

**Pharma Outlook by
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Hello everyone!

Hope you are safe and healthy in such testing times. In light of the current COVID-19 pandemic, and also looking at all the push in the pharma sector, I am sure you have been thinking about its current and future investment prospects.

Let me construct the discussion by delving a bit into the history of the sector, what is happening on COVID-19 front, impact on pharma companies and how are they addressing certain practical difficulties on account of COVID-19, a broader sector outlook and finally a glimpse on our portfolio structure and earnings growth expectations.



A Bit Of History On The Sector

Healthcare sector was **underperforming for last 3 years** but with recent 30% upward move, sector returns are 12% CAGR outperforming other indices

Headwinds impacting sector with focus on these two countries as they form **70-75% of business at industry level**

US - Largest market, channel consolidation, heightened price erosion, heightened scrutiny of plants. Outside the US, India is the largest player in US with 40-45% generic share by volume

INDIA - Price action led by regulators impacting pricing in 1 year and GST impacting growth due to inventory adjustment in system and lower volumes in another

As We Speak

INDIA

- Growth normalized with positive trends in last 2 Quarters prior COVID-19
- While Q4 saw some stocking effect and as a consequence growth came off in Q1, fair expectation of growth in India going forward

US

- Scrutiny lower as FDA officials cannot travel due to travel restrictions
- However, the worry doesn't go away, and Indian companies need to be agile to adapt to ever evolving requirements of FDA

COVID-19: A Global Pandemic

No clear ONE medication recommended to treat across the globe

Drugs - More than 50 drugs at various stages and efforts towards repurposing existing drugs

FACT remains with so much uncertainty

Vaccines - Many at different stages of development. Moderna, Pfizer, Astra Zeneca and Sinopharm to name a few are at the forefront

Pharma classified as essential goods, the supply chain and manufacturing should continue

Vaccines not the end game - Many viral diseases like HIV, Hepatitis C and SARS do not have a vaccine yet

In the near term the prospects of growth for the sector are definitely better with

Diagnostics - Best mechanism is to continue social distancing, great hygiene and more testing- PCR-based and antibody!

Exports to outperform the Domestic growth due to more demand & cost benefits that we inherently have

Too early to say when we hit peak, control of spread more important than immediate cure

How Companies are Tackling with the COVID-19 Situation?



Broader Sector Outlook

INDIA

- Bullish on the prospects of the sector with a low double digit growth expected
- Hospital and Diagnostic companies have challenges over next 2 Quarters with footfalls falling. Diagnostic companies to benefit on account of COVID testing in their bouquet while Hospitals do have a lot of pent up demand which should come in over next few quarters

US

- Base is not small hence ability to grow is lower
- Preference towards companies with a relatively smaller base in US and investing in complex/specialty-based products
- Currency tailwinds will enable earnings growth in US to be in double digits in the near to medium term

API Business

Dependence on China for API and intermediates is very high 70% and will remain so

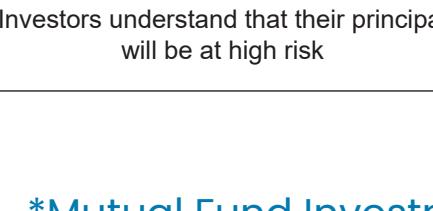
Trend of business shift from China is real. With low cost of labour and good chemistry skills, India is a natural beneficiary. However, we do expect the shift to be gradual

For commodity volume products it is difficult to match prices from China. Incentives for API investments through API parks/hubs & PLI schemes are steps in the right direction

Customers are keen to derisk from China and India expected to benefit on the same

While valuations are above normal now, expect double digit earnings CAGR over the next 2-3 years and hence valuations may possibly sustain

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- Long-term capital appreciation
- Equity investments in stocks of companies in the healthcare sector

¹Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

²Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.

01

Growth is seemingly good in regulated markets in this pandemic situation. Some companies are benefiting from supplies of COVID drugs whereas broadly speaking the growth seems structural in nature

02

Indian companies are benefiting on account of their low base in these countries. Also as India is losing out or wants to derisk from China, it is also benefiting on the Formulations front

Our Portfolio Construct

Bullish on long-term trends for India Formulations and Healthcare services side

Expect exports to outperform India growth story in the near term. To that extent our portfolio is skewed to capitalise this with ~70% of investments towards Exports

30% of stock ownership is in India business (including healthcare & diagnostics), 30-35% in US, 20% in R&D & 5-10% in contract manufacturing

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