

PHARMA & HEALTHCARE

Expert call on e-pharmacy: Looking beyond lockdown

India Equity Research | Pharma & Healthcare

We organised a call with Mr. Akarsh Bharadwaj, Head of Strategy at PharmEasy, to glean ground-level insights on e-pharmacies during the COVID-19 outbreak and its impact at large on the pharma and healthcare sector. Our key takeaways follow.

a) Fundamental shift in consumer behaviour to online platforms

Consumer demand skyrocketed in March by 30% M-o-M, spread across therapies – acute and chronic – largely led by: i) new customer additions, ii) panic buying from existing customers, and iii) purchases of new items such as OTC and other nutritional and immunity products by existing customers. According to Akarsh, PharmEasy's growth would have been 20pp higher in April, barring supply-side constraints. Moreover, he believes that this consumer shift to online is structural and sustainable.

b) Lesser discounting structure the new order

During the COVID-19 environment, the company slashed its discounts by 200–300bps. Akarsh believes that this lower discounting structure will stay post-COVID-19 as well. Discounts offered by online pharmacies are higher than the offline market and are usually in a range of 15–18%. The discounting comes from building closer supply chain relationships and a degree of vertical integration with pharma companies. As per Akarsh, offline market calculation goes in this way: about 30% margin stack is available from pharma companies, of which an average retailer enjoys an 18% margin and ends up with 3–4% EBITDA margin; the rest goes to CNF and distributors. As online players start to gain market share, the discounting structure will further narrow.

c) Game-changer: Cracking the fragmented pharma supply chain

Pharma supply chain is highly fragmented and broken. There are about 85,000 distributors in the market with no single distributor accounting for more than 1% share. Retailers depend on 30–40 distributors for sourcing products. Online platforms such as PharmEasy are trying to narrow this gap and simplify the structure. Akarsh believes that, in this highly competitive space, the winner will be the one with deepest supply chain capabilities, which would drive scale benefits.

d) Real-time data the new norm

Pharma companies are appreciating real time data and microscopic details that online pharmacies provide. Secondary data provided by external agencies is not real time. At the same time, for this information to become more valuable and enriching, online pharmacies need to capture larger market shares, currently only 2–3% of market.

e) Telltale signs of digital platforms disrupting incumbency in diagnostic

Diagnostics is one space wherein there are prescient signs of online platforms taking away the share from Metropolis, Thyrocare and other diagnostic chains. Online pharmacies such as 1mg and MedLife have disrupted the diagnostics market by vertically integrating themselves by setting up their own diagnostic labs and tapping into the demand on generic testing, especially in preventive care. Such captive diagnostic setups have gained a good scale within a short span of 18 months.

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f) Partnerships in artificial intelligence (AI) may not yield economic profit

There are not many AI players focused on raising OPD efficiency in hospitals. Apollo is said to be working with a few players. According to Akarsh, what makes money in India, especially in the current environment, is transaction. Tele-consultation and other services are not the areas that yield economic profits. A chunk of economic profits lies in commerce. While he acknowledges the fact that these platforms can bring value by bringing better experience to patients, the bigger question is whether these will attain a sizable scale on platforms such as PharmEasy and whether they can be monetised.

g) Generic generic (Gx): More of a tail-ended opportunity

The Gx market captures only 8–10% of pharma market and has the potential to scale up. The company is keeping an eye on the Gx space and trying to gauge the potential shift in consumer behaviour. That said, Akarsh believes that branded generics is the toughest market to crack in terms of supply chain and the focus will continue to be on branded generics for at least the next 18 months.

h) Don't ignore the opportunity beyond metros

About as much as 75% of the online pharmacy business comes from eight metro cities which were even higher before 18 months. But that is now changing. While deliveries thereof take longer, huge adoption has been underway (outside metro cities) over the last 18–24 months.

Our view

These are unusual and challenging times. We have been exploring these issues at length and sharing our perspectives in recent weeks. For more, refer to [A remedy for a malady](#), [Assessing impact on hospitals](#) and [Prefer diagnostics over hospitals](#).

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Recent Research

Date	Company	Title	Price (INR)	Recos
28-Apr-20	Pharma & Healthcare	Expert call: Flattening the COVID-19 curve; <i>Sector Update</i>		
15-Apr-20	Pharma & Healthcare	Earnings growth buoyant; steady re-rating on cards; <i>Result Preview</i>		
09-Apr-20	Pharma	A remedy for a malady; <i>Sector Update</i>		

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