INSTITUTIONAL RESEARCH

Pharmaceuticals

Pharma dodges first round of US tariff risk

The US government under Trump 2.0 has announced reciprocal tariffs across countries, including ~26% tariff on imports from India. However, pharmaceutical products were exempted from the first round of tariffs. This is a positive for the sector, which has been under a tariff overhang since the last 2-3 months. The key concerns around price increase for the generic medicines in the US, drug shortages, rationalization from low-margin products, and supply chain disruption are temporarily alleviated, for now. However, pharmaceutical products may become subject to duties under future actions pursuant to the Trade Expansion Act of 1962. Indian generics account for ~40% of drug imports in the US (~USD 8 bn in FY24; over FY15-24, US exports saw 8% CAGR) and Indian companies like Zydus, Dr. Reddy's, Lupin, Aurobindo, and Sun Pharma are heavily reliant on the US market – with US sales contributing 30-50% of total sales (Exhibit 2). We note the Indian pharma index has already reacted to the tariff risks as it has been down ~10% in the last three months (Exhibit 7). This no-tariff-impact after the first round will be a positive for the entire pharma sector. Our top picks are Sun Pharma, Lupin, and domestic-focused companies like Torrent Pharma, Mankind, IPCA, and Eris Life (no presence in the US generics market).

- **The US imposes 26% tariff on India, but pharmaceuticals exempted:** The US administration under Reciprocal Tariff Policy that seeks to rebalance global trade flows by imposing an additional ad valorem duty (reciprocal tariffs) on all imports from multiple trading partners. This additional duty shall start at 10% and shortly thereafter, the additional ad valorem duty shall increase for trading partners like India to 26% (Exhibit 1). However, pharmaceuticals (along with other products - Annex II) are not subject to the ad valorem rates of duty under this order and may become subject to duties pursuant to future actions.
- **Tariff risk remains the key monitorable**: In case the US starts imposing tariffs on the pharma sector, it will impact both the countries, the US as well as India. The US depends on the low-cost generics manufactured in India, which helps its annual healthcare spending. With tariffs on pharmaceuticals, the prices of generic medicines in the US will rise, leading to a rise in healthcare inflation and rationalization from low-margin products by the Indian pharma companies would result in drug shortages. Indian peers, already operating on thin margins in the US generics may struggle to absorb costs without passing them on to US consumers or insurers and face heightened risks of margin compression. However, the negotiation for tariff pass-on will be challenging, given multiple stakeholders involved such as manufacturer, Pharmacys Benefit Mangers, wholesalers, retailers, and private and government insurers. Moreover, relocating manufacturing base to the US is economically unviable due to high operational costs (requires multi-million dollar investment) and lengthy construction as well as regulatory timelines (3-5 years to operationalized plant).
- **Analysis of scenario if tariffs are imposed in future:** We have assumed multiple scenarios (Exhibit 5-6) for tariff pass-on such as (1) 100% tariff to be borne by Indian pharma companies which will have a negative impact of 3-45% on FY27 EBITDA across our coverage universe (higher for companies like Aurobindo, Dr Reddy's, Lupin, Sun Pharma, and Zydus Life), (2) 50% tariff to be borne by Indian pharma can lead to 2-22% impact on FY27E EBITDA, and (3) 35% tariff (1/3rd of total tariff) to be borne by Indian pharma would have impact the FY27E EBITDA by 1-16%.

YE March	Rec.	TP (INR/share)
Pharma		
Alkem	ADD	5,700
Aurobindo	ADD	1,350
Dr. Reddy's	REDUCE	1,280
Eris Life	BUY	1,500
IPCA	BUY	1,800
Lupin	ADD	2,330
Mankind	ADD	2,830
Sun Pharma	BUY	1,970
Torrent Pharma	ADD	3,640
Zydus Life	ADD	1,120
Healthcare		
Apollo Hospitals	BUY	7,520
Max Healthcare	REDUCE	1,020
Medplus	BUY	900
Dr Lal Path labs	ADD	2,910
Metropolis	ADD	2,050

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Exhibit 1: Reciprocal tariff: country-wise

