

TATA INDIA PHARMA & HEALTHCARE FUND– MAY 2022 UPDATE

An open-ended equity scheme investing in the Pharma and Healthcare Services sector

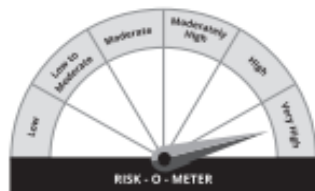
For External Circulation

All Data as on 30th April 2022

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment in equity/equity related instruments of the companies in the Pharma & Healthcare sector in India.

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them



Investors understand that their principal will be at Very High Risk

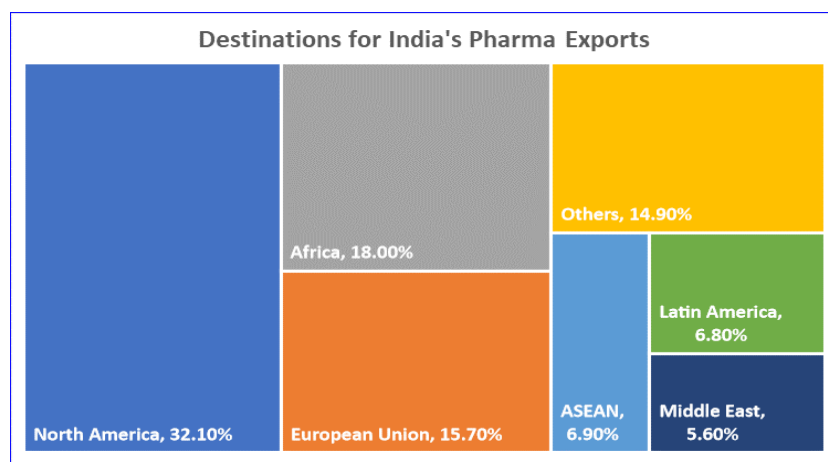
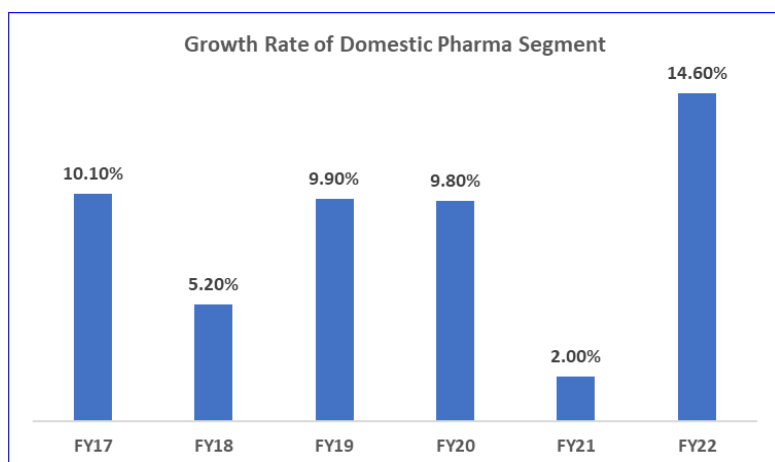


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Mutual Fund Investments are subject to market risk, read all scheme related documents carefully **Benchmark: Nifty Pharma TRI**

Indian Pharma Sector

By value India is a small (but rapidly growing) pharmaceutical market ranking 12th by value but 3rd in terms of volume. In 2022, the sector accounted for ~\$45 billion by value. The sector is expected to be split roughly equally between domestic and export markets. Domestic market has seen significant expansion, growing by 9.8% in FY20, and has grown by double digit CAGR in FY22.



Source: IQVIA, Pharmexcil, USFDA

Domestic market growth was impacted due to Covid in FY21 Growth dropped to ~2% vs 9.8% in FY20. The sector grew faster in FY22. North America remains a major customer, followed Africa and Europe. While the US is the biggest export market for India, imports from India remain a small portion of their pharma industry, even after the cost advantage that India enjoys.

Segments within the Pharmaceutical Industry

Domestic	Manufacturing branded generic drugs and supplements for consumption in the domestic market
Export	Manufacturing branded generic drugs for consumption by overseas markets. Export of generic drugs to the US is the largest export market.
API	The active pharmaceutical ingredient (API) is the active ingredient which is contained in medicine. Production of APIs has traditionally been done by the pharma companies themselves in their home countries. In recent years many countries have seen dependency on China for APIs increase considerably.
Contract Manufacturing	These are companies that serve other companies in the pharmaceutical industry on a contract basis to provide comprehensive services from drug development through drug manufacturing.
Healthcare Services	Owning and/or operating facilities such as hospitals and pathology labs etc.

Sector Update

- Pharma sector valuations are comfortable in absolute and relative terms after relatively underperforming the markets in the past 12 months. Growth rates in the sector are yet to pick up after a slowdown.
- The domestic market of the pharma sector benefited from the Covid-19 pandemic. The base for growth in the segment is high, which may result in moderate growth in FY23. The North America, which is a key market for the Indian pharma sector has seen a downward pricing pressure for the past few quarters.
- The US market is likely to remain weak, until price erosion eases.

