

## India

May 12, 2025 - 6:40 PM

**Neutral** (no change)

## Highlighted Companies

**Lupin****ADD, TP Rs2329, Rs2040 close**

With increased pricing pressure from the MFN policy, pharmaceutical giants will exit certain products, making the market more accessible for generics.

**Cipla****ADD, TP Rs1640, Rs1512 close**

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**Dr Reddy's Laboratories****HOLD, TP Rs1250, Rs1196 close**

With increased pricing pressure from the MFN policy, pharmaceutical giants will exit certain products, making the market more accessible for generics.

## Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F	Mar27-F
Lupin	27.9	23.4	
Cipla	24.5	22.8	
Dr Reddy's Laboratories	17.6	17.3	20.8
P/BV (x)	Mar25-F	Mar26-F	Mar27-F
Lupin	5.4	4.5	
Cipla	3.9	3.4	
Dr Reddy's Laboratories	3.0	2.6	2.3
Dividend Yield	Mar25-F	Mar26-F	Mar27-F
Lupin	0.4%	0.4%	
Cipla	0.4%	0.4%	
Dr Reddy's Laboratories	0.7%	0.7%	0.7%

## Pharmaceuticals

## Trump's MFN pricing plan to cut drug costs

- US President Donald Trump's 'Most Favoured Nation' (MFN) drug pricing plan seeks to cut drug costs.
- The MFN policy faces significant legal, political, and industry opposition, raising doubts about its implementation.
- Indian pharmaceutical companies may benefit from increased demand for generics and contract manufacturing.

## Trump administration announces MFN to cut Medicare drug prices

- The Trump administration has announced its Most Favoured Nation (MFN) policy through an executive order. We believe the policy aims to drastically cut prescription drug prices under Medicare Part B, as Trump had done in his previous tenure. The policy is expected to tie US drug prices to those in other nations like Switzerland and Japan, where the pricing is significantly lower due to centralized negotiation systems. The US president believes this will save trillions in taxpayer dollars and reduce out-of-pocket expenses for Americans.

## Strong industry opposition and legal challenges likely

- The pharmaceutical industry, led by PhRMA, has opposed the MFN model, calling it government price-setting that could stifle innovation and reduce investment in R&D. Companies warn it could force them to withdraw from Medicaid and reduce the availability of affordable medications. The policy is expected to face major legal pushback, like the failed 2020 attempt that was blocked by federal courts.

## Limited scope and political uncertainty undermine implementation

- The current MFN plan is expected to be limited to Medicare Part B drugs—excluding common retail prescriptions under Medicare Part D. There's no clarity on whether the policy will extend to Medicaid. With resistance from Republican lawmakers and unclear legislative support, the policy's future remains highly uncertain.

## Impact on Indian pharmaceutical industry

- Indian pharmaceutical companies may benefit if the MFN policy is implemented because there will be increased demand for generics and biosimilars, as US companies will exit the market in the case of certain products. Companies operating in the CRAMS space, like Divi's Laboratories and Piramal Pharma, could see more outsourcing opportunities.

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## Trump announces 'Most Favoured Nation' drug pricing plan'➤

### Overview of the policy

US President Donald Trump has announced his plans to sign an executive order that would drastically cut prescription drug prices in the country. This policy is expected to be particularly for those covered by Medicare Part B, which includes drugs administered in doctors' offices, aligning the prices paid by the federal government for certain drugs to the prices paid by other countries. These countries often have single-payer healthcare systems that allow them to negotiate much lower prices than in the US.

- The policy aims to address the US's notoriously high drug prices by tying what the government pays for drugs to the lowest prices available in other countries. For example, a 30-day supply of Jardiance, a popular diabetes medication, cost \$611 in the US last year, compared to US\$70 in Switzerland and US\$35 in Japan. This price discrepancy highlights the significant cost burden on US patients and underscores the motivation behind Trump's push to align US drug prices with those of other countries.
- Trump has repeatedly criticized the pharmaceutical industry, accusing it of price-gouging and exploiting American consumers while foreign countries enjoy much lower prices due to their ability to set drug prices. Trump has argued that this policy would save the US trillions of dollars, a claim he reiterated in a recent social media post. He also stressed that Americans would see reduced healthcare costs by numbers never imagined before, while the US would finally be treated "fairly."
- This initiative is not entirely new for Trump. He had attempted to implement a similar policy during his first term, but it was blocked by a federal court on procedural grounds in 2020. Despite this, Trump has pushed forward with the MFN model again, suggesting that now, more than ever, it's the right time to fight against the pharmaceutical industry.

## Pharmaceutical industry pushes back against MFN policy ➤

### Industry opposition

The pharmaceutical industry has strongly opposed the MFN model, which they argue would negatively impact innovation, increase reliance on foreign pricing models, and reduce US investment in the drug sector. Industry representatives argue that it would harm pharmaceutical companies' profits, leading to less innovation and research.

Research and Manufacturers of America (PhRMA), the leading trade association for drug companies, called the MFN policy a "bad deal for American patients" and warned that it could hurt the American healthcare system by creating reliance on other nations for pricing determinations. The association argues that this model is a form of government price-setting, which it believes would stifle competition and drive drug manufacturers out of the US.

- The industry fears that tying US drug prices to foreign countries would lead to lower revenue for pharmaceutical companies, which could ultimately affect their ability to invest in new medicines. As a result, companies may even choose to withdraw from Medicaid, the government program for low-income Americans, which could significantly reduce the number of affordable medications available to those in need.
- The policy is also expected to face legal challenges like those faced in 2020, when a court blocked the initial attempt to implement MFN. At that time, the administration estimated that the policy would save Medicare more than US\$ 85bn over a period of seven years. Given the industry's ongoing lobbying efforts and significant political influence, further court battles are expected, especially if the policy is implemented in the coming months.