Countries and Territories	Reciprocal Tariff, Adjusted
Lesotho	50%
Cambodia	49%
Laos	48%
Madagascar	47%
Vietnam	46%
Myanmar (Burma)	45%
Sri Lanka	44%
Falkland Islands	42%
Syria	41%
Mauritius	40%
Iraq	39%
Botswana	38%
Guyana	38%
Serbia	38%
Bangladesh	37%
Liechtenstein	37%
Thailand	37%
Bosnia and Herzegovina	36%
China	34%
North Macedonia	33%
Angola	32%
Fiji	32%
Indonesia	32%
Switzerland	32%
Taiwan	32%
Libya	31%
Moldova	31%
South Africa	31%
Algeria	30%
Nauru	30%
Pakistan	30%
Tunisia	28%
India	**27%**
Kazakhstan	27%
South Korea	26%
Brunei	24%
Japan	24%
Malaysia	24%
Vanuatu	23%
Côte d`Ivoire	21%
Namibia	21%
European Union	20%
Jordan	20%

Source: whitehouse.gov, HSIE Research.

Exhibit 2: US sales contribution for India peers

Companies	FY19	FY20	FY21	FY22	FY23	FY24	9MFY25
US sales (USD mn)							
Sun Pharma	1,526	1,487	1,359	1,526	1,684	1,854	1,457
Cipla	489	553	551	594	733	900	713
Dr Reddy's	857	912	949	1,005	1,265	1,559	1,302
Lupin	777	800	720	738	632	815	682
Glenmark	449	444	415	407	383	373	275
Aurobindo	1,291	1,620	1,660	1,492	1,450	1,716	1,283
Zydus Life	899	882	856	780	926	1,038	944
Torrent Pharma	227	215	170	143	145	130	95
Alkem	271	310	330	312	313	335	223
US as % of total sales							
Sun Pharma	37%	32%	30%	29%	31%	32%	31%
Cipla	21%	23%	21%	20%	26%	29%	29%
Dr Reddy's	39%	37%	37%	35%	41%	46%	46%
Lupin	38%	38%	37%	35%	33%	36%	36%
Glenmark	32%	30%	28%	25%	27%	26%	23%
Aurobindo	46%	50%	50%	47%	47%	49%	46%
Zydus Life	48%	44%	44%	38%	43%	44%	47%
Torrent Pharma	21%	19%	16%	13%	12%	10%	9%
Alkem	26%	26%	28%	22%	22%	22%	19%

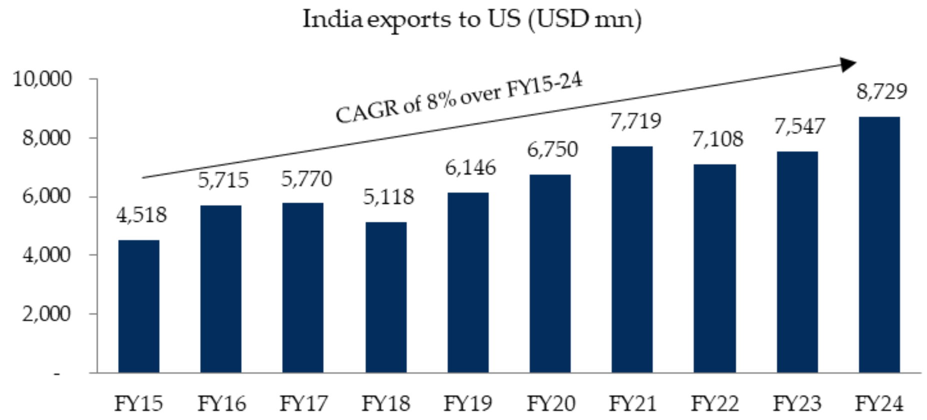
Source: Companies, HSIE Research

Exhibit 3: Indian Pharma companies with manufacturing plants in the US

Companies	US based plants	Plant details	Type	Upcoming plants in the US
Alkem	1	Azusa, CA, USA	API	Biologic CDMO plant in the US
Aurobindo	2	Aurolife - Dayton, NJ, USA	Formulations	Two formulation plants - US orals facility at Dayton, New Jersey and US derma, inhaler, and transdermal facility at Raleigh, North Carolina
		Aurolife - Unit-II, Durham, NC, USA	Formulations	
Dr Reddy's	2	Avenue, Shreveport, LA, USA	Formulations	
		Middleburgh, NY, USA	API	
Lupin	2	Coral Springs, FL, USA	Formulations	
		Somerset, NJ, USA	Formulations	
Sun Pharma	4	Dunham Rd, Billerica, MA, USA (Pharmalucence, Inc)	Formulations	
		Livingston Ave, North Brunswick, NJ, USA (Ohm Labs)	Formulations	
		New Brunswick, NJ, USA (Ohm Labs)	Formulations	
		Elmo Avenue, Chattanooga, TN, USA	API	
Cipla	2	Invagen Long Island, Hauppauge, NY, USA	Formulations	
		Invagen Fall River, Massachusetts, USA	Formulations	
Zydus Life	-			
Torrent Phama	-			
Mankind Pharma	-			

