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# Pharmaceuticals

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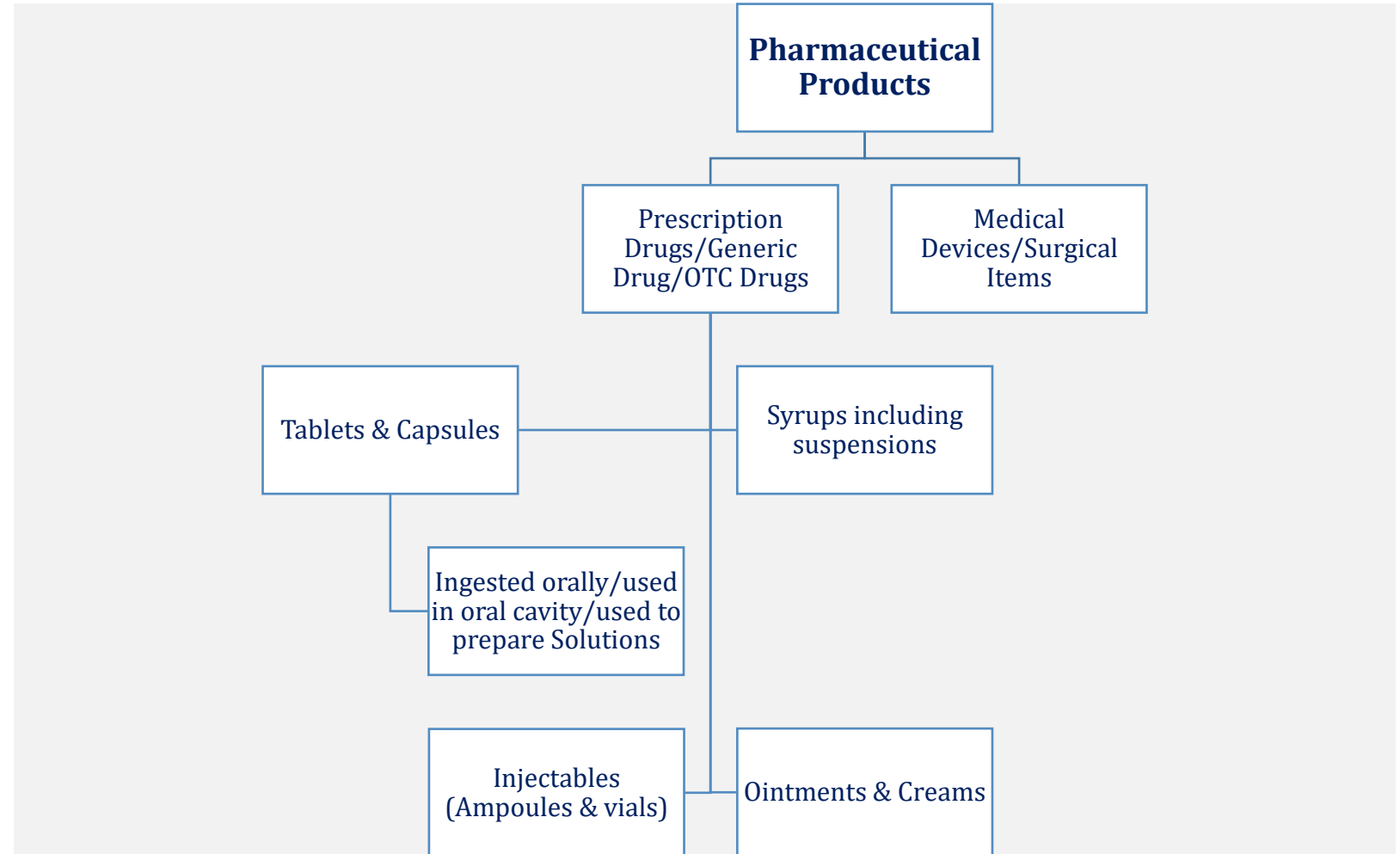
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# Pharmaceuticals

## Introduction

- The pharmaceutical Sector plays a vital role in advancing global health by developing, producing, and distributing medicines for a wide range of medical conditions and to improve quality of life.
- It comprises a broad spectrum of stakeholders, including multinational corporations and innovative biotech startups, all contributing to medical progress in their respective capacities.
- By investing in research and development, the Sector drives breakthroughs that lead to more effective treatments, improved healthcare delivery, and better patient outcomes.
- The Sector's contributions are instrumental in combating diseases, enhancing life expectancy, and raising the overall quality of life around the world.



# Pharmaceuticals

## Manufacturing Process



**Synthesis of Active Pharmaceutical Ingredient (API):** Producing the API, the drug's active component, through chemical synthesis, fermentation, or biotechnological methods.

**Formulation:** Combining the API with excipients (inactive ingredients) to create the final drug product.

**Granulation, Encapsulation & Coating:** For tablets or capsules processing powders into granules. Applying a coating to tablets for various purposes, such as controlled release or taste masking.

**Preparation of Syrup Base:** The syrup base is prepared by dissolving or dispersing the APIs and other excipients in purified water or a suitable solvent under controlled conditions.

**Compounding & Filtration:** For the formulation of injectables the ingredients are compounded under sterile conditions and filtered to remove any particle or microbial contaminants.

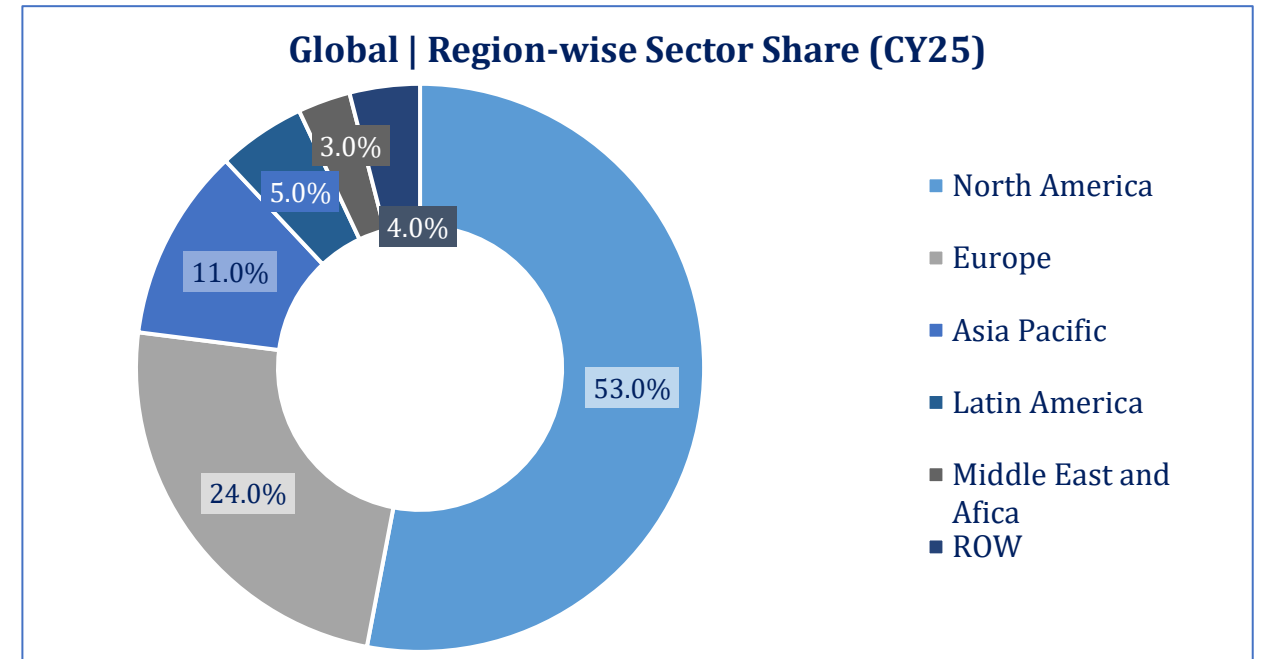
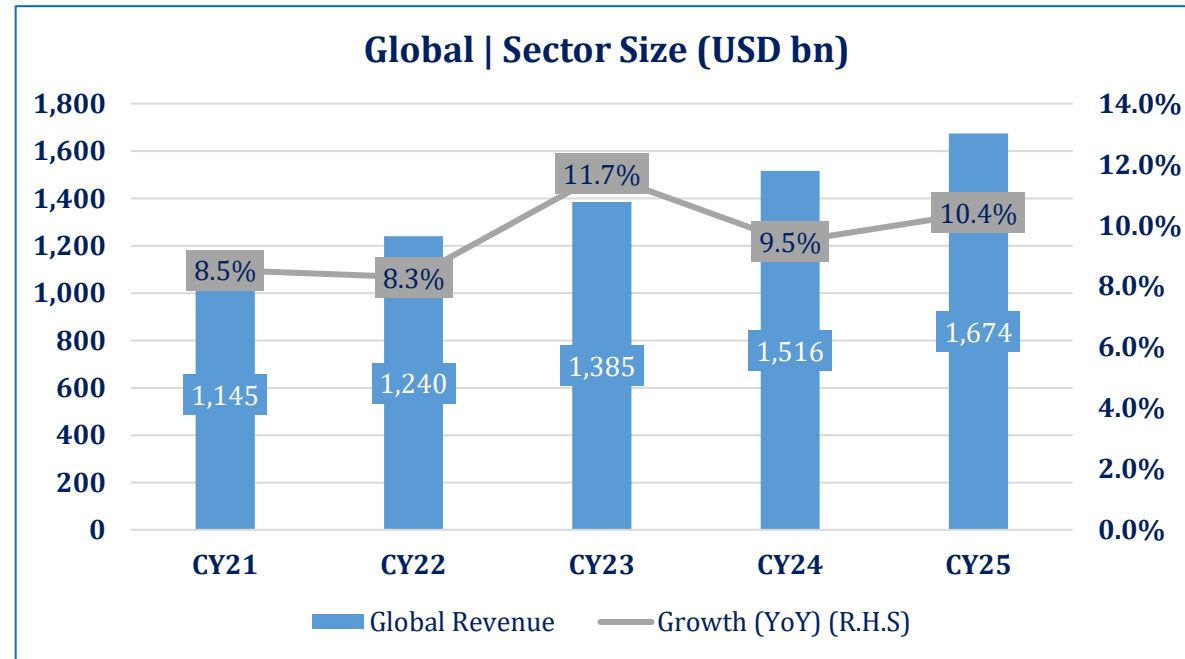
**Preparation of ointments base & Cooling:** For preparation of ointments, its base is prepared mixing APIs and Excipients & the mixture is cooled and homogenized for desired texture.

**Capping & Sealing/Packaging:** Packaging is done and properly labeled for usage. Ingredients and side effects are listed. The final product is then shipped for retail.

# Pharmaceuticals

## Global | Overview

- During CY25, global revenue of the pharmaceutical Sector was recorded at USD ~1,674bn (CY24: USD ~1,516bn), an increase of ~10.4% YoY, while exhibiting CAGR of ~9.9% during CY21-25.
- Globally, the pharmaceutical market remains highly concentrated, with North America now representing ~53.0% of the market, up from ~49.0% in 2021. Europe has maintained ~24.0% share over recent years, led by Germany and France. Asia Pacific's share of sales has contracted to 11.0%, despite China remaining the world's second-largest pharmaceutical market.
- In contrast, the greatest expansion occurred in Middle East and Africa, where countries such as Saudi Arabia helped drive ~18.0% YoY growth across the region, reflecting improved access and policy reforms alongside rising demand.



