

Bitter Pill

US President Trump's push for cheaper drugs may be just what the doctor ordered for domestic low-cost innovators, but why then is Indian pharma chary?

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In 2013 when Ranbaxy, one of India's oldest drug companies, agreed to the US Department of Justice's (DOJ's) charge of wrongdoing in its manufacturing process, a \$500 million fine seemed like a small price to pay for what was coming. Ranbaxy became a stick for global competitors of Indian drug companies to beat the industry with the issue of "poor quality". It seemed that Indian companies would immediately be hit by Ranbaxy's actions; however, that tide had seemed to have passed, with large Indian drug makers speeding ahead with their growth in US markets because of the free market policy towards price control.

Cut to 2015, when Indian drug makers' growth hit a speed bump because of manufacturing issues. While a couple of India's biggest pharma firms have their factories under import alert by the US Food & Drug Administration (USFDA), since November last year, a handful of other companies were put under investigation by the DOJ over alleged cartelisation. And, with the Donald Trump administration now in the driving seat, Indian pharma has a new problem: while one view is that the US president's determination to reduce drug prices will benefit Indian pharma's thrust on affordable generics, it is Trump's clamour to

Make in America that has local drug makers spooked.

The Trump Effect

In his first press conference after taking charge as the president, Trump lashed out at the pharma industry in the US, which sent stocks of Indian drug companies in a downward spiral the very next day on Dalal Street, as the possibility of harsh pricing pressure in the most profitable market

loomed.

"Our drug industry has been disastrous. They are leaving left and right. They supply our drugs, but they don't make them here, to a large extent. And the

other thing we have to do is create new bidding procedures for the drug industry because they're getting away with murder," said Trump in January. Trump added that even though the US is the largest buyer of drugs in the world, the country does not bid properly and it will soon start bidding in a way that would help it save billions of dollars over time.

Trump's protectionist statements are the last thing that Indian drug makers need. They are dealing with a spate of regulatory charges from the USFDA that has wiped out nearly ₹15 billion worth of market cap of the top five drug companies over the past one year. The companies themselves, though not directly talking about the Trump effect, are preparing for a muted year ahead.

"We continue to have challenges in base and customer business. The market share in the US is linked to your getting new business. So we have to split into market share and market supply," said Dilip Shanghvi, managing director, Sun Pharma, India's largest drug maker. Sun Pharma, which gets nearly 45% of its revenue from the US, posted a 5% drop in its net profit to ₹1,472 crore in the quarter ended

December 2016.

The US market sales registered a 4% growth to \$507 million in that period.

"There are three key policies that have been mentioned in speeches and campaign documents: Removing restrictions on sale of pharmaceutical drugs manufactured outside the US Repealing Affordable Care Act (ACA). And allowing Medicare to negotiate pricing. Of the three, while the first is a positive



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for generics, the last two will be negative for them. We believe the key focus will be on repealing ACA," wrote analysts from brokerage firm Jefferies in their impact report on Trump and Indian pharma.

Even Dr Reddy's had a similar outlook. "We continue to face headwinds for our US

Even as mid-size pharma companies like Glenmark persist with their plans to build manufacturing units in the US, they're also stepping up the pace in emerging markets like Russia, Latin America and Japan



The Glenmark manufacturing facility in Monroe, North Carolina, US

Indian Pharma Factories in North America

Lupin
Somerset,
New Jersey

Sun Pharma
New Jersey (2), Philadelphia,
Detroit, Brampton (Canada),
Wilmington, Chicago

Cipla
Long Island

Dr Reddy's
Shreveport,
New England

