

Pharma Tariffs - Can India escape?

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Late night on April 8, US President Donald Trump announced that tariffs on pharmaceutical product imports will be announced soon. The products have been exempted from the tariffs announced to date (Source: [ANI News](#)).

The key question is whether India can be exempted from the pharma tariffs, given the better relationship between the countries and the critical nature of India's generic drug supplies to the US healthcare system.

Country-specific exemption for India unlikely...

Analyzing the developments to date, we believe a country-specific exemption for India is unlikely. If pharma tariffs were to be country-specific, there would be no reason to hold them back when they were announced last week. Hence, country-specific exemption is unlikely in the upcoming round of pharma tariffs.

...however, India's generic firms could escape partly

However, we do not rule out the possibility of exempting specific drug categories that could benefit (relatively) India's companies. It is possible "generic drug formulations" could be exempted while patented drugs and chemical substances used for making drug formulations could be tariffed. Such a move would specifically hurt the EU and US large pharma companies that have plants outside the US, mostly in Europe & China, and China's Contract Development and Manufacturing (CDMO) firms. It will have limited impact on India's generic firms, which to a large extent export generic formulations (finished dosage forms) to the US.

Risk to near-term margin; over time, margin to rebound once tariff burden passed on

At the same time, we acknowledge the scenario is volatile to take a definitive call on tariffs and their impact. In the event material tariffs are implemented, we believe most of it will get passed on to end-customers, but some portion will be absorbed by manufacturers. That does pose risk to the near-term margin profile of India's generic companies with a significant exposure to the US. However, over time, we believe the lower margin profile will lead to drug shortages and rise in prices; thus, the entire additional tariff burden would eventually get passed on, and, therefore, margin would rebound.

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