*Note: Region-wise market shares are revenue-based.*

# Pharmaceuticals

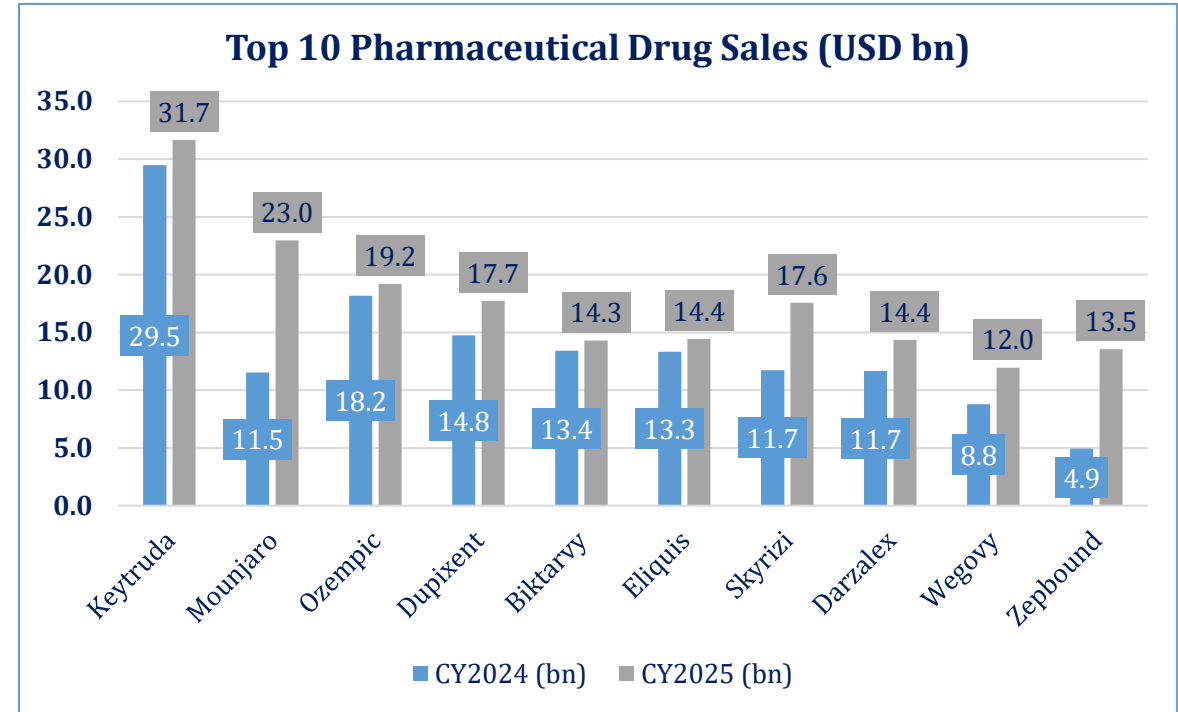
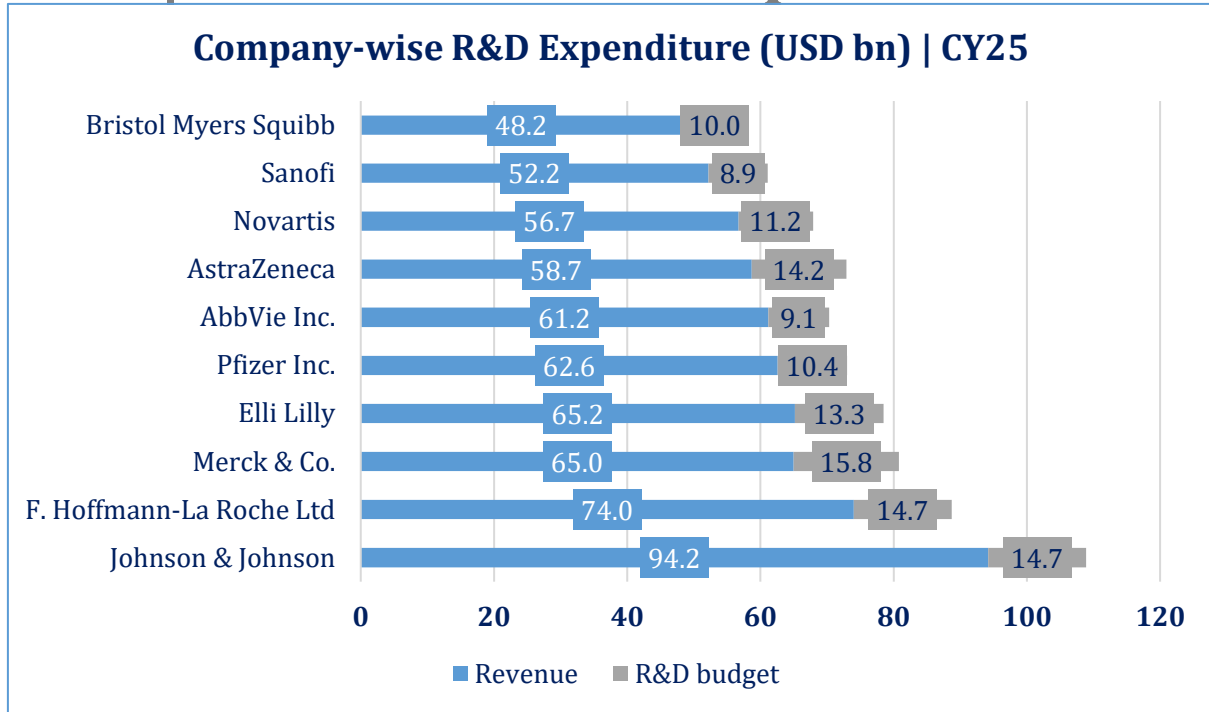
## Global | Top 10 Companies

- The global pharmaceutical Sector is concentrated among established players, with the top 10 largest pharmaceutical firms generating a combined revenue of USD ~638.0bn in CY25 (CY24: USD ~588.3bn), ~40.0 % of total Sector revenue.
- Johnson & Johnson remained the biggest pharmaceutical company with sales of USD ~94.2bn in CY25. Boosted by a 44.9% increase in sales in CY25, Eli Lilly has jumped six notches in the annual top-10 revenue ranking, becoming the third-largest company in the biopharma industry. The company's increased sales of USD ~65.2bn (CY24: USD ~45.0bn) were attributable to strong growth of its diabetes and obesity drugs Mounjaro and Zepbound.
- Bristol Myers Squibb cited declining sales of its legacy drugs, which were down 16.0%. Those products include blood cancer treatment drugs Revlimid and Pomalyst. Surpassing Bristol Myers was Sanofi, which had a 10.0% increase in sales. Like Johnson & Johnson, Sanofi has seen an uptick in growth since divesting.
- Johnson & Johnson has held the top spot every year since 2012, except for 2022, when Pfizer jumped to No. 1, becoming the first drugmaker in history to exceed the USD ~100bn mark. That leap was largely due to combined sales for its COVID products.

<i>Revenue in USD bn</i>				
Ranking	Company Name/ Region	CY23	CY24	CY25
1	Johnson & Johnson, USA	85.2	88.8	94.2
2	F. Hoffmann-La Roche Ltd, Switzerland	65.3	68.7	74.0
3	Eli Lilly, USA	34.1	45.0	65.2
4	Merck & Co., USA	60.1	64.2	65.0
5	Pfizer Inc., USA	58.5	63.6	62.6
6	AbbVie Inc., USA	54.3	56.3	61.2
7	AstraZeneca, UK	45.8	54.1	58.7
8	Novartis, Switzerland	45.4	51.7	56.7
9	Sanofi, France	40.1	47.6	52.2
10	Bristol Myers Squibb, USA	45.0	48.3	48.2
<b>Total</b>		<b>533.8</b>	<b>588.3</b>	<b>638.0</b>

# Pharmaceuticals

## Global | Research & Development

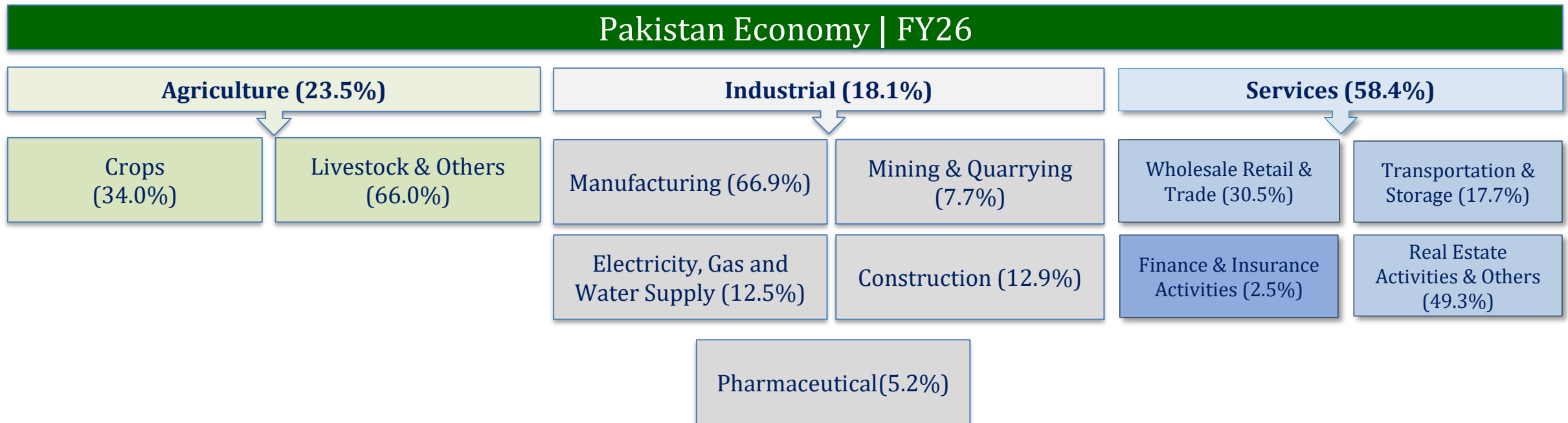


- In CY25, 6 out of the top 10 companies actively reduced their R&D spending. There were AbbVie (-28.9%), Johnson & Johnson (-14.9%), Merck (-12%), and Bristol Myers Squibb (-11%). In cases like Merck and AbbVie, budgets normalized because they recorded fewer massive, multi-billion-dollar upfront business development milestones compared to prior years. Eli Lilly expanded its budget to USD ~13.3bn (CY24: USD 11bn), an increase of 20.9% YoY.
- The most explosive growth in the entire pharmaceutical industry came from weight loss and diabetes treatments. Mounjaro nearly doubled its revenue by increasing ~99.0% to hit USD ~23.0bn, while its sister drug Zepbound sky-rocketed by ~174.9% to close at USD ~13.5 billion in CY25(CY24: USD ~4.9bn). Together, they generated over USD ~36.5bn, pushing Eli Lilly to the top spot in pharma revenue. Merck's oncology giant Keytruda expanded by ~7.5% to reach ~31.7bn (CY24: ~29.5bn), solidifying its place as an indispensable cancer treatment worldwide.

# Pharmaceuticals

## Local | Overview

- In FY26, Pakistan's GDP (nominal) stood at PKR~126.9Tn, increasing ~11.3% YoY (FY25: ~8.3% growth). Industrial activities during the year held ~18.1% share in the GDP, while services made up ~58.4%.
- The pharmaceutical Sector's weight in the Quantum Index of Manufacturing (QIM) stood at ~5.15% in 10MFY26. However, unlike the broader LSM Sector, which grew by ~6.44% in Jul-Apr FY26 (SPLY: ~5.75%), pharmaceuticals' value-added output within the QIM contracted by ~6.55% on YoY basis (10MFY25: +2.81%).



# Pharmaceuticals

## Local | Overview

- In 9MFY26, the pharmaceutical Sector recorded a revenue of PKR~392.7bn (9MFY25: PKR~390.7bn), showing very little growth. Around 662 companies are operating in the local pharmaceutical Sector, including ~25 multinational companies. In FY25, the Sector's revenue rose to PKR~523.2bn (FY24: PKR~438.1bn), exhibiting growth of ~19.4%.
- The Sector is highly dependent on imports to meet the demand of basic raw materials such as APIs (Active Pharmaceutical Ingredients) and chemicals. The majority of APIs used in the industry are imported from countries such as China, India, and Korea.
- In 9MFY26, the pharmaceutical Sector's imports continued to climb to PKR~289.1bn, while exports recorded to PKR~69.8bn. The high import number exhibits limited local manufacturing at API level and low value addition. The lower export number factors in the disruption following Pakistan's suspension of trade with Afghanistan, historically the Sector's largest export market.

