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**MONEY
MATTERS**

**Pharma a Big
Theme, Will Last
for Many Years**

Reliance Mutual Fund's
Sailesh Bhan on healthcare
sector ►► **PAGE 11**



"Ten years ago, Indian companies did not have scale to acquire. Now that they have been successful and have created cash in business, they can add on to their portfolio. Acquisitions are way to go as they cut down entry time to new markets."

FILE PHOTO

Pharma a Big Opportunity, Will Last for Many Years

Investors need to bring down their return expectations from pharma stocks to 15% from 20-25% clocked in the last five years, said Sailesh Bhan, deputy chief investment officer, Reliance Mutual Fund. In an interview to **Prashant Mahesh**, Bhan, who manages the fund house's pharma scheme, said pharma companies need to be careful in acquisitions. Edited excerpts:

The healthcare index is down by 10.61% since the start of the year, against the Sensex which has lost 3%. What is the reason for this underperformance?

A couple of things have happened since 2008. The weight of the sector in the Sensex which used to be 3% has moved up to 12%. This journey has given huge returns to investors and reflects the outperformance of this sector. Today, there is significant and meaningful ownership in this sector, while competing sectors have seen erosion in ownership.

Strong returns in the last 4-5 years have created a high multiple base for a lot of companies and the markets are pricing in their ability to repeat that kind of growth. This appears challenging, which has led to a de-rating of the sector, especially for companies which are oriented to international markets. Earnings outlook has slowed down on the international side, due to regulatory reasons where approvals are slow or simply due to the fact that the base is large for them to rapidly grow in

international markets, unless you have an existing portfolio.

However, the stock price correction seems to be over and now they should consolidate at these levels. From here on, investors should bring down return expectations to 15%, compared to the 20-25% they got earlier.

USFDA's observations on plants of various Indian pharma firms has been one of the main reasons for the fall in stock prices. Are investors reading too much into it?

FDA observations are normal in most cases. The problem arises if these are repeated and if they have got anything to do with data integrity. Every letter issued by the FDA to a company



HEALTHCARE SHOW



Today, there is significant and meaningful ownership in (health-care) sector, while competing sectors have seen erosion in ownership

is not the same. Since investors do not have content of the letter at the time of newsflow, it is perceived as a significant negative, which often leads to a sharp correction in price.

In a lot of cases, good Indian companies will come out of it strongly since their processes are strong and they will take one more step to take the compliance level higher. It is a coincidence that all these FDA issues have come together, which makes investors feel this will keep on happening.

The health ministry has banned sale and manufacturing of 344 fixed dose combinations? How will this affect pharma companies?

Industry data suggests 1-3% of turnover comes from this category. The impact may not be significant on an industry-wide basis. However, there could be company specific issues.

Do you prefer Indian pharma firms where valuations are cheap or MNCs at expensive valuations?

It's more about the business of the company rather than ownership. While evaluating a company you look at the business, distribution, capability and advantage that it has.

For example, in the domestic market, there is an unlimited opportunity for good companies. The market opportunity will last for many years to come and be it Indian or MNC, the domestic pharma industry is just being born. Cost of medicine is not high in India when compared to incomes and as awareness and detection increases, the market will only grow.

PHARMA PROMISING



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The export price has reached a good threshold and is the second opportunity. The ANDAs companies have filed, the US generics markets, once approved will lead to significant opportunities in the US and European markets. The third opportunity is the contract research and manufacturing companies which are suppliers to global pharmaceuticals. Also, diagnostic companies and hospitals are good opportunities where potential is very large.

Sun Pharma recently acquired 14 prescription brands in Japan, while Biocon got approval for insulin glargine in the country...

Ten years ago, Indian companies did not have scale to acquire. Now that they have been successful and have created cash in business, they can add on to their portfolio. Acquisitions are way to go as they cut down entry time to new markets. The sector has seen high M&A activity in last few years and pricing is not cheap. So, companies need to be careful while going for acquisitions.