Source: Companies, HSIE Research

Exhibit 4: Indian export of Pharma in the US sees ~8% CAGR over FY15-24



Source: Industry data, HSIE Research

Exhibit 5: Impact of tariff – scenarios with multiple rates and pass-on probabilities

Tariff impact on FY27 EBITDA

Tariff rate	10%	15%	20%	26%	Tarif rate	10%	15%	20%	26%
Scenario 1	**100% borne by Pharma companies**				**Scenario 2**	**50% borne by Pharma companies**			
Alkem	9%	13%	17%	22%	Alkem	4%	6%	9%	11%
Aurobindo	18%	27%	36%	46%	Aurobindo	9%	13%	18%	23%
Dr Reddy's Lab	14%	22%	29%	37%	Dr Reddy's Lab	7%	11%	14%	19%
IPCA	6%	9%	12%	16%	IPCA	3%	5%	6%	8%
Lupin	13%	19%	26%	33%	Lupin	6%	10%	13%	17%
Mankind	1%	2%	3%	3%	Mankind	1%	1%	1%	2%
Sun Pharma	9%	13%	17%	22%	Sun Pharma	4%	6%	9%	11%
Torrent Pharma	3%	4%	5%	7%	Torrent Pharma	1%	2%	3%	3%
Zydus Life	16%	25%	33%	43%	Zydus Life	8%	12%	16%	21%

Source: Companies, HSIE Research

Exhibit 6: Impact of tariff – the best-case scenario

Tariff impact on FY27 EBITDA

Tarif rate	10%	15%	20%	26%
Scenario 3	**35% borne by Pharma companies**			
Alkem	3%	5%	6%	8%
Aurobindo	6%	9%	12%	16%
Dr Reddy's Lab	5%	8%	10%	13%
IPCA	2%	3%	4%	6%
Lupin	4%	7%	9%	12%
Mankind	0%	1%	1%	1%
Sun Pharma	3%	4%	6%	8%
Torrent Pharma	1%	1%	2%	2%
Zydus Life	6%	9%	11%	15%