Particulars	FY23	FY24	FY25	9MFY26
<b>Revenue * (PKR bn)</b>	324.8	438.1	523.2	392.7
<b>Contribution to GDP</b>	1.0%			
<b>Structure</b>	<b>Regulated</b>			
<b>Imports (PKR bn)</b>	255.9	282.4	299.4	289.1
<b>Exports (PKR bn)</b>	80.3	96.1	127.2	69.8
<b>Regulator</b>	Drug Regulatory Authority of Pakistan (DRAP)			
<b>Association</b>	Pakistan Pharmaceutical Manufacturers Association (PPMA)			

# Pharmaceuticals

## Local | Sector Players

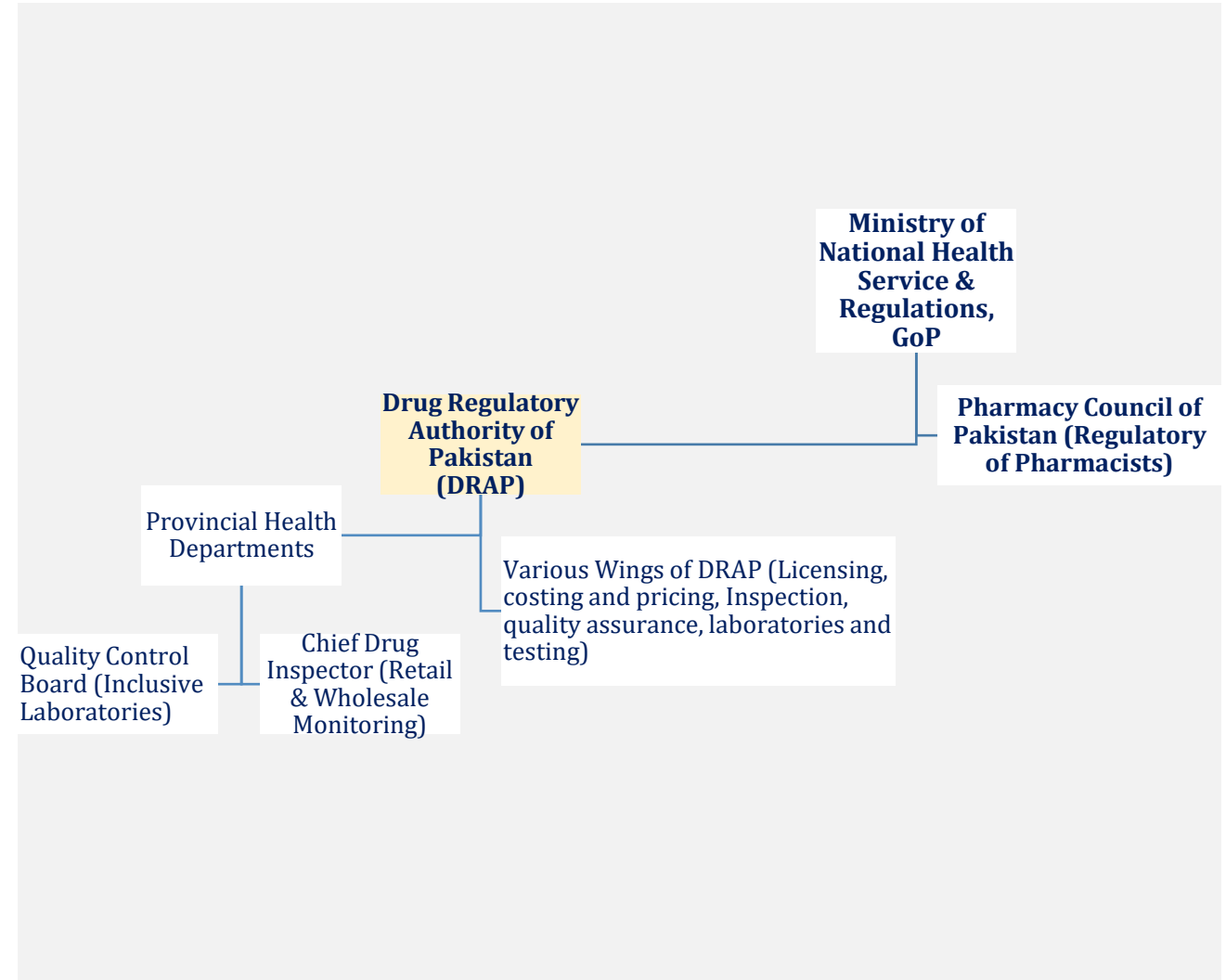
- The top 10 companies operating in the local market comprised ~48.2% of the market share in the pharmaceutical Sector.
- In FY25, Lucky Core Industries Limited acquired Pfizer Pakistan Limited's manufacturing facility in Karachi, as Pfizer, another international player, exited the Pakistani market. Lucky Group's acquisition signals a strategic move into the pharmaceutical Sector and highlights the growing influence of local enterprises in Pakistan.
- Searle Company Limited (SEARL) has become Pakistan's first pharmaceutical company to register its manufacturing facility in the United Arab Emirates (UAE) market. This registration opens avenues for Pakistani pharmaceutical exports and signifies a breakthrough for the industry. SEARL anticipates increased business opportunities and expansion throughout the region as a result of this milestone.
- Getz Pharma stands at ~18.4% with the biggest share in revenue, followed by Abbot Labs at ~14.4% and GlaxoSmithKline at ~12.6%.

Sr.	Company Name	National/ MNC	Share in Total Revenue
1	Getz Pharma	MNC	18.4%
2	Abbott Laboratories Pakistan Ltd	MNC	14.4%
3	GlaxoSmithKline Pakistan	MNC	12.6%
4	Martin Dow Ltd.	MNC	8.4%
5	Haleon Pakistan Ltd.	MNC	8.2%
6	Martin Dow Marker Ltd.	MNC	6.1%
7	Hoechst Pakistan	National	5.9%
8	The Searle Company	National	4.7%
9	CCL Pharmaceuticals	MNC	4.1%
10	AGP	National	3.9%

# Pharmaceuticals

## Regulatory Framework

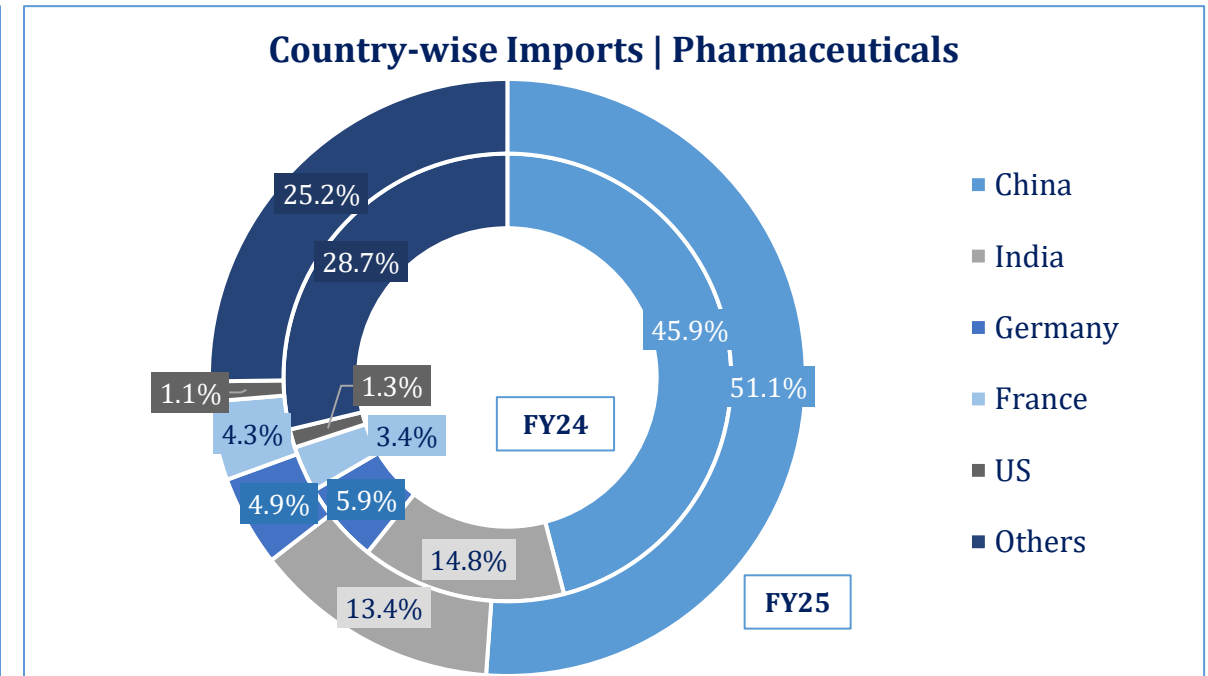
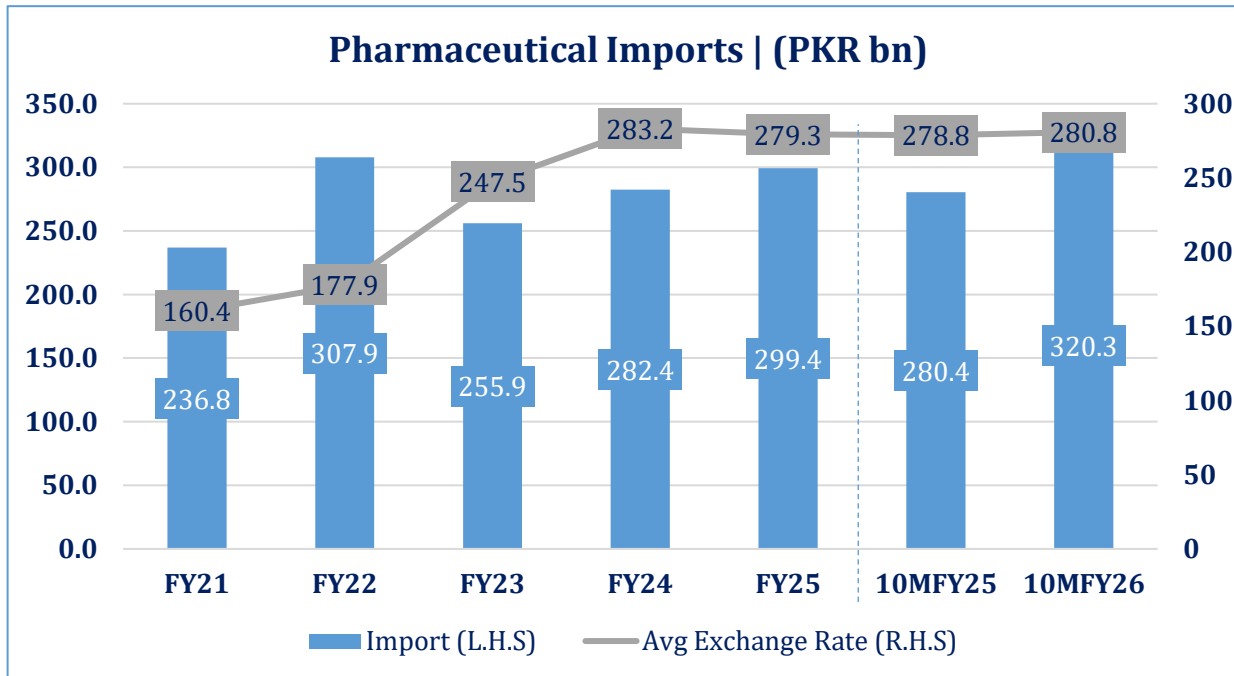
- Pakistan's pharmaceutical Sector is regulated by the Ministry of National Health Services Regulations & Coordination (NHSR&C) and the Drug Regulatory Authority of Pakistan (DRAP), formed in 2012 under the DRAP Act.
- DRAP, an autonomous body under the Federal Government, comprises eight technical and five support divisions. Its quality assurance department oversees five field offices, staffed by federal drug inspectors and assistant drug controllers, with an appellate board for oversight.
- The DRAP Act, 2012, and the Drugs Act 1976 set out legal requirements for the manufacture, import, export, storage, distribution, and sale of therapeutic goods in the country. DRAP ensures that every drug, medical device or cosmetic, alternative medicine, and health product must have a standard of quality and is safe and effective for use.
- Following earlier deregulation of non-essential medicine pricing, in 2024, the deregulation of non-essential medicine prices was seen as having improved availability, while also drawing renewed interest from multinational pharmaceutical companies considering re-entry into the Pakistani market.



