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India | Equity Research | Sector Update

Pharma

No reciprocal tariff a positive for pharma players; sectoral tariff overhang prevails

US President Donald Trump has invoked his authority under International Emergency Economic Powers Act of 1977 (IEEPA) and has imposed a flat 10% tariff on all countries (effective 5th Apr'25) and a higher tariff on companies with which it has a higher trade deficit (effective 9th Apr'25). Pharmaceutical imports into the US are currently exempted from these reciprocal tariffs. Though this provides a relief, the administration is studying various protective measures imposed by countries on drugs manufactured in US and if found unfair may lead to an imposition of sectoral tariff under Section 232 of the US Trade Act. Besides, US also wants to become self-reliant in manufacturing of essential drugs which may also warrant shift in manufacturing of these drugs to US.

Pharmaceutical products are exempted from reciprocal tariff

US President Trump has imposed tariff on most of its trading partners in the range of 11-50%. However, pharmaceutical imports have been kept out of the purview of these new tariffs. India imports pharmaceutical drugs worth USD 800mn, of which 10% tariff is been charged on nearly USD 400mn of imports. India's total pharma exports to US stood at USD 12.8bn in CY24 (as per US International Trade Commission) which currently do not see any tariffs.

Risk of sector-specific tariff still persists

While the risk of reciprocal tariff is behind, the executive order listed pharmaceuticals and a few other sectors that could be subject to investigation under Section 232 of the 1962 US Trade Act may lead to the announcement of a sector-specific tariff in the near future. Besides, promoting manufacturing of essential medicines in the US could play as another important factor for sector-specific tariff ahead.

Possibility of three distinct scenarios ahead

Work towards clearance and implementation of Biosecure Act may pick up steam. The Biosecure Act prohibits entities that receive federal funds from using biotechnology that is from a company associated with a foreign adversary. The bill is currently pending with US Senate who had referred it to committee on homeland security and governmental affairs. Besides, a country -specific tariff on pharmaceutical imports may be announced with the aim of forcing countries to reduce tariff/duties on pharmaceutical and allied imports from the US. However, a blanket tariff on pharmaceutical imports across countries can also be levied and will have uniform impact across all nations.

Pharma companies may pass cost surge to consumers

Pricing pressure in the US due to channel consolidation and higher number of approvals has already squeezed profitability of the US generic biz for most companies, and hence, they may not be able to absorb any escalation in cost on account of tariffs. Companies are likely to pass on this charge to consumers and may lead to a significant increase in the overall cost of healthcare in the US. Besides, some companies may evaluate shifting of certain product manufacturing units to their US-centric plants in case of any mandatory order passed by the government for essential medicines.

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