growth
- Pakistan Pharmaceutical industry contributes 0.30% of the world's market, which is very small and 1% of Pakistan's GDP annually



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

Industry Structure

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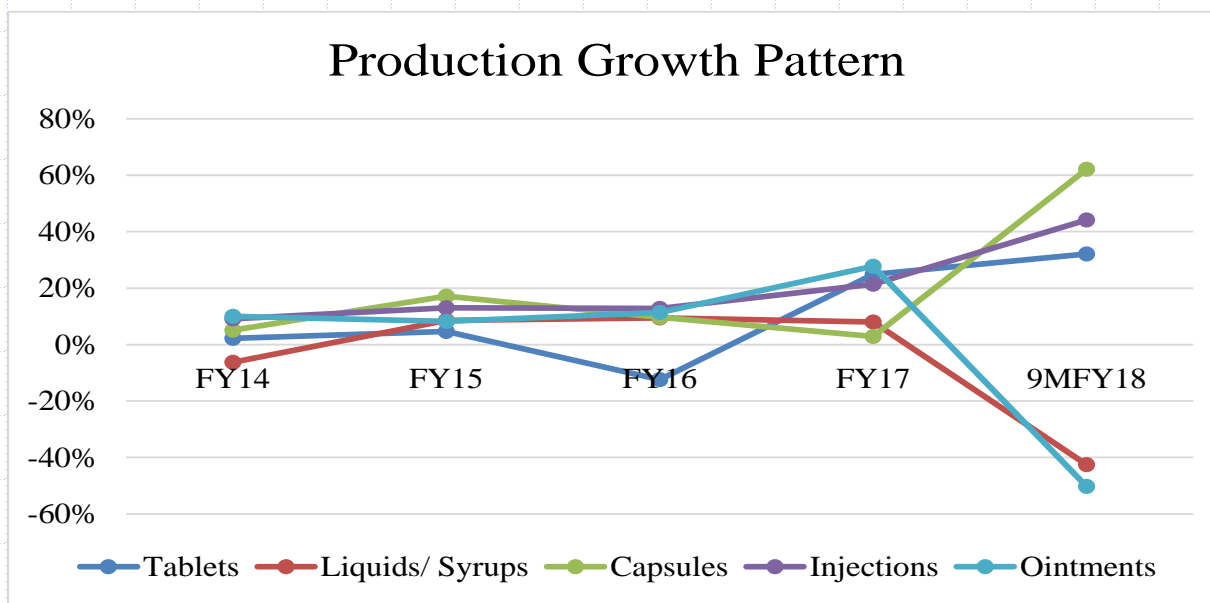
Industry Concentration

Profitability Analysis

Risk Profile and Future Outlook

Production Growth Trend ²

- Growth in tablets is due to high demand of generic medicines
- Capsules and injections 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	FY14	FY15	FY16	FY17	9MFY17	9MFY18
Tablets ('000' Nos.)	25,363,352	26,535,885	23,238,358	29,014,742	21,560,134	28,493,042
Liquids/ Syrups ('000' Litres)	91,139	98,996	108,342	117,084	87,744	50,465
Capsules ('000' Nos.)	2,644,465	3,098,139	3,398,609	3,497,716	2,551,965	4,138,213
Injections ('000' Nos.)	783,611	885,732	999,207	1,212,658	893,879	1,288,604
Ointments ('000' Kgs.)	2,575	2,788	3,106	3,970	3,012	1,498
Galenicals (tincture) - '000' Litres	64	75	46	343	219	263



Pharma Prices – Regulated

Pharma prices are regulated by DRAP and cannot be change unilaterally by pharmaceutical companies ³

Drug Pricing Policy – 2015

- 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 up to 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.
- d. Latest price increase was allowed on 19 Jan 2018 with CPI 4.16

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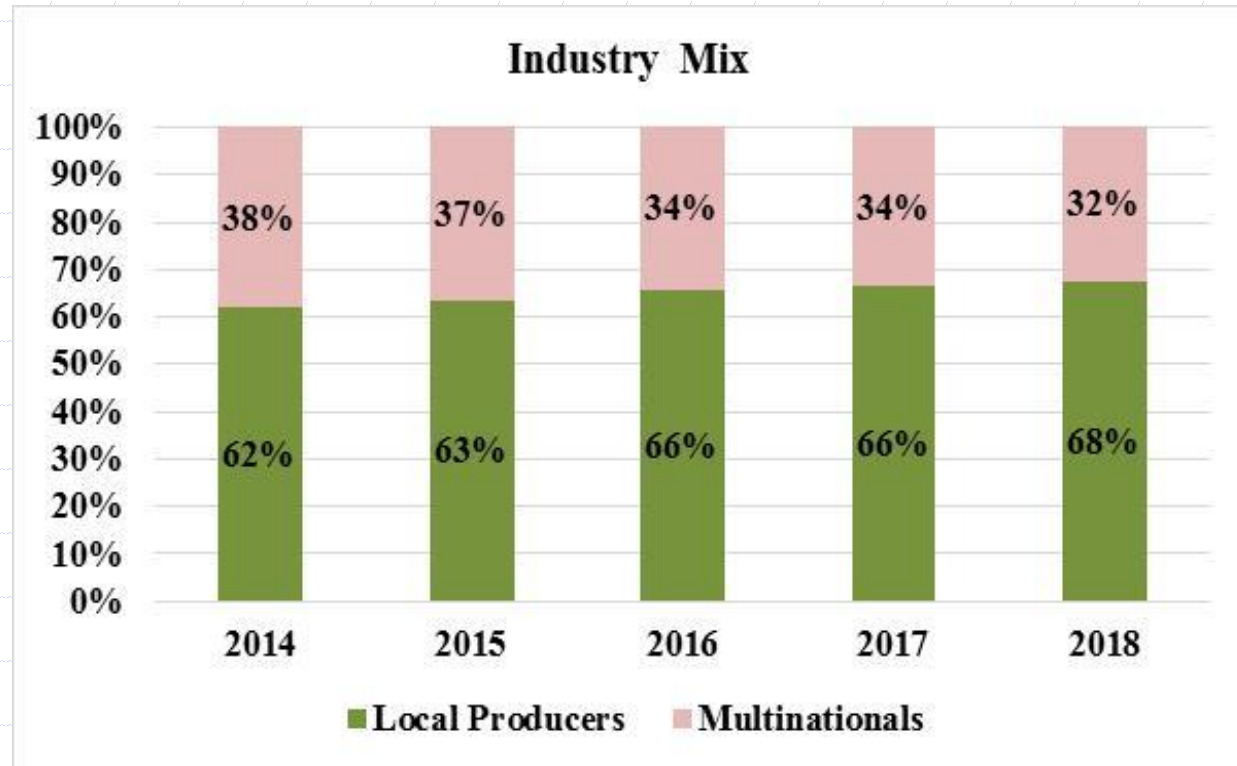
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Industry Players' Mix¹