# Pharmaceuticals

## Supply | Raw Material

- Pharmaceutical imports rose to PKR~320.3bn in 10MFY26, up by ~14.3% YoY (10MFY25: PKR~280.4bn), as the domestic market still lacks the capacity to produce raw chemical materials. On a full-year basis, imports stood at PKR~299.4bn in FY25, up ~6.0% YoY (FY24: PKR~282.4bn). The rupee has remained broadly stable through the period (10MFY26 average: ~PKR280.8/USD; FY25 average: ~PKR279.3/USD), indicating that the rise in import value over 10MFY26 was driven mainly by sourcing-related and volume factors rather than currency depreciation.
- Country-wise, China further consolidated its position as Pakistan's largest source of pharmaceutical imports, with its share rising to ~51.1% in FY25 (FY24: ~45.9%) and valued at PKR ~153.1mn (FY24: PKR ~129.7mn). At PKR ~40.0mn India's share eased to ~13.4% (FY24: ~14.8%). Meanwhile, the combined share of Germany, France and the US held below ~9.0%. This shift reflects Pakistan's accelerated pivot toward Chinese suppliers after trade with India was suspended in 2025 after cross border tensions. China currently supplies over 85% of Pakistan's active pharmaceutical ingredient requirements.



**Note:** Imports data pertains to HS Codes 2933, 3004, 2916, 2939, 2932, 2941, 2935, 2934, 3003, 2929, 2821, 2942

# Pharmaceuticals

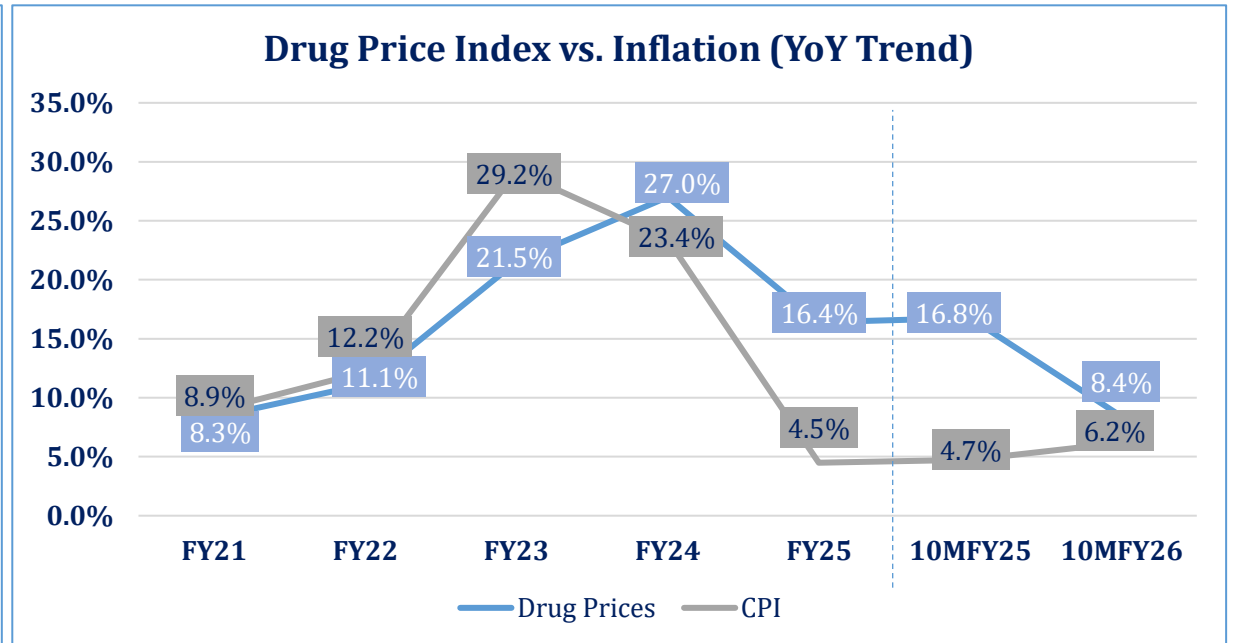
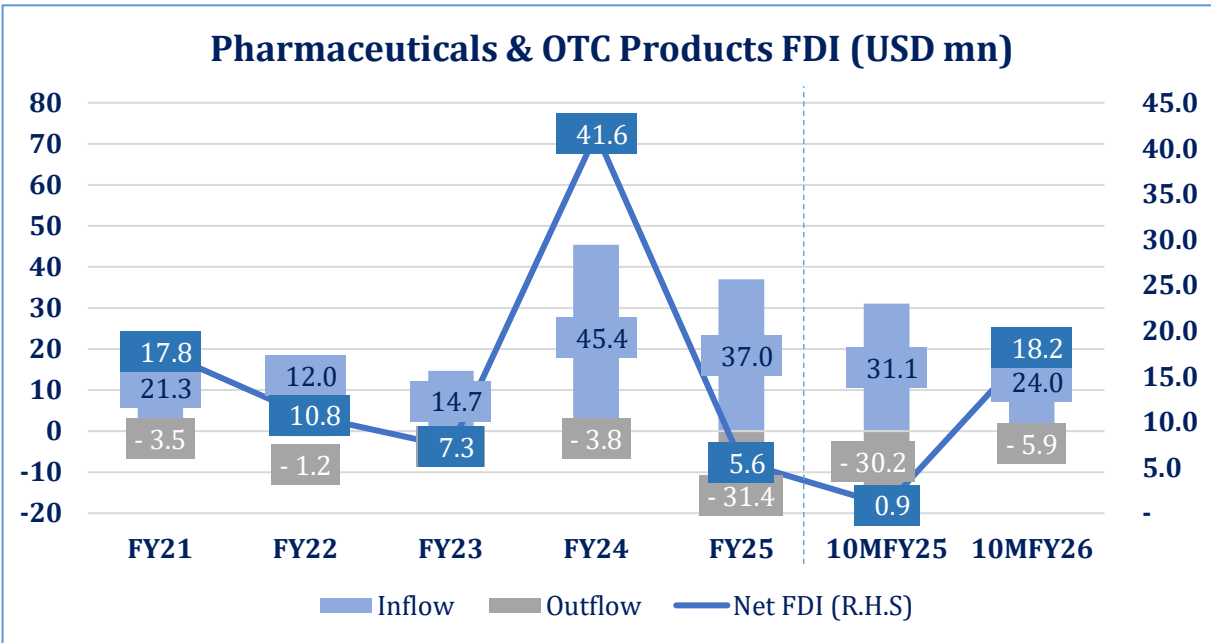
## Supply | Production

- Manufacturing of pharmaceutical products such as tablets, capsules, and injections rose by ~11.5% YoY in 10MFY26. The Galenical segment achieved substantial gains with a volume of ~54MT in 10MFY26 (SPLY: ~28MT), translating to an impressive YoY growth of ~92.9%. The same positive turnaround can be seen for FY25 at ~33.3%, recovering from a decline of ~28.9% in FY24.
- During 10MFY26, the Tablets segment achieved a volume of 13,531mn units, reflecting a marginal but positive YoY growth of 0.4%. This indicates a stabilizing trend for the product segment following its historical trajectory (which saw a sharp -28.4% decline in FY23 before recovering by 2.4% in FY24 and 3.8% in FY25).
- Capsules volumes also slipped ~1.4% YoY in 10MFY26, following a marginal ~0.4% contraction in FY25, while Ointment volumes recovered, rising ~5.3% YoY after two consecutive years of decline in FY24 (~-28.9%) and FY25 (~-4.2%). Overall, the data suggests that production gains remain concentrated in a narrow set of segments, while higher-volume categories such as Syrups and Injections continue to decline.

Name	Unit	FY23	YoY Change	FY24	YoY Change	FY25	YoY Change	10MFY26	YoY Change
Tablets	Nos(mn)	15,317	-28.4%	15,683	2.4%	16,277	3.8%	13,531	0.4%
Syrups	000'Liters	153,288	-35.1%	200,159	30.6%	206,736	3.3%	156,650	-9.2%
Injections	Nos(mn)	937	-2.6%	952	1.6%	931	-2.2%	640	-19.2%
Capsules	Nos(mn)	2,753,694	5.4%	2,891,950	5.0%	2,879,709	-0.4%	2,362,248	-1.4%
Galenical	000' Litres	38	-29.6%	27	-28.9%	36	33.3%	54	92.9%
Ointment	000' Kg	3,381	0.8%	2,404	-28.9%	2,304	-4.2%	2,015	5.3%

## Supply | Foreign Direct Investment

- Net FDI into the pharmaceutical Sector was USD~18.2mn in 10MFY26 (10MFY25: USD~0.9mn), as outflows normalized to USD~5.9mn (10MFY25: USD~30.2mn) even as inflows eased to USD~24.0mn (10MFY25: USD~31.1mn).
- In FY25, a steep ~86.5% decline in net FDI to USD~5.6mn in FY25 (FY24: USD~41.6mn), driven by a surge in outflows to USD~31.4mn (FY24: USD~3.8mn). This was largely linked to the completion of Lucky Core Industries' acquisition of Pfizer Pakistan's Karachi manufacturing facility and associated brands in September 2024, which reflected as a multinational divestment from the Sector.
- Drug prices increased by ~8.4% YoY in 10MFY26 (10MFY25: ~16.8%), reflecting the broader moderation in inflation, with average CPI recorded at ~6.2% during the period. This builds on the trend seen in FY25, when drug prices rose by ~16.4% (FY24: ~27.0%) despite a sharp easing in CPI to ~4.5% (FY24: ~23.4%), as price growth remained elevated due to the continued deregulation of non-essential medicines. This policy remains in place into FY26, with DRAP reaffirming no plans for a rollback even though medicine prices have risen by roughly a third since deregulation began in February 2024.



# Pharmaceuticals

## Demand | Price Dynamics

- Local prices of pharmaceutical products are regulated by DRAP and cannot be changed unilaterally by the Sector players. Any price determination of new products and an increase for existing products requires approval from DRAP. Moreover, prices are adjusted with respect to the Consumer Price Index (CPI).
- As a positive development for manufacturers, after the amendments in the Drug Pricing Policy 2018, DRAP is mandated to respond to companies' requests for price revision within 30 days of submission. Otherwise, the price increase as submitted by the companies is made effective.
- Under the proposals recommended by the Federal Cabinet, the Ministry of National Health in Feb'24 approved the proposals regarding deregulation of the prices of medicines, which were not included in the National list of essential medicines.
- Under these proposals, prices of medicines (other than essential medicines in the national list) are exempted from the Drugs Act, 1976, and necessary amendments will be made in the Drug Pricing Policy 2018.
- Non-essential drug prices have risen sharply since the deregulation, compounded by rupee depreciation and inflation-driven increases in imported raw material costs.

### Pricing and Costing Under Drug Pricing Policy 2018

#### Basis of Pricing

- Drugs for human use divided in two categories in terms of pricing in the country:
  - Drugs and biological on National Essential Medicines List
  - All other drugs.

#### Annual Adjustments in MRPs of Drugs

- Essential Drugs:** MRP Increase by 70% of CPI (Cap of 7%)
- Non-Essential Drugs:** MRP Increase by 100% of CPI (Cap of 10%)

#### Low-Priced Drugs

- Low-priced drugs are such that their MRPs are lower than the threshold prescribed by DRAP. MRPs of such drugs are to be increased equivalent to CPI every year, subject to conditions.