## **MFN executive order targets Medicare Part B ➤**

### *Scope of MFN*

The executive order is expected to focus specifically on Medicare Part B drugs, like in 2020.

These are medications administered in doctors' offices, such as chemotherapy drugs and other injectables. Medicare Part B drug spending topped US\$33bn in 2021, which highlights the significant cost burden on both Medicare beneficiaries and the federal government. Trump's MFN model could lower these costs for Medicare beneficiaries by linking US drug prices to those in foreign countries, potentially saving billions in taxpayer dollars.

- However, the policy would likely exclude Medicare Part D, which covers prescription drugs filled at pharmacies. This means that the policy would not directly impact the more common prescription drugs that patients pick up at pharmacies, leaving a significant portion of drug costs outside the scope of the MFN model.
- The MFN approach could also reduce out-of-pocket costs for Medicare beneficiaries, as drug prices are a major factor in determining both premiums and co-payments. By lowering the price of medications, beneficiaries may see a reduction in their overall healthcare costs, easing their financial burden.

## **Uncertainty surrounding the MFN policy ➤**

### *Uncertainty*

While Trump's proposal has gained attention to curb rising drug costs, it faces stiff opposition not only from the pharmaceutical industry but also from Republican lawmakers. Although Trump has pushed for this plan to be part of a larger Medicaid reform package, the White House had initially pressed Congress to include the MFN provision in its ongoing tax and spending cuts bill. However, it is unclear whether this provision will make it into legislation, given the resistance within the GOP and concerns over the broader economic impact of such a policy.

- Trump has grown increasingly focused on lowering drug prices in recent weeks, urging aides to identify policies capable of significantly reducing drug costs. This focus comes at a time when Trump's poll numbers have dipped, partly due to concerns over his tariff policies, which have raised fears of inflation and shortages of consumer goods. In response, he has intensified his push for drug price reforms, likely to regain public support.
- White House press secretary Karoline Leavitt hinted at the upcoming announcement, calling it "big and historic" but offered no specifics. Within the administration, Trump has been adamant about moving forward with his drug pricing initiative, using existing powers to impose the MFN model without waiting for congressional action. This decision comes after initial efforts to include the MFN provision in the Republican mega bill stalled due to opposition from the GOP.
- Trump's executive order is expected to look largely like his first attempt in 2020, with limited details on which exact drugs will be targeted, leaving many questions unanswered. However, this new push could bring Trump into direct confrontation with the powerful pharmaceutical industry, which is likely to mount a massive opposition and pursue further legal challenges to block the order.

## **Challenges and implications of MFN drug pricing order ➤**

### *Challenges and implications*

Although Trump has not clarified whether the MFN policy would apply to Medicaid or only to Medicare, there have been discussions that it could extend beyond the 10 drugs already under negotiation through former President Joe Biden's Inflation Reduction Act (IRA). This law, for the first time, gave Medicare the power to negotiate prices for certain drugs, with more drugs set to enter the negotiation process this year. However, insiders report that Trump's MFN order may cover a broader range of medications, extending beyond the scope of the IRA's current scope, potentially impacting more medications in the future.

- We remain cautious about the proposal's likelihood of success due to Trump's past failures in delivering bold drug pricing promises. Trump's proposed executive actions are highly unlikely to be implemented successfully, as legal challenges are expected to arise, like they have in the past.

- While the MFN model could potentially lower out-of-pocket costs and premiums for Medicare beneficiaries, it is unlikely to affect more common retail prescription drugs filled at pharmacies, which are not covered under Medicare Part B. Therefore, the MFN model's impact may be limited to certain high-cost medications administered in clinical settings, leaving other aspects of drug pricing largely unaffected.

In conclusion, Trump's new executive order targeting drug pricing under the MFN policy aims to reduce the costs of medications for Medicare beneficiaries by aligning US prices with those in other countries. However, it faces significant opposition from the pharmaceutical industry, potential legal challenges, and political uncertainty surrounding its implementation. The MFN model remains a highly contentious issue, and its success will depend on overcoming industry resistance and navigating the legislative and judicial challenges that lie ahead.

### Potential impact on the Indian pharmaceutical industry ➤

#### *Indian pharmaceutical industry*

The proposed MFN drug pricing policy of the Trump administration—aimed at tying US Medicare drug prices to those in other developed countries—would primarily impact US-based and multinational pharmaceutical companies, but it could also have indirect consequences for the Indian pharmaceutical industry, especially in the following ways:

- If US prices are forced down, brand-name drugmakers may lose revenue and cut back on certain product lines or R&D. We have already seen this in the insulin scenario where Novo Nordisk is looking to exit the market and focus on GLP1s due to the pricing pressure imposed by the Inflation Reduction Act. This could increase demand for cheaper alternatives, especially generic and biosimilar drugs—an area where Indian pharmaceutical companies like Sun Pharmaceutical Industries, Dr. Reddy's Laboratories, Cipla, and Lupin have a strong presence.
- If MFN pricing leads to system-wide US drug price deflation, **which is highly unlikely as currently the legislation is expected to focus on Medicare Part B drugs**, even generic drug prices may come under additional pressure. Indian exporters already face thin profit margin in the US due to intense competition and FDA regulatory costs.
- US pharmaceutical companies will reduce R&D spending due to lower profits, benefiting contract research and manufacturing organizations (CRAMs) in India—like Divi's Laboratories and Piramal Pharma.
- In a highly unlikely, pessimistic scenario, if the MFN model gains traction, other countries may push for similar reference pricing systems, triggering a race to the bottom on global drug prices. This could affect global drug pricing benchmarks, lowering average prices worldwide—which could squeeze revenue across the pharmaceutical value chain, including Indian exporters.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.