

RESEARCH**BOB ECONOMICS RESEARCH | RBI MONETARY POLICY REVIEW**

Repo rate unchanged

PHARMACEUTICALS

Key takeaways from virtual Pharma Day

SUMMARY**INDIA ECONOMICS: RBI MONETARY POLICY REVIEW**

The MPC with a 4-2 majority kept repo rate unchanged at 6.5%. The dissenting votes were cast by 2 of the 3 new members of the MPC. Stance was kept at neutral to allow the MPC flexibility on future path of policy action. This is important as the Governor's statement underlined the need for maintaining a favourable growth-inflation balance, as the two are highly interlinked. RBI now forecasts GDP growth lower at 6.6% in FY25, while inflation is projected higher at 4.8%. However, with growth expected to recover in H2 and inflation abating, we see a scope of 25bps rate cut in Feb'25. We expect a cumulative easing of 50-75bps in the current cycle.

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PHARMACEUTICALS

- IPM volume growth may not bounce back to earlier levels of 5-7% and may sustain around 2-3%
- Trade generic share to increase in the IPM as it requires lesser marketing spend and aids in margin increment
- Among the companies hosted, we prefer LPC (BUY) and maintain SELL on AJP

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RBI MONETARY POLICY REVIEW

06 December 2024

Repo rate unchanged

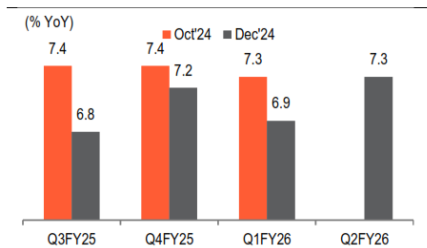
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Aditi Gupta
Economist

Key rates: In line with our expectations the monetary policy committee decided to keep repo rate unchanged at 6.5%. However, the voting pattern suggested that calls for a rate cut increased, with 2 members, Dr. Nagesh Kumar and Dr. Ram Singh, now voted for a 25bps rate cut. Stance of the monetary policy was retained at neutral by a unanimous vote.

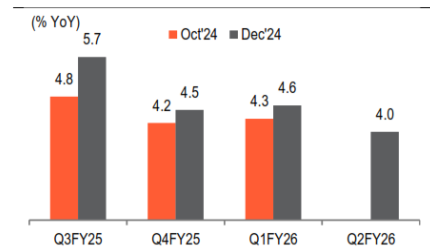
Growth projections: While noting the slowdown in growth in Q2FY25, RBI expects growth to remain resilient in H2 FY25 and FY26, while advocating the need for caution. Growth projections were lowered to account for the slowdown in growth in Q2. For FY25, RBI expects growth at 6.6%, a downward revision of 60bps. Even quarterly projections were lowered, with the maximum downward revision in Q3 FY25 of 60bps. In Q4 FY25, RBI expects GDP growth of 7.2% versus 7.4% estimated earlier, while GDP growth in Q1FY26 is also estimated lower at 6.9% (lower by 40bps). Our GDP estimate stands at 6.6-6.8%, with likely impetus coming from the agriculture sector and government capex.

Figure 1: Growth projections



Source: RBI, Bank of Baroda Research

Figure 2: Inflation projections



Inflation projections: RBI revised its inflation projections for FY25 upward to 4.8% versus 4.5% anticipated earlier, with inflation in Q3 estimated sharply higher at 5.7% compared with 4.8% projected in Oct'24 policy. For Q4 FY25 and Q1 FY26, inflation projections were revised up by 30bps to 4.5% and 4.6% respectively. Inflation is projected to moderate to 4% only in Q2 FY26.



 **PHARMACEUTICALS**

09 December 2024

Key takeaways from virtual Pharma Day

- **IPM volume growth may not bounce back to earlier levels of 5-7% and may sustain around 2-3%**
- **Trade generic share to increase in the IPM as it requires lesser marketing spend and aids in margin increment**
- **Among the companies hosted, we prefer LPC (BUY) and maintain SELL on AJP**

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We hosted a virtual Pharma Day where companies like SUNP, LPC, DRRD, SUVENPHA and AJP had participated, along with an expert view on the Indian pharma sector by Pharmarack. Following are the key takeaways on the Indian Pharma Market (IPM).

Out-of-pocket expenses for medicines have reduced: In India, the per capita out-of-pocket expense for medicines used to be 65%, which has reduced to 50% currently on various Government of India initiatives like increasing the healthcare budget and partnerships with NGOs like the Bill & Melinda Gates Foundation.

Reducing GST on drugs made them cheaper: In Union Budget 2024, the Central government exempted anti-cancer drugs like Trastuzumab, Ozimertinib and Deruxtecan from GST, resulting in lower costs and making them more affordable to patients.

Trade generics to be the next big contributor: According to Pharmarack, the IPM today is valued at Rs 2.42tn, of which 87% is contributed by branded generics. This is expected to fall to 81% due to the expansion of trade generics. Companies are increasingly putting branded medicines that do not require being promoted by doctors in trade generics. The trade generics market is expected to grow to Rs 150bn market and IPM at 9.6% CAGR by FY30.

Online pharmacies will not rule the market: Online pharmacies cannot completely take over the market because of patients' higher dependency on nearby stores for acute drugs, whereas online pharmacies largely sell chronic drugs.

Volume growth in IPM unlikely to bounce back: Volume growth in the IPM has been impacted by the pharma industry moving from smaller pack sizes to bigger pack sizes and increasing the number of new product launches.



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Note: Recommendation structure changed with effect from 21 June 2021

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