#### New Drugs

- First Generic:** MRP of drugs set at 30% less than the cost of the Originator brand, subject to conditions. In other cases, MRP fixed at prevailing highest MRP of Generic brand in the market

#### Hardship Cases

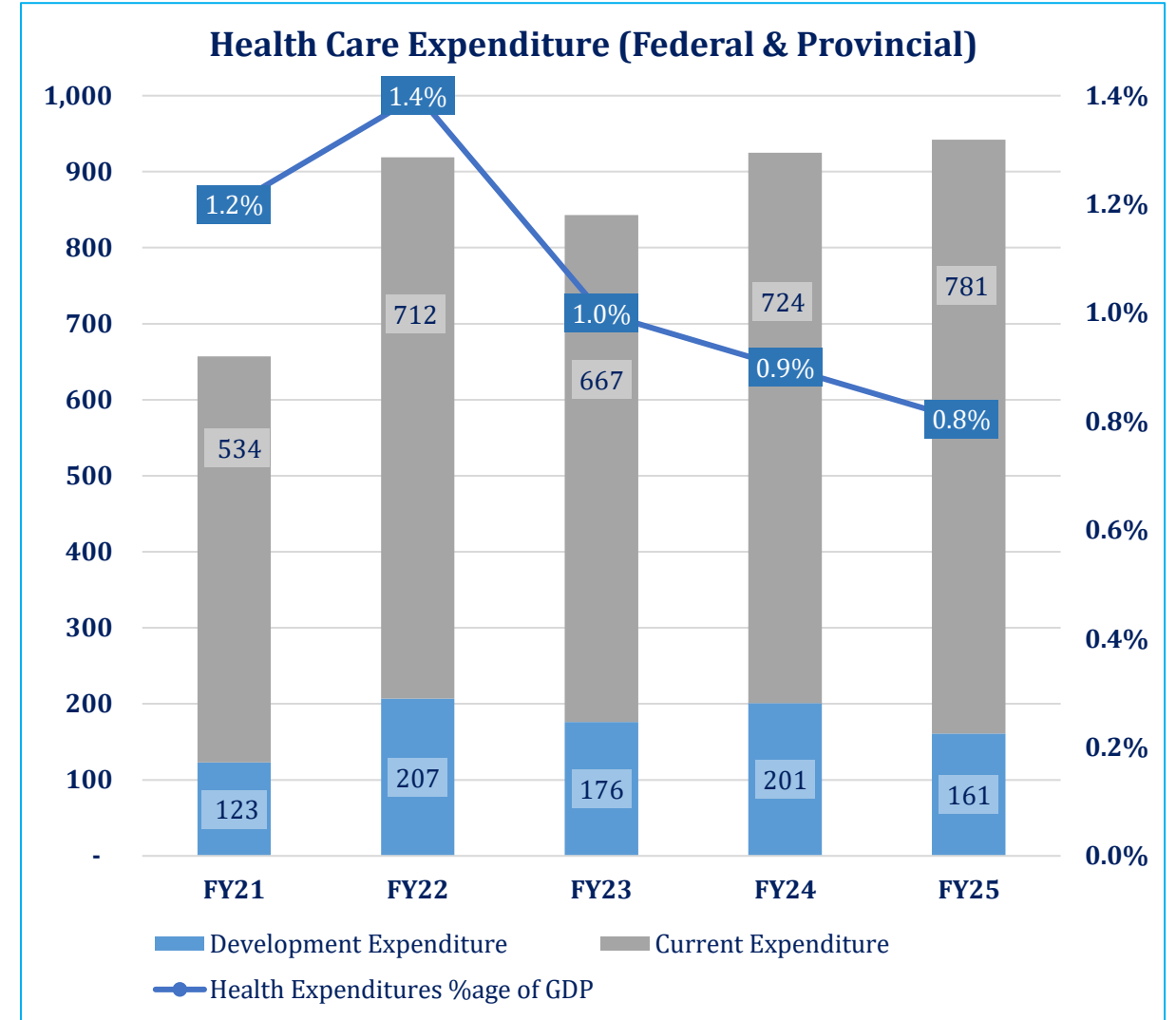
- Locally Manufactured Drugs:**  $MRP = Cost \times Factor$
- Imported Drugs:** Trade Price = Landed Cost + mark up 45% (40% markup for anti-cancer, biological etc.)
- Partially Imported Drugs:** Trade Price = Landed Cost + packaging cost + markup

*Note: DRAP's formal term is "National Essential Medicines List (NEML)" medicines meeting core healthcare needs, always available, adequate quality, affordable. "Life-saving" is a narrower, related term DRAP uses for specific high-priority notifications*

# Pharmaceuticals

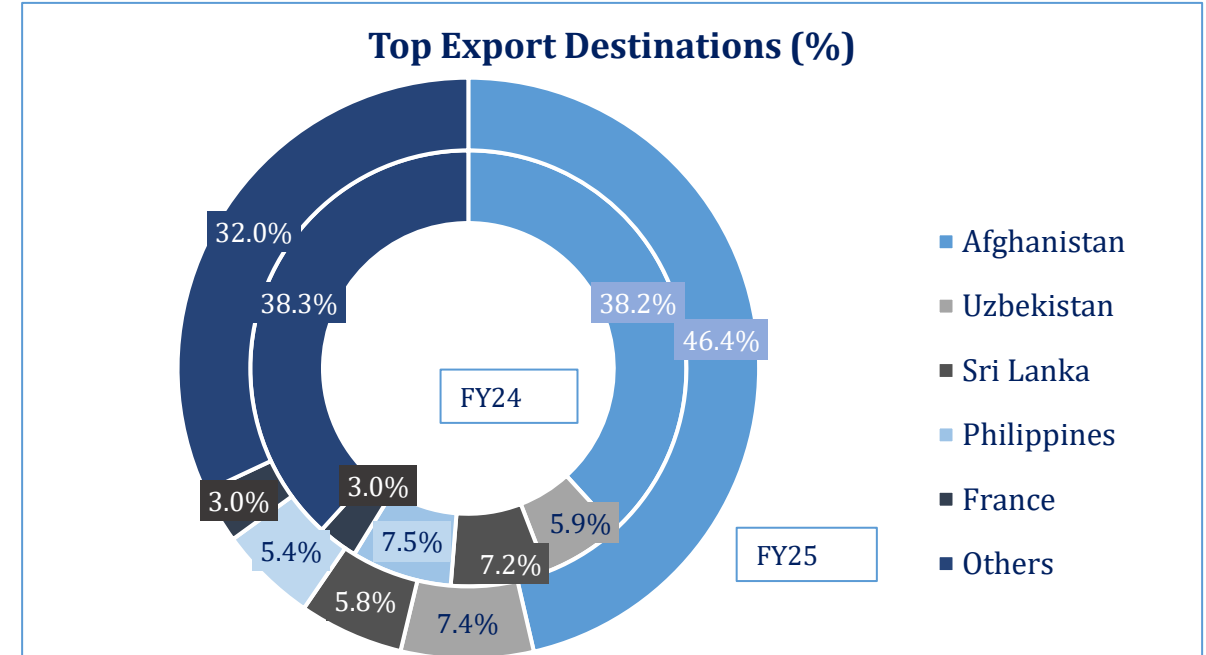
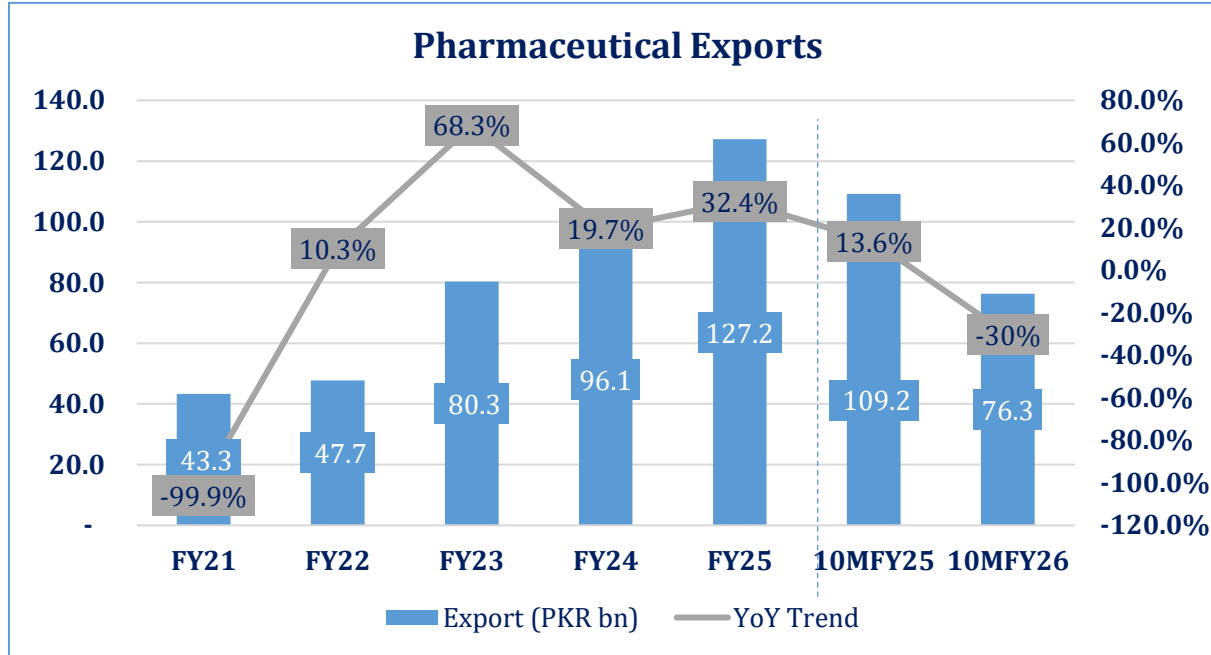
## Demand | Consumption

- Pakistan’s population was recorded at ~241.5mn according to the latest population census in 2023. The annual population growth rate of the country is ~2.6% YoY, much higher than the average global growth rate of ~1.0%.
- Total healthcare expenditure rose to PKR~942.2bn in FY25 (FY24: PKR~924.9bn), a modest increase of ~1.8% YoY, following a stronger ~9.7% YoY increase in FY24. The FY25 increase was driven entirely by current expenditure, which grew ~7.9% YoY to PKR~781bn, even as development expenditure fell ~19.9% YoY to PKR~161bn (FY24: PKR~201bn). As a result, health spending as a share of GDP slipped further to ~0.8% in FY25 (FY24: ~0.9%), underscoring Pakistan's persistently low public health investment relative to the size of its economy and reinforcing the case for continued growth in private healthcare and pharmaceutical demand to fill the gap.
- According to the Public Sector Development Programme (PSDP), a total of PKR ~24.3bn has been allocated for the health and nutrition sector in FY27. This represents a significant rise from the previous fiscal year, during which the health sector's funding was set at an initial PKR ~16.5bn before being scaled down to PKR ~14.0bn. For FY27, this healthcare funding accounts for ~2.2% of the overall PKR ~187.2bn budget earmarked for social sector development.



