

ETPrime

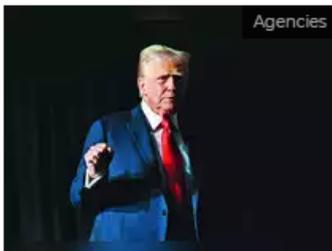
US foreign aid ban hits HIV-related local drug stocks

ET Bureau • Last Updated: Jan 28, 2025, 05:49:00 AM IST

FOLLOW US SHARE FONT SIZE SAVE

Synopsis

Laurus Labs slumped 11.6%, Aurobindo declined 2%, Cipla fell 1.1% and Strides dropped 5%. Other pharma shares also declined with 19 out of 20 stocks on the Nifty Pharma index ending lower. The pharma index fell 2.7%, while the benchmark Nifty ended 1.1% lower on Monday.



In a stock exchange disclosure, Laurus Labs said the move's impact will not be significant as the overall ARV (anti-retrovirals) medicine market size is \$1.5 billion, representing 10% of the total HIV financing budget annually.

Mumbai: Shares of domestic drugmakers making medicines to treat HIV infections plunged Monday after the US government ordered a pause on foreign aid, which could include funding for the AIDS relief programme. The move could hurt companies like [Laurus Labs](#), [Strides Pharma](#), [Aurobindo Pharma](#), and [Cipla](#), as HIV drugs are key contributors to their revenue.

Laurus Labs slumped 11.6%, Aurobindo declined 2%, Cipla fell 1.1% and Strides dropped 5%. Other pharma shares also declined with 19 out of 20 stocks on the Nifty Pharma index ending lower. The pharma index fell 2.7%, while the benchmark Nifty ended 1.1% lower on Monday.

If Trump continues to withdraw funding, then companies which derive significant revenue from WHO (World Health Organisation)-based funding programmes, like Laurus Labs, Aurobindo, and Cipla, would have a tough four to five quarters," said Aditya Khemka, fund manager at InCred Equities.

In a stock exchange disclosure, Laurus Labs said the move's impact will not be significant as the overall ARV (anti-retrovirals) medicine market size is \$1.5 billion, representing 10% of the total HIV financing budget annually.

"Today's reaction was a short-term knee-jerk reaction and is not likely to stretch beyond one or two quarters for ARV manufacturing companies," said Nikhil Ranka, CIO, Nuvama Alternates. "The ban on foreign aid by the US is announced for 90 days as of now, so it remains to be seen if the pause will be lifted after that period."

"Since Laurus Labs was richly valued and ARV segment is a major contributor to revenues, the news led to a sharp decline in the stock today." In 2024, the Nifty Pharma Index surged 39.1% while the benchmark Nifty gained 8.8% in the same period. So far in January, the Pharma Index dropped 9.1% while the Nifty fell 3.5% in the same period.

"The call to book profits is based on relative performance and pharma companies overall have performed well in 2024," said Khemka. "Investors are taking some money off the table due to capital rotation."

Ranka said that pharma makes up around 8 to 10% of most foreign investors' portfolios and the intense sell-off has led to a correction in pharma stocks as well. "Despite the run-up last year, pharma stocks are now at comfortable valuations post the 10% correction this year and can offer a double-digit upside from a 12 to 15-month perspective which could be a good buying opportunity for investors," said Ranka.

SELECTIVELY BULLISH

Khemka said that stocks like Dr Reddy's Laboratories, Zydus Lifesciences, Sun Pharma and Natco Pharma can remain under pressure as they outperformed due to specific product launches last year and are not likely to sustain their earnings this year in the absence of these launches.

"Investors can choose to buy stocks in the non-cyclical pharma companies such as Torrent Pharmaceuticals along with hospitals and diagnostics stocks as these are defensive and not susceptible to macro changes," said Khemka