Twitter Thread by Life_In_Slow_Lane



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Here are my notes on just concluded presentation from @AdityaKhemka5 on Indian Healthcare Sector.

PS : This my understanding from the presentation if there are any mistakes/errors/misinterpretation please indicate so in comments.

Indian Pharma is not tactical but structural growth story for next 15-20 years. BSE Healthcare India has outperformed Nifty 50 in last decade.

Indian Pharma Business has on high level 3 components - 1. Domestic Branded Business (Crocin)
2. US Generic Business (Paracetamol)
3. API/Rest of the world business

In US branding is not allowed for medicines, so customer chose lowest price option. So business becomes commodity player as lowest cost seller grabs market share.

Between 2009-2015, supply was limited and demand was more in US and hence generic players grew which in turn improved profitability and hence valuation multiples. All this while Indian business was steady.

But problem is it attracted lot of competition and profitability lowered. Due to this between 2016-2019, pharma companies profitability lowered and valuation multiple crashed.

But now after 2019, US demand has been increasing and estimations are that it will increase more in coming years. Also looking at cashflow of pharma companies can be misleading, as US business contributes to large part cashflow but doesn't mean it is most profitable part.

There are pharma companies like Divis, Sanofi etc which are continuously compounding due to major part of revenue coming from branded business and less dependence on commodity business,

US FDA Issue : In recent years, Severity of violations observed have been reduced compare to what is was in 2011-12. Issues/observations are more simpler now which can be resolved with less impact.

API Story : China is 40 billion $ in API vs India is 4 billion $. So strong room for Indian players but complex APIs china has huge experience which will take time to capture but Indian companies.

Biosimilar : Not very positive as US Doctors are in habbit of working with US brands so India companies will take long time to create presence there.

Even though valuation has improved and stock prices has run, there far from there peak valuations while visibility and economics of sector is improving.
/End