# Pharmaceuticals

## Demand | Exports

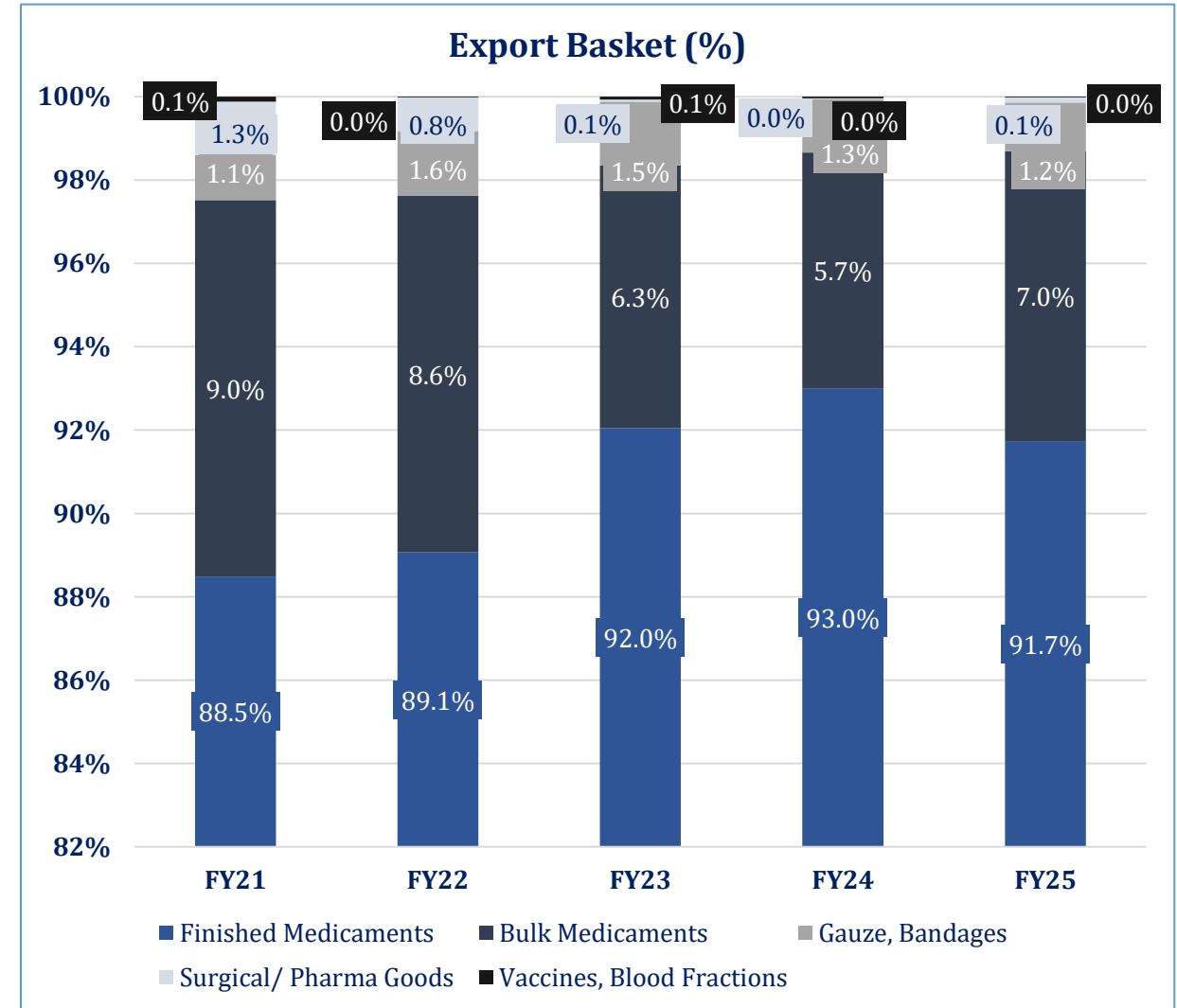


- In 10MFY26, total pharmaceutical exports were recorded at PKR ~76.3bn (SPLY: PKR ~109.2bn) a decrease of ~30% YoY. The 10MFY26 decline is largely attributable to Pakistan's suspension of bilateral and transit trade with Afghanistan since October 2025, following border clashes between the two countries. Exports to Afghanistan alone accounted for an estimated ~38.2% of Pakistan's total pharmaceutical exports prior to the suspension. In FY25 a ~32.4% YoY increase was seen in exports that valued at PKR ~127.2bn (FY24: PKR~96.1bn)
- Country-wise, Afghanistan's share of Pakistan's pharmaceutical exports rose further to ~46.4% in FY25 (FY24: ~38.2%), reflecting the Sector's growing reliance on this single market ahead of the trade suspension, while Uzbekistan's share also increased to ~7.4% (FY24: ~5.9%). In contrast, Sri Lanka's and the Philippines' shares both eased to ~5.8% and ~5.4%, respectively, and the combined share of the remaining markets (Others) fell to ~32.0% (FY24: ~38.3%). With Afghanistan now effectively closed off in 10MFY26, the Sector's heavy concentration in that market is likely to weigh on the country mix and overall export performance going forward, unless exporters can redirect volumes to alternative markets or trade routes are restored.

# Pharmaceuticals

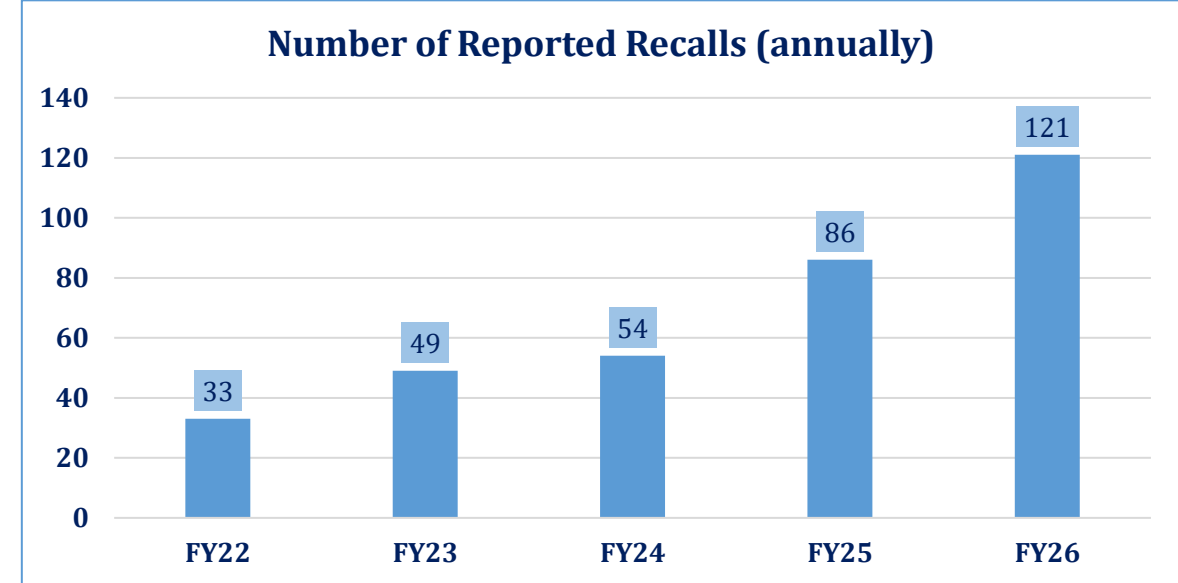
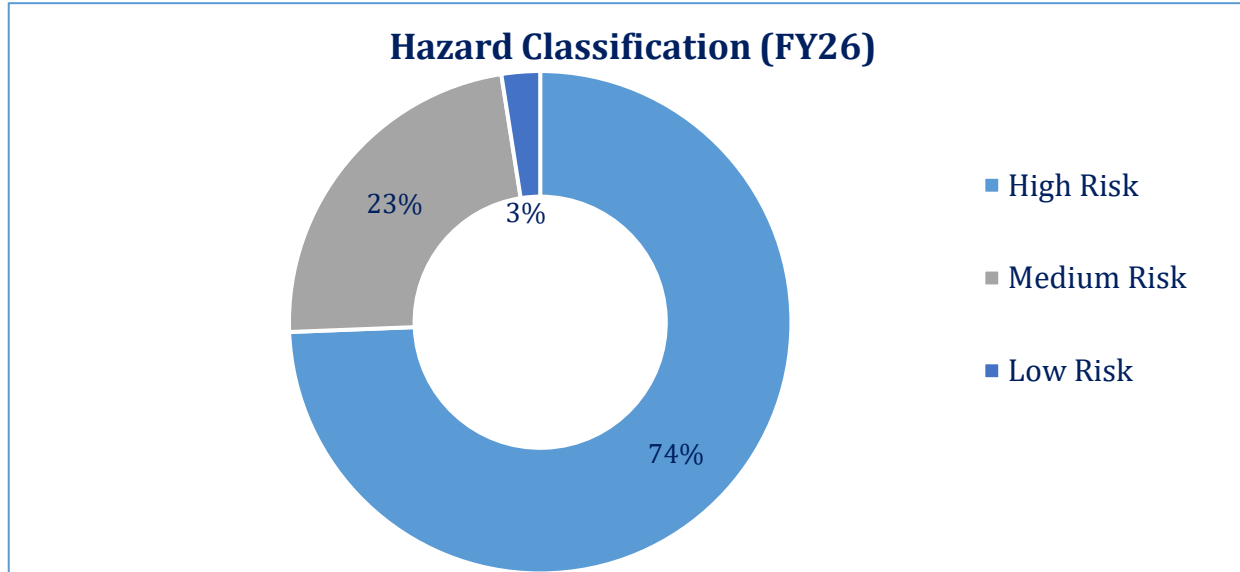
## Demand | Export Basket

- To evaluate structural trends within Pakistan’s pharmaceutical export portfolio, the underlying data have been categorized into five distinct segments. These are Finished Medicaments, Bulk Medicaments, Gauze and Bandages, Surgical and Pharma Goods, and lastly, Vaccines and Blood Fractions.
- The expansion of exports in FY25 was overwhelmingly concentrated in Finished Medicaments, which were valued at PKR ~116,712mn (FY24: PKR ~89,378mn). This single category accounted for ~91.7% of the entire export base in FY25. Finished Medicaments' dominant share of the export mix reflects a structural feature of Pakistan's pharmaceutical Sector. The domestic manufacturers are overwhelmingly engaged in drug formulation rather than API or bulk drug production, importing the bulk of their raw materials and exporting the finished, formulated output. With only a handful of API producers and the vast majority of active ingredients sourced from abroad, Pakistan has developed limited capacity to export bulk drugs or intermediates at scale
- While finished formulations drove the absolute scale, the standout rate of growth came from Bulk Medicaments. Bulk Medicaments’ footprint expanded to 7.0%(FY24: 5.7%). Vaccines and Blood Fractions remained the smallest segment by a wide margin and were the only category to contract, falling to PKR~22mn in FY25 (FY24: PKR~38mn), a decline of ~43.3% YoY.



# Pharmaceuticals

## Regulatory Action

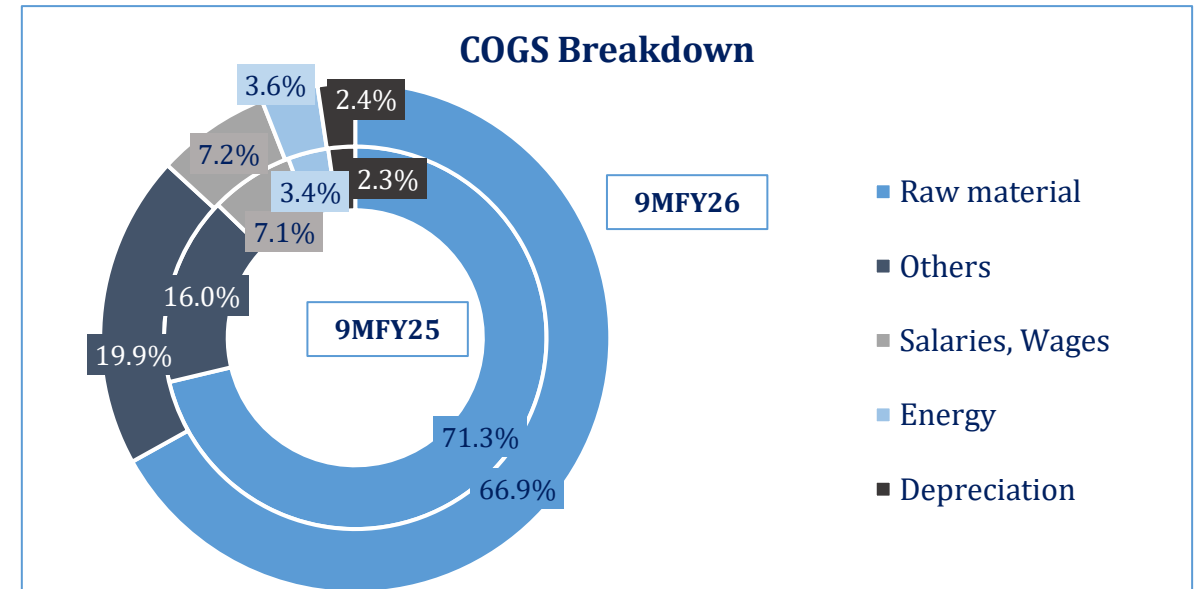
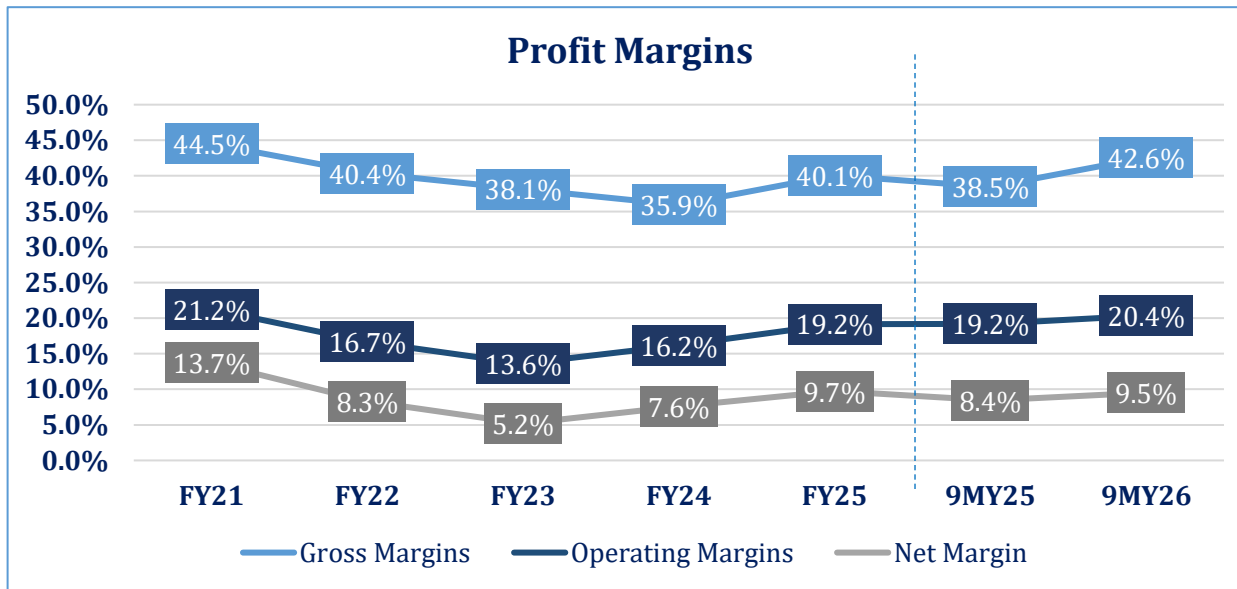