- Multinationals' exiting Pakistan market, because of pricing issues
- Local brands are gradually capturing market, which has grown by CAGR of 14% since 2014
- Indication of more acquisition and mergers, going forward



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Industry Concentration

- Growth in sales are dominated by national companies – low cost generic market
- Top ten companies constitute approximately 46% of the market
- Whereas top 50 share approximately 90% of the market.
- Public Private Partnership in health sector has also increased

Top 10 Pharmaceutical Companies in Pakistan			
Name	Positioning	National/MNC	Listing
GlaxoSmithKline Pakistan Limited	1	MNC	Listed
Getz Pharma (Private) Limited	2	National	Unlisted
Sami Pharmaceutical (Private) Limited	3	National	Unlisted
Abbott Laboratories Pakistan Limited	4	MNC	Listed
Martin Dow Pharmaceuticals (Pakistan) Limited	5	National	Unlisted
SanofiAventis Pakistan Limited	6	National	Listed
SanofiAventis Pakistan Limited	7	MNC	Listed
OBS Pakistan (Private) Limited	8	National	Unlisted
GSK Consumer Healthcare Pakistan Limited	9	MNC	Unlisted
Hilton Pharma (Private) Limited	10	National	Unlisted

Source: IMS MAT June 2017

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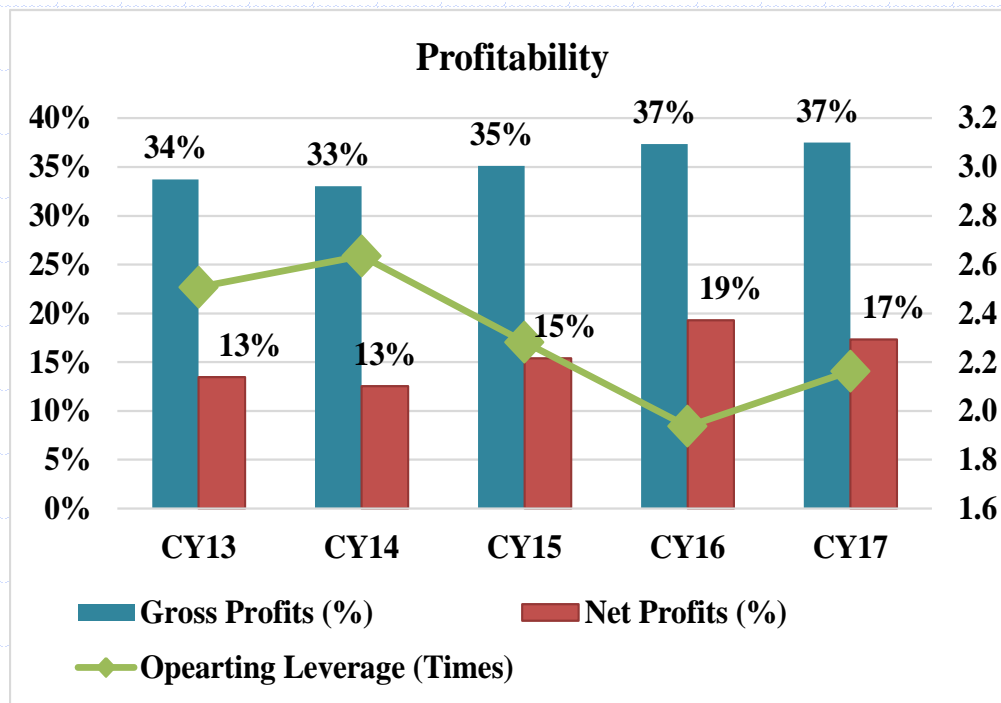
Risk Profile and Future Outlook

Profitability Analysis*

Gross Profit margins stagnant and have stayed above 30%; after witnessing a drop of 1% in CY14, margins regained 4% due to rise in prices

Operating Leverage (OL)

Pharma industry's OL, though dropped in CY16 to 1.9times from 2.3times in CY15 on the back of sale price increase. However, it regained to 2.2times in CY17, owing to sales on high margins, the ratio still remains greater than 2times. A 10% rise in revenue has the potential to translate into 22% 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.



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

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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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Bibliography

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4. PACRA's in-house research and database – A sample of players representing approx. 33% of the market share

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