- The domestic Indian pharma markets, as well as the healthcare services segment remain strong. The API segment has been impacted in the past few quarters as gross margins have come down and the high base of last year has reduced growth.

Medium Term Outlook

- The domestic segment continues to remain a strong growing segment. Though last fiscal has been lumpy but higher penetration of medical facilities, especially in rural areas, changing lifestyles and increasing awareness of preventive healthcare are inherent drivers for the segment.
- US growth has again taken a pause as pricing pressure is in high single to low double digits range. We expect the pricing pressure to ease in coming months and US should start contributing to growth. The complex molecule pipeline for certain companies, will add further visibility. USFDA inspections which had paused since the pandemic have started in full swing and will drive stock specific movements.
- Overall financials of the sector are improving every quarter. The sector has seen most companies turn net cash positive, cash flow yields are inching back to mid single digits, underperformance of the sector over the last one year has also made the valuations attractive.
- There is a concerted push from the government to lower dependency on China for APIs. China accounts for ~70% of the APIs and specialty chemicals imported by India for the Pharma sector. Government of India has come out with an incentive scheme giving tax benefits for setting up manufacturing facilities in this segment. The EU and USA also have a dependency of China and India may be an alternative source of APIs for the Pharma sector.

**Source: Internal Research*

Update on the Healthcare Services Sector*

The healthcare sector is a classic penetration story, with India currently having insufficient provision of health care services, ranking 145th among 195 countries. India's share in the global disease burden is 20%, while its share of healthcare infrastructure is much lower with only 6% of global hospital beds and 8% of doctor and medical staff.

The overall Indian bed capacity is 12 beds/ 10,000 people, with the global average at 28 beds/ 10,000 people. This shows that there is a deep demand for expanding capacity in the healthcare sector. The India healthcare services sector is slated to grow to ~\$350 billion in 2022.

The public-private split in terms of healthcare capacity is 70-30%. However, as incomes increase, the share of the private sector is also expected to increase over time. This includes basic healthcare services such as hospitals as well as ancillary services such as testing and pathology labs. Hospitals were formerly seen as a capital-intensive business, with companies shifting a focus on improving Return on Capital (ROC) and have gone capex light through varied business models that are focusing on the provision of services.

Some hospital chains and service providers are digitizing their customer service and looking to provide end to end solutions ranging from pharmaceuticals to diagnostics to treatment and surgical services.

**Source: CRISIL, CLSA, FICCI*

Positions in the Pharma Sector*

- We hold significant positions in the healthcare segment, to capitalize on the growth as well as the value aspect.
- The fund has taken positions in the domestic pharma segment. The fund may take tactical calls on the API segment.
- We hold companies with US generic presence on expectations of improving dynamics in coming quarters.
- The fund has been incrementally adding positions in Insurance companies.

**Based on current market conditions and subject to change in the future*

Fund Snapshot

Benchmark	Nifty Pharma TRI
Expense Ratio	Regular: 2.55 Direct: 1.07
AUM	Rs. 538.47 Crores
Inception Date	28th December 2015
No of Holdings	26
Fund Manager	Meeta Shetty (Managing since 9-Mar-21)

Investment Objective

The investment objective of the scheme is to seek long term capital appreciation by investing at least 80% of its net assets in equity/equity related instruments of companies in the pharma & healthcare sectors in India

Market Cap Allocations

Large Cap	49.34%
Midcap	31.67%
Smallcap	18.99%

Sectors Allocation

Sector	Allocation
Healthcare	93.89%
Financial Services	0.48%

Portfolio Construction*

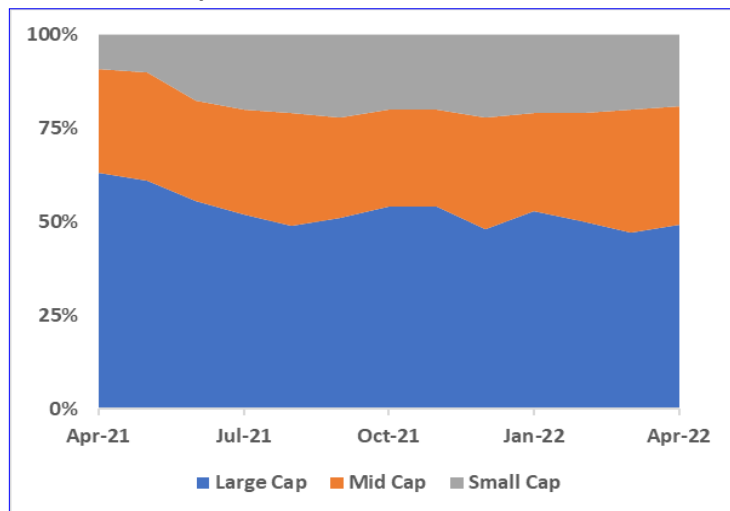
- Endeavors to invest according to Growth at Reasonable Price.
- Prefers companies that have a long term potential for growth.
- The fund is generally dominated by large caps, with significant allocation to mid and small caps.

*Based on current market conditions and subject to change in the future

Fund Statistics

Statistic	