- Reported drug recalls in Pakistan have risen sharply in recent years, climbing from ~33 in FY22 to ~121 in FY26, a nearly fourfold increase. This trend has coincided with a marked intensification in DRAP's enforcement activity, including expanded market surveillance, increased laboratory testing across provincial Drug Testing Laboratories, and a more proactive nationwide recall regime. The rising recall count should therefore be read partly as a sign of stronger regulatory oversight and detection capacity.
- Of the recalls reported, ~74.4% were classified as High Risk, with a further ~23.1% classified as Medium Risk and only ~2.5% as Low Risk, underscoring that the substandard products being identified and removed from the market pose meaningful safety concerns. This includes contamination, incorrect dosage, and failed sterility or potency tests rather than minor labelling or packaging defects. This trend aligns with widely reported data indicating that a substantial portion of pharmaceuticals in Pakistan are either spurious or of low quality. Consequently, this underscores the critical need for the Drug Regulatory Authority of Pakistan's (DRAP) ongoing enforcement actions against the illegal production, supply, and marketing of fake medications to protect public health.

# Pharmaceuticals

## Business Risk | Margins

- In 9MFY26, the Sector's gross margin improved to ~42.6% (9MY25: ~38.5%), while operating margin rose to ~20.4% (9MFY25: ~19.2%). The net margin increased to ~9.5% (9MFY25: ~8.4%), reflecting stronger pricing power and a richer product mix even as the rupee held broadly stable through the period. On a full-year basis, gross margin recovered to ~40.1% in FY25 (FY24: ~35.9%), as the Sector passed on cost pressures more effectively following the deregulation of non-essential medicine prices. Operating margin similarly improved to ~19.2% in FY25 (FY24: ~16.2%), and net margin rose to ~9.7% (FY24: ~7.6%), continuing the recovery from the FY23 (gross: ~38.1%; operating: ~13.6%; net: ~5.2%) when input cost inflation and currency pressure had squeezed profitability.
- The cost of sales remains raw-material intensive as in 9MFY26, raw material made up ~66.9% of COGS (9MFY25: ~71.3%), with the balance comprising other costs (~19.9%), salaries and wages (~7.2%), energy (~3.6%), and depreciation (~2.4%). The declining raw-material share reflects a combination of relatively stable input costs and improved cost absorption, even as the Sector remains heavily dependent on imported APIs. With the Drug Regulatory Authority of Pakistan (DRAP) regulating drug prices, margins remain sensitive to exchange rate movements and changes in the cost of raw materials;

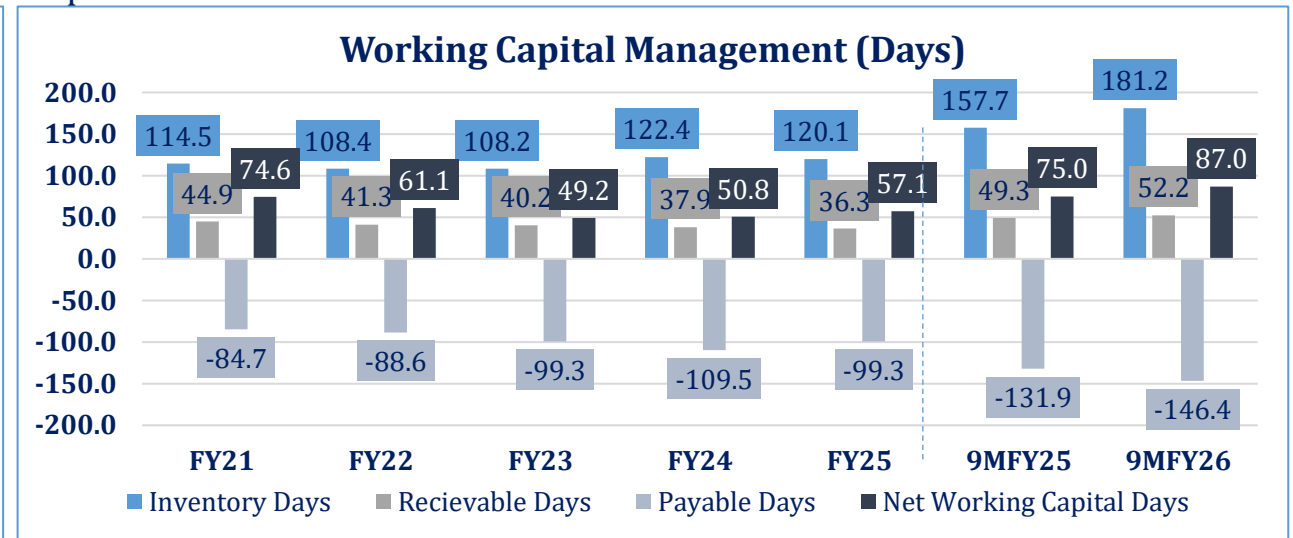
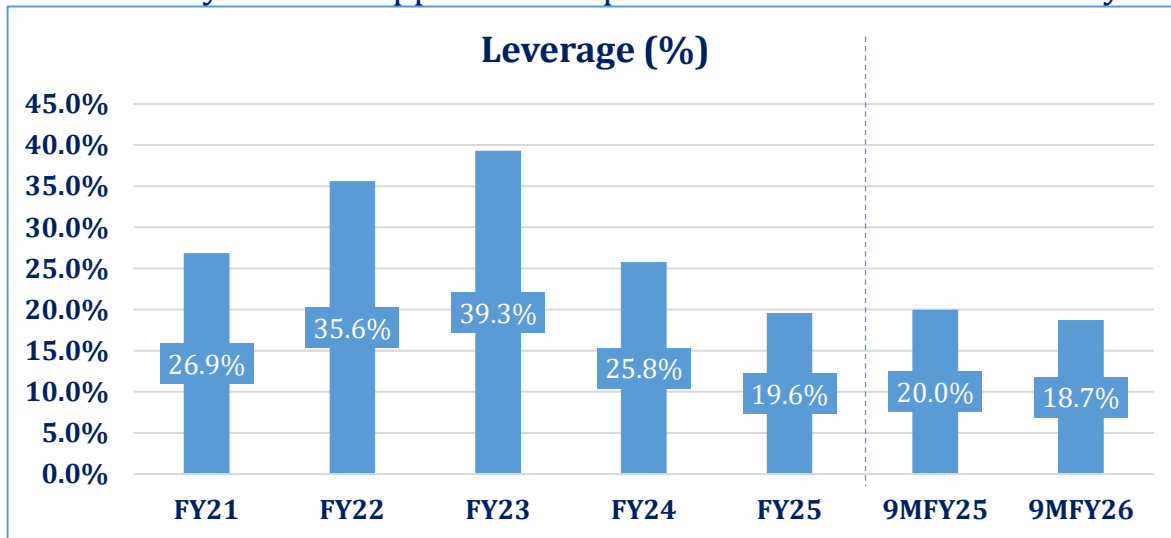


**Note:** Calculations based on PACRA-rated and selected PSX-listed companies; prorations and adjustments made where needed. Others includes but is not limited to repairs and maintenance, insurance, legal fees etc.

# Pharmaceuticals

## Financial Risk | Leverage & Working Capital

- In 9MFY26, the Sector's leverage declined to ~18.7% (9MFY25: ~20.0%), reflecting a low leveraged capital structure for the Sector. On a full-year basis, leverage also declined to ~19.6% in FY25 from ~25.8% in FY24, as stronger profitability reduced the Sector's reliance on external borrowing.
- The Sector's working-capital cycle lengthened to ~87.0 days in 9MFY26 from ~75.0 days in 9MFY25. Inventory days increased to ~181.2 days from ~157.7 days, while receivable days rose to ~52.2 days from ~49.3 days. Payable days also increased to ~146.4 days from ~131.9 days, partly offsetting the additional funds tied up in inventory and receivables. The higher inventory levels may reflect advance stocking of imported APIs, longer procurement lead times and quarter-end timing effects, as companies may build inventories ahead of stronger fourth-quarter sales and annual sales targets. The increase in short-term borrowings during the period also suggests that part of the higher working-capital requirement was financed through bank borrowing.
- On a full-year basis, net working-capital days increased to ~57.1 days in FY25 from ~50.8 days in FY24. This was mainly due to payable days declining to ~99.3 days from ~109.5 days, while inventory days eased slightly to ~120.1 days from ~122.4 days. Therefore, the increase in FY25 was primarily driven by shorter supplier-credit periods rather than an inventory build-up.

