Pharmaceuticals: emerging not just stronger, but better and smarter

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Indian pharma is one of the few sectors that has benefitted and expected to emerge stronger in the wake of the COVID-19 pandemic. This reflects in the performance of the NIFTY pharma index which moved from 8,745 on 20 March 2020 to 14,929 on 15 March 2021[1].

The industry has already overcome the short-term impacts faced due to the pandemic such as medication shortage and concurrent supply shortage on account of disruption in the raw material supply chains. However, the pandemic has highlighted some key challenges for the Indian pharma industry.

The COVID-19 pandemic inflicted challenges on the Indian pharma industry

1. The pandemic has brought to fore the dependence of Indian pharma industry on imported active pharmaceutical ingredients (APIs). Today, 60 per cent of India's API requirement is imported. In commonly used APIs, such as cephalosporins, azithromycin, and penicillin, the dependence is as high as 90 per cent. Of the total imports of APIs and intermediates into India, China accounts for 65–70 per cent.[2] Not only India, but large developed markets of the West also have a similar dependence on China for their API supplies.
2. The pandemic has highlighted the low healthcare coverage in India. In terms of healthcare spend, India has one of the lowest healthcare budgets with just 1.26 per cent of GDP being spent on healthcare. India ranks 155th out of the 167 countries in terms of hospital bed availability (as per the Human Development Report 2020) with just five beds available for every 10,000 Indians.[3]. Moreover, when daily new cases crossed the one lakh mark, there was a major concern on the availability of laboratory testing infrastructure and hospital beds.
3. The COVID-19 outbreak brought a change in the consumption pattern of Indian customers with respect to changing habits related to consumption and refilling prescriptions, especially in case of chronic diseases, increased first-time use of online ordering, e-consultations, etc.

The above-mentioned trends brought out a long-term impact on the industry and Indian companies. Driven by the government's support for self-reliance, certain relevant initiatives, including the two (Production Linked Incentives (PLI) schemes for bulk drugs and medical devices have given the industry a major boost. These incentives are to the tune of INR6,940 crore and INR3,420 crore, respectively[4], and encompass greenfield projects for bulk drugs and intermediates, and establishment of three bulk drug parks. Pharma companies have realised the importance of backward integration, which is expected to reduce dependence on external sources of raw material supply, improve quality of production and bring about a greater reliability in Indian API manufacturing. Not just in India, but this pandemic is also leading to supply chain shifts across the globe and there is an increased move towards reducing reliance on one specific country or region. This is expected to be a major growth driver for Indian API and intermediate companies.

A word of caution though

Risk and compliance have been an area of concern for the Indian pharma industry with increased United States Food and Drug Administration (USFDA) scrutiny. Given the present opportunity, India has the potential to emerge as a dominant player in the pharma supply-chain. The industry is expected to make higher investments and focus on enhancing internal standards of regulatory compliance, especially in data integrity, governance and compliance. Higher investments in compliance also imply that many small-size formulations and API companies become non-viable and bring consolidation in the industry, especially led by larger players and private equity-backed platforms.

Secondly, the pandemic boosted good public resilient healthcare infrastructure and data collection, including maintenance of patient records. The government has already proposed to increase the healthcare expenditure by 137 per cent to INR2,23,846 crore from INR94,452 crore spent in the previous year[5]. Furthermore, India's **health insurance penetration of 3.71 per cent in FY19 is likely to grow** with strong potential for micro insurance, especially in rural areas[6].

Thirdly, **online pharmacies have become a force to reckon with**. Some of India's largest business houses and global e-commerce firms are viewing this as a huge opportunity and attempting to make a foray within this domain. This can lead to further consolidation among existing players. Integrated healthcare platforms with allied services, such as online consultations, diagnostics, and medicine delivery is also expected to emerge.

The winners in today's scenario will be companies that leverage this opportunity to adapt to changing market dynamics, newer technologies and ways of working. Both the government and private companies have demonstrated responsiveness, quick decision-making, and innovation during this period. It has been famously said — "India disappoints both optimists and pessimists."[7] Given the tailwinds of favourable government policies, faster regulatory approvals, innovation, and robust compliances, if the Indian pharma companies manage to disappoint the optimists then this will be a colossal waste of an opportunity born out of a crisis!

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[1] Nifty 50, Yahoo Finance, accessed on 15 March 2021
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[7] India disappoints optimists, and pessimists: Economic analyst Ruchir Sharma (IANS Interview), Business Standard, 3 July 2016