Piramal unfazed even as Trump return may fuel uncertainty in its biggest market

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Summary

Trump's second inning is likely to spell uncertainty for pharma companies, says Nandini Piramal, referring to his plan to impose import tariffs to make American industry stronger.

Piramal Pharma Ltd is confident that the company's American facilities can help it navigate the volatility in its largest market US following Donald Trump's comeback, according to chairperson Nandini Piramal.

Trump's second inning is likely to spell uncertainty for pharma companies, she told *Mint*, referring to his plan to impose import tariffs to make American industry stronger. “I do think there will be an increase in volatility, but one of the benefits is that we do have manufacturing based in the states. For the customers that can pay the prices, we can manufacture for them. Overall, the Indian industry has lower prices for worldwide patients, which is a good thing."

Nearly two-thirds of Piramal Pharma's revenue comes from the developed markets, out of which the US comprises 35%. The company has three US-based facilities: Riverview, Michigan for making high potency active pharmaceutical ingredients (APIs); Sellersville, Pennsylvania, which manufactures oral solids, creams, liquids and ointments; and Lexington, Kentucky for making sterile Injectables.

The company also expects to be better placed in the US in the coming years as the Biosecure Act comes into play.

The US House of Representatives passed the act in September, prohibiting American pharma players from doing business with certain Chinese drug companies starting 2032. Since then, all eyes have been on Indian contract development and manufacturing organizations (CDMOs) like Piramal Pharma, Syngene, and Neuland Labs as businesses will look to shift their supply chains to an alternative base.

Imminent tailwind

While the tailwind seems imminent, there’s still a seven-year window for the US companies to shift gears and China is still a cheaper alternative, Piramal said. Plus, the act is yet to be passed by the US Senate.

Piramal said that they have seen an increase in the number of requests for proposals (RFPs) as US companies try to understand what capabilities lie out there. “But so far, nobody has yet decided."

According to Sujay Shetty, global health industries advisory leader, PwC India, it might be too early to predict the volatility the Trump regime might bring to Indian pharma companies. “There will probably be less regulation and more focus on affordability," he told *Mint*. “Certainly, there will be a lot of focus on the Biosecure Act, and localization… this much we know till now, but I think it is very premature to go beyond this."

According to an October report by McKinsey & Company, India could account for 8-10% share of the work outsourced to CDMOs globally by 2033, largely driven by geopolitical changes. Most Indian CRDMOs could expect 20-40% of their new business stemming from these changes, the report said. The global CDMO industry is expected to rise to ₹39.2 trillion by 2032 from an estimated ₹18.8 trillion currently.

Piramal Pharma will focus on expanding capacity in the existing facilities in the US and has no plans to set up more plants right now.

“In the last three years, we expanded our Aurora facility, Riverview facility in Michigan, and now we are doing the Kentucky facility (Lexington)," Piramal said. “When we built each of these, we left room so that you don't have to do an expansion in the next 2-3 years."

Opportunity in UK

While the company is confident about managing the potential turbulence in the US, the UK is also a “very important part of our offering" Piramal said.

“The Grangemouth facility is the only one that does antibody drug conjugates, which is a really interesting area to be in," she said. “That's again one of our magnets in terms of what gets people coming to us. That's an area that I'm very excited about."

But growth in the injectables pain management segment in the last quarter remained slow due to supply constraints.“We have two [Europe-based] contract manufacturing organizations (CMOs) who are finding it difficult to supply to us the quantities that we need…," Piramal said. “We're working with them to see what we can prioritize, how we can get more supply out in the short term, and the long term."

Focus on power brands

The company seeks to strengthen its existing capabilities in its CDMO business. “The focus is more on expanding the existing set…We may consider doing acquisitions for skills and capabilities that we don't have," Piramal said. “But I think the primary focus will be on expanding the capacities that we have because that's the fastest way to profitable growth."

Piramal plans to invest more than ₹700 crore ($85 million) in brownfield expansion in FY25. This capital expenditure will mostly be assigned towards the CDMO segment of the company, *Mint* reported earlier.

Additional capacity may provide an edge as Piramal Pharma grows its global footprint, especially with US companies considering a switch due to the Biosecure Act. “If you want to be in biosimilars, if you want to be in clinical trials, if you want to be in drug development, if you want to be anywhere in that supply chain--as compared to what the Chinese companies are doing --then you have to build technical capabilities in those areas," said Shetty of PwC India.

The company is also looking increase sales and manage supply constraints in the hospital generics business, as well as launch new products. It launched Neoatricon (neonatal hypotension or low blood pressure drug) earlier this year.

The drugmaker has seen a major uptick in online sales of its Indian consumer healthcare business. Online sales rose 30% in the first half of this fiscal year, and will soon make up 20% of total sales, Piramal had said in a post-earnings call with investors last month.

“We’ve used the online space a lot to try out our new products," Piramal told *Mint*. “You have to be where consumers are. Especially during Covid, a lot of people switched to online," she said, adding that the company is focusing on an omnichannel approach. Piramal Pharma’s India consumer healthcare business registered double-digit growth in the first half of this fiscal year. The company aims to reach ₹1,000 crore in turnover this fiscal compared to ₹940 crore in FY24, Piramal said.

“We want to continue increasing sales of our power brands (CIR adult diapers, Little's baby care products and Tetmosol ointment). Last quarter, power brands actually grew 18%. And so that's the kind of trajectory we'd like to continue overall," she said.

Growth conundrum

Amid a rising debt, the company is pressing ahead with an organic growth strategy without actively looking for acquisition opportunities in the short term, *Mint* reported earlier. Piramal Pharma is keen to pare its over ₹4,200 crore debt (as of September 2024) but at the same time intends to catch up with the growth momentum it lost during Covid-19.

“CDMO is a business where the first mover should have had a dramatic advantage, and Piramal Pharma was among the first movers," said Aditya Khemka, InCred Asset Management & Alternative Investments.

On what slowed things, Piramal said, “I think one is possibly, pre-covid, we were actually full, and we didn't continue our expansions during Covid. We actually took a pause because we were unsure. Maybe, if we had continued expansions, we could have gotten some benefit of the post-Covid bump," she said. “It took longer for us to complete our expansions."

Its competitor Suven Pharma's revenue grew from ₹833.79 crore in FY21 to ₹1,009.72 crore in FY22, according to data from Capitalmarket. Divi's Laboratories Ltd saw its revenue grow from ₹5,394.42 crore to ₹6,969.40 crore in FY22. Sun Pharma’s topline grew from ₹6,880.23 crore in FY21 to ₹8,753.25 crore in FY22.

Piramal Pharma was carved out of parent Piramal Enterprises Ltd in 2022. It was listed as a separate entity on the exchanges that year, making it difficult to ascertain the company’s growth trajectory in comparison to that of its peers in the period prior to listing.

The company, however, reported muted growth in FY22 and FY23, but has since then seen a steady uptick in its CDMO business. In the second quarter ended September 2024, the company’s revenue rose 24%.

With enhanced inquiries on the CDMO front at the industry level in India, Piramal Pharma well poised to benefit from its differentiated capabilities and capacities, Tushar Manudhane, research analyst at Motilal Oswal, wrote along with other research analysts in an October report. “It is increasing its offerings in the CHG segment (complex hospital generics) through an established global network," it said, reiteraing its buy rating on the stock.

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