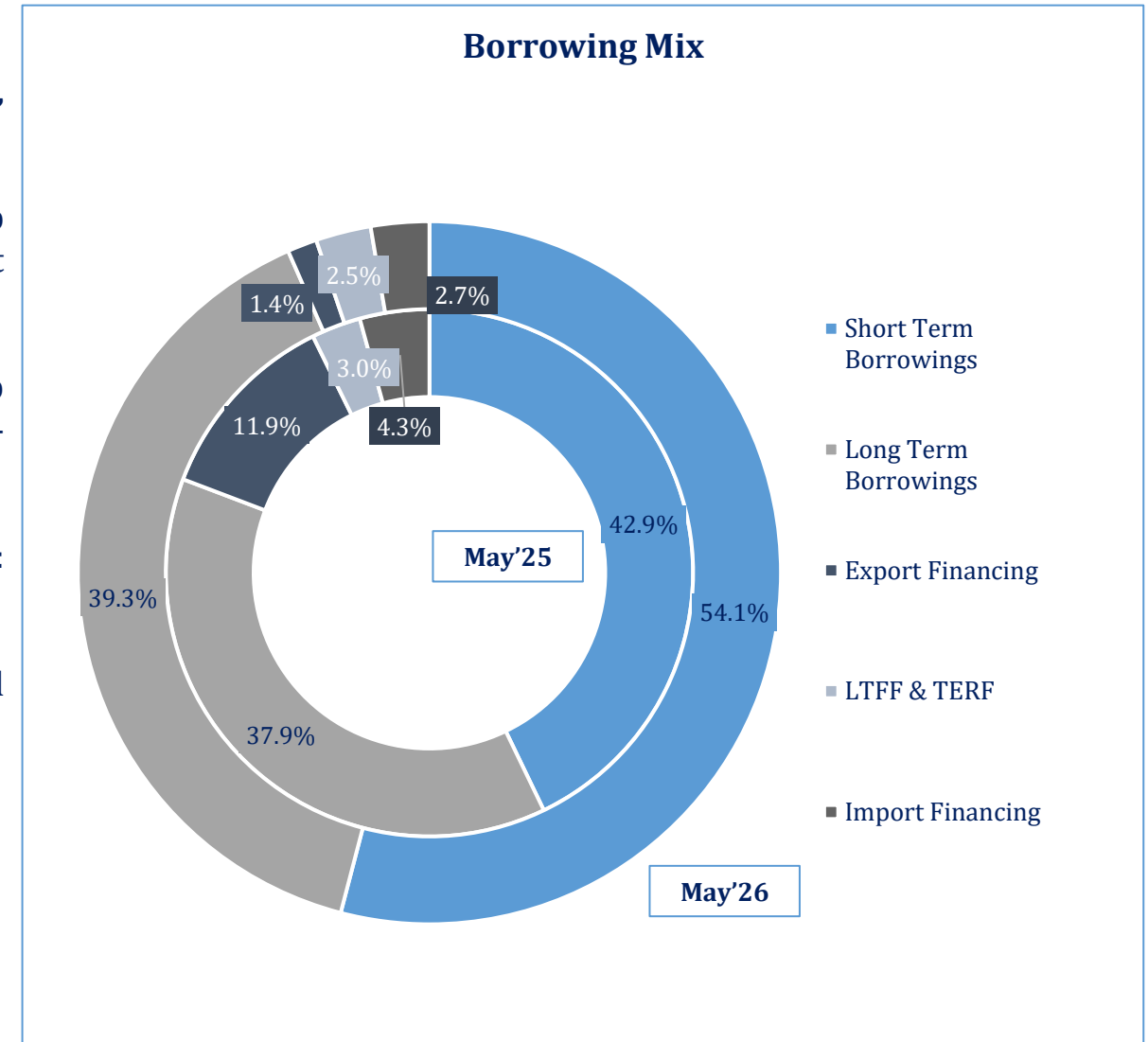


Note: Calculations are revenue-weighted and based on PACRA-rated/ listed companies;

# Pharmaceuticals

## Financial Risk | Borrowing Mix

- As of End-May'26, the Sector's overall borrowings stood at PKR~121.1bn, up by ~15.5% YoY (End-May'25: PKR~104.8bn).
- Short-term borrowings (STBs) at nominal rate stood at PKR~65.4bn, up ~45.7% YoY and held the largest share in the Sector's borrowing mix at ~54.1% (SPLY: ~42.9%).
- Long-term borrowings (LTBs) at nominal rate stood at PKR~47.6bn, up ~19.8% YoY and held a share of ~39.3% in overall borrowings (End-May'25: ~37.9%).
- Discounted borrowing (LTFF & EFS) stood at PKR~3.2bn (End-May'25: ~4.5bn), and held a share of ~2.5% in the overall borrowing mix.
- Import financing stood at PKR~3.1bn (End-May'25: PKR~3.2bn) and held ~2.5% share in the total borrowing mix.



# Pharmaceuticals

## Duty Structure

HS Code	Description	Customs Duty		Income Tax		Sales Tax	
		FY25	FY26	FY25	FY26	FY25	FY26
2933.5990	APIs	11%	10%	10%	12%	18%	18%
2933.7990		0%	0%				
2933.9990		11%	0%				
3004.9099		11%	0%				
1104.2900	Excipients	16%	15%	10%	12%	18%	18%
2710.1995		3%	0%				
2810.0020		3%	0%				
2915.2100		0%	0%				
3402.4200		16%	10%				
3002.4190	Drugs	0%	0%	10%	12%	18%	18%
3002.9010		0%	0%				
3002.9090		11%	10%				

- Budget 2026-2027 cuts customs duties on 92 tariff lines covering industrial inputs on selected lines, under the National Tariff Policy 2025-30 aimed at lowering input costs and improving industrial competitiveness. Specifically for pharmaceutical sector, customs duty was exempted on critical cancer-related APIs, and separately customs duty was abolished on more than 100 raw materials used in producing cancer and other medicines, intended to reduce treatment costs for patients.
- Raw material/API sales tax remains unchanged into FY27. As raw materials account for the bulk of manufacturing cost and are largely imported, this represents a sustained increase in landed input cost, with a direct pass-through risk to end-consumer MRPs.

# Pharmaceuticals

## Porters 5 Forces

### POTENTIAL NEW ENTRY



- High capital cost of drug development
- Extensive DRAP registration and GMP compliance requirements
- Established physician relationships and brand loyalty
- Oligopolistic market; top 10 firms hold ~48.2% share

### BUYERS



- Low individual bargaining power
- Physicians drive prescribing decisions
- Institutional buyers have moderate leverage
- Generic alternatives raise buyer options
- Public health spend only ~0.8% of GDP

### SUBSTITUTES

- Essential drugs have no meaningful substitutes
- Alternative/herbal medicines do not replace clinical drugs
- Generics substitute originators at 30% lower MRP (DRAP policy)
- Counterfeit medicines pose indirect substitution risk

### SUPPLIERS



- ~85% of APIs imported; only ~15% local
- China supplies ~51% of import value (FY25)
- India trade suspended since 2025
- Highly differentiated, specialised inputs
- Negligible domestic API capacity

### COMPETITIVE RIVALRY



- Oligopolistic structure
- MNC exits creating space for local players
- Strong brand differentiation via patents
- Essential drug prices regulated by DRAP
- Non-essential segment price-competitive

# Pharmaceuticals

## SWOT Analysis

- Steadily increasing demand.
- High reliance of customers on the product.
- High profit margins in non-essential drugs.
- Regulatory approvals from agencies like DRAP ensure drug safety and efficacy.
- Super Tax exemption from 10% to 8%

- Largely import dependent (APIs/Excipients).
- Exposure to exchange rate volatility.
- Extensive regulatory requirements.
- Significant financial resources are required for drug development and clinical trials.

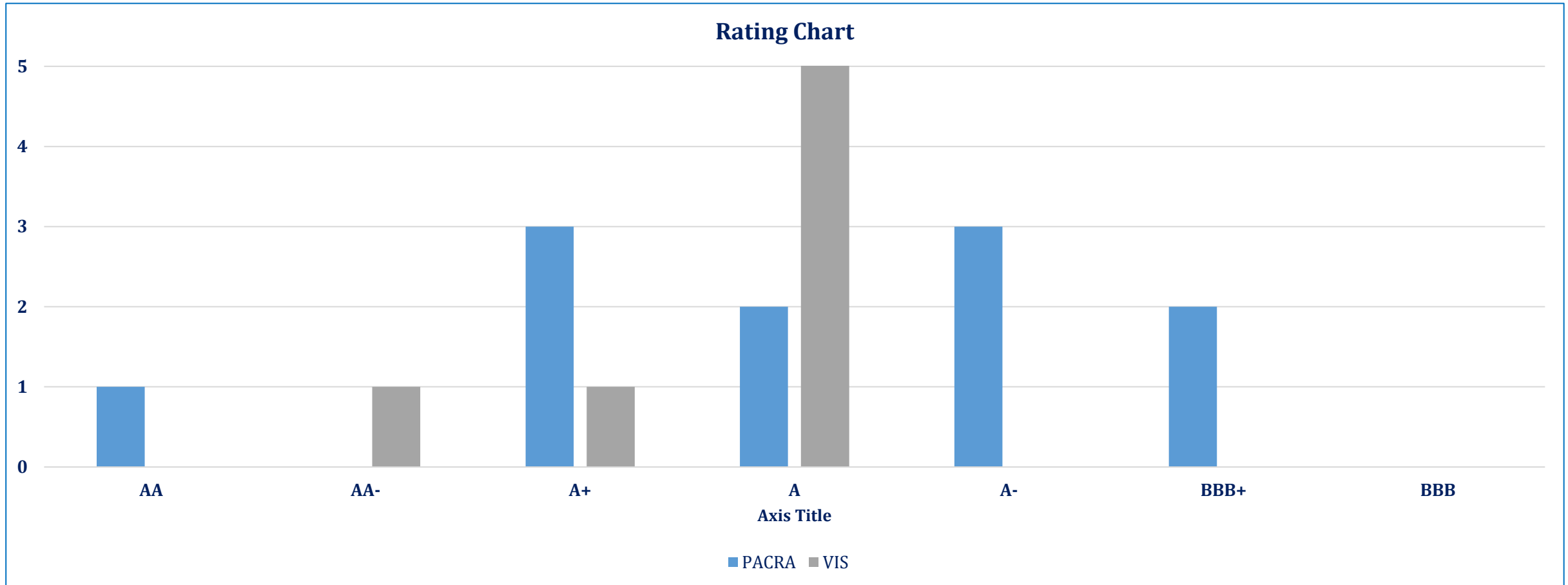


- High level of competition.
- Rising Interest rates.
- Rising costs of imported raw material.
- Changes in healthcare policies, pricing regulations can impact profitability.
- Difficulty in differentiating products and maintaining market share.

- Growing healthcare needs.
- High profit margin opportunities in non-essential drugs and products.
- Room for research and drug development.
- Potential to develop more effective and targeted treatments.
- Chronic disease management and long-term care offer growth potential.

## Rating Chart

PACRA rates 11 clients in the pharmaceutical Sector. The rating bandwidth of the Sector is from AA to BBB.



# Pharmaceuticals

## Outlook: Stable

- Pharmaceutical trade performance has diverged sharply across imports and exports in 10MFY26. Pharmaceutical imports rose to PKR~320.3bn in 10MFY26, up ~14.3% YoY (10MFY25: PKR~280.4bn), reflecting continued reliance on imported APIs, with China now supplying over ~51% of import value, following the slowdown of trade with India. Pharmaceutical exports, in contrast, fell to PKR~76.3bn in 10MFY26 (SPLY: PKR~109.2bn), a decline of ~30% YoY, driven by the suspension of bilateral and transit trade with Afghanistan since October 2025, previously the Sector's largest single export market
- Sector margins have improved through FY25 and 9MY26, gross margin recovered to ~40.1% in FY25 (FY24: ~35.9%) and rose further to ~42.6% in 9MY26 (9MY25: ~38.5%), while net margin improved to ~9.7% in FY25 (FY24: ~7.6%) and ~9.5% in 9MY26 (9MY25: ~8.4%), supported by stronger pricing power following the deregulation of non-essential medicine prices.
- Moving on as per the reduction in Super Tax from 10% to 8% for pharmaceutical companies with profit greater than PKR 500m, this 2% decrease is expected to impact profitability for the Sector. Based on PACRA related clients' and listed companies' data for 9MFY26, the pharmaceutical sector is expected to see a tax relief of PKR ~1.4bn, following the reduction of super tax rate from 10% to 8%.
- Separately, Pakistan and China have moved to deepen pharmaceutical investment ties, with a Beijing business briefing in June 2026 mobilizing over 40 Chinese enterprises across APIs, biologics, and medical devices ahead of the sixth Pakistan-China B2B Conference on Pharmaceutical Manufacturing (Karachi, July 2026). Pakistan is explicitly seeking Chinese investment in localized production rather than continued import dependence, with China currently supplying ~85-90% of Pakistan's API requirements and vaccine needs. While still at an early, non-binding stage, successful conversion of this initiative into committed investment could meaningfully improve the Sector's FDI trajectory, which fell sharply in FY25 on MNC divestment and gradually reduce the import intensity that currently weighs on margins and the external account.
- Pakistan is close to achieving WHO Level 3 certification, which would expand pharmaceutical export access from the current 51 countries to more than 150 international markets. At least 8 local pharmaceutical firms have already won WHO prequalification, PIC/S recognition, and MHRA accreditation, opening doors to regulated high-end markets including the US, Europe, and GCC countries.
- AGP Limited's board approved contract manufacturing and marketing rights for Viagra, and marketing and distribution rights for Xanax and the Oilatum skincare range in Pakistan in 2026, while also authorising the company to explore acquisitions, investments, and business combinations, and to appoint legal, financial and other advisors to support these initiatives.

# Pharmaceuticals

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- Fierce Pharma
- Drug Discovery
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