Indian domestic formulations market expected to touch INR ~5.5 trillion by 2034: Avendus Capital

Mumbai, June 19, 2024

Avendus Capital, India's leading investment bank, released a comprehensive report that navigates the shifting tides in the Indian Domestic Formulations (DomForm) market, estimating that it will cross INR ~5.5 trillion by 2034 at a CAGR of 10%. The report foresees some fundamental model shifts, such as a gradual transition from a primarily doctor branded prescription model to an alternative marketing and channel mix, aided by more stringent quality compliance, which would lead to a rationalisation of supply chains. This will be driven as much by government policies and regulatory measures as by underlying business and economic factors.

Based on extensive research and interviews with several industry experts, pharma promoters, professionals, consultants and investors, the report attempts a deep dive into understanding the evolution of the DomForm sector and its emergence as a largely Branded Generics (BGx) market. The report also unveils Avendus' proprietary model on the 10-year outlook for the Indian DomForm sector.

Commenting on the launch of the report, **Anshul Gupta, Managing Director and Head, Healthcare Investment Banking, Avendus Capital** said, "Despite India earning its rightful title as the pharmacy to the world, there remains significant under penetration in the domestic market, especially in Tier 2/3+ towns and rural areas. As India progresses on the path of transitioning to a developed economy, the resultant economic prosperity will bode well for continued growth of this sector. We are also encouraged by the Government of India's Pharma Vision 2047, which is aimed at making medicines more equitable, accessible and affordable while ensuring high quality and more sustainable manufacturing practices."

Prasshanth Hari, Director, Healthcare Investment Banking, Avendus Capital added, "DomForm has attracted large strategic and private equity investments in deals worth USD 14+ billion over the last 6 years. We estimate that the market would continue growing at 9-10% CAGR over the next 10 years. With the expansion of Trade Generics (TGx) and Jan Aushadhi, we expect ~30% volume contribution from these channels over the next decade. Despite this shift, BGx is still expected to be 65-70% of the market by value with a CAGR of 8%+ over this period. This channel shift could result in a moderate EBITDA margin contraction, potentially offset by cost optimization measures such as MR rationalization, reduction in free samples and reduction of doctor-related expenses, each of which could potentially result in 100 bps of cost savings."

"We expect the industry dynamics and margins to adjust to the new generics reality. Pharma players are likely to expand their portfolios by either shifting focus to new chronic/lifestyle therapies or expanding into adjacencies like Over-the-Counter (OTCs), Point-of-Care (PoC) Diagnostics, MedTech and nutraceuticals. Seeing the market opportunity, many pharma companies have launched OTC/OTX divisions. MNCs dominated the OTC segment for a long time, but increasing BGx competition has made Indian pharma more aggressive in this space," **Anshul** added.

With a stabilizing US healthcare macro and upcoming patent cliff, Indian companies might rebalance their US versus India focus. Emerging Markets like Latin America, Africa, Russia CIS and South East Asia are growing faster at 1.5–2x (5–8%) of the regulated markets and therefore attracting Indian giants.

DEAL RELEASE | June 19, 2024

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