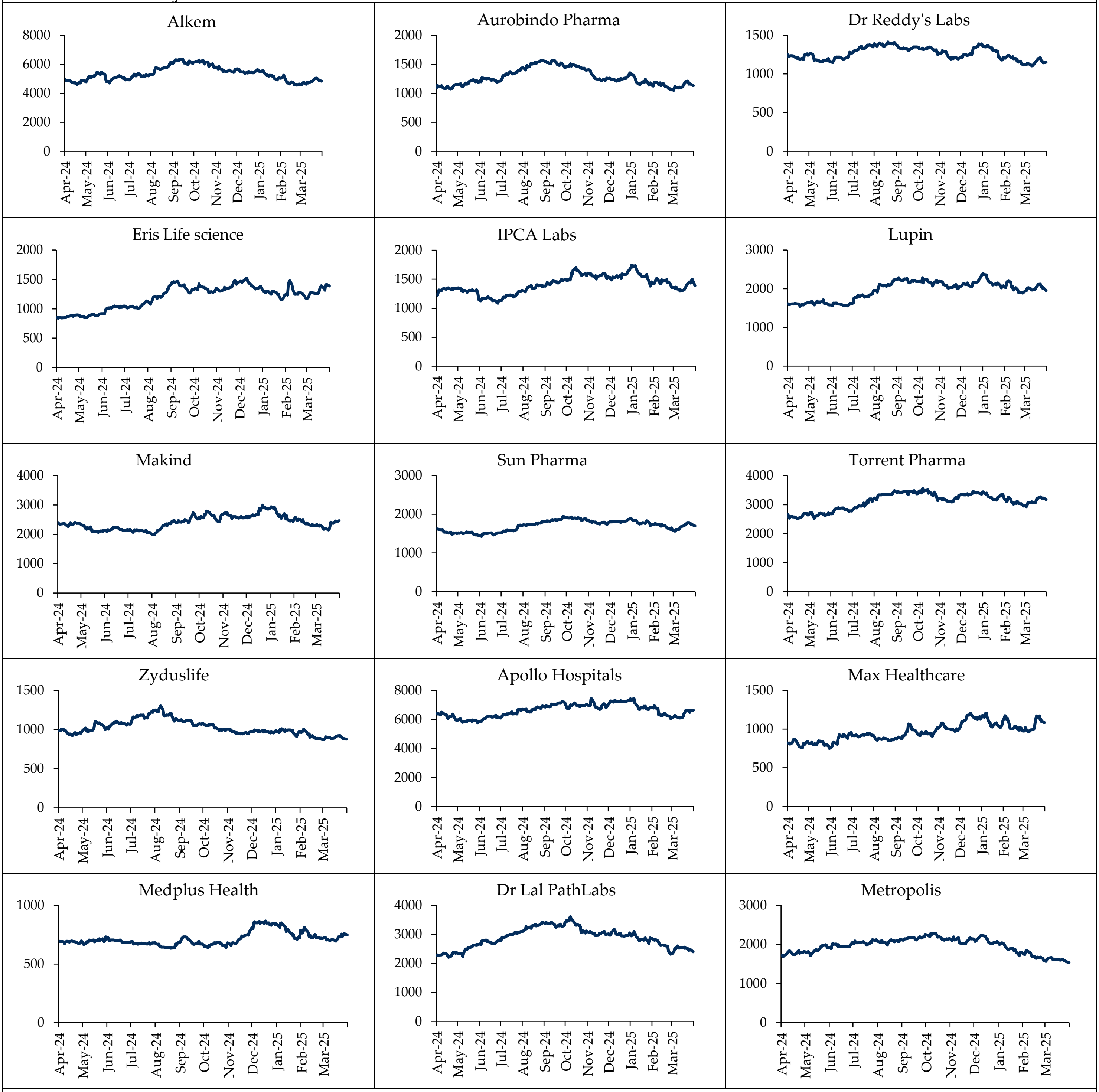
Source: Companies, HSIE Research

Exhibit 7: Pharma Index corrected ~10% in last three months due to tariff overhang

Companies	Price (INR)	Absolute performance (%)					
		1 month	3 months	6 months	1 year	3 year	5 year
Pharmaceuticals							
Alembic	886	19%	-16%	-26%	-12%	18%	65%
Alkem	4,903	6%	-12%	-20%	-1%	40%	116%
Aurobindo	1,159	10%	-14%	-19%	5%	70%	203%
Biocon	342	13%	-8%	-8%	27%	0%	18%
Cipla	1,453	3%	-6%	-13%	-2%	43%	224%
Divis	5,673	4%	-8%	5%	57%	30%	198%
Dr Reddy's	1,152	3%	-16%	-15%	-8%	35%	83%
Eris Lifesciences	1,375	16%	4%	4%	63%	95%	272%
Gland	1,535	-1%	-17%	-15%	-14%	N.A	N.A
Glenmark	1,519	19%	-7%	-9%	54%	236%	613%
IPCA	1,409	4%	-19%	-6%	14%	37%	103%
Lupin	2,008	5%	-16%	-8%	25%	162%	206%
Mankind	2,416	5%	-17%	-6%	1%	NA	NA
Natco Pharma	808	5%	-42%	-42%	-19%	4%	56%
Piramal Pharma	228	20%	-11%	0%	NA	NA	NA
Sun Pharma	1,714	8%	-9%	-11%	6%	89%	356%
Syngene	722	11%	-17%	-21%	0%	21%	188%
Torrent	3,202	9%	-7%	-5%	20%	130%	208%
Zydus Lifesciences	892	2%	-10%	-17%	-10%	152%	225%
Healthcare services							
Apollo	6,720	11%	-9%	-6%	5%	49%	465%
Aster DM	481	19%	-8%	15%	52%	148%	411%
Max Health	1,091	12%	-6%	12%	33%	N.A.	N.A.
Medplus	745	4%	-11%	12%	7%	N.A.	N.A.
DLPL	2,508	9%	-16%	-27%	10%	-3%	87%
Metropolis	1,550	-2%	-24%	-31%	-10%	-26%	N.A.
BSE HC	**41,116**	**8%**	**-10%**	**-7%**	**16%**	**69%**	**232%**
Sensex	**76,612**	**5%**	**-4%**	**-9%**	**4%**	**29%**	**178%**

Source: Bloomberg, HSIE Research

1 Yr Price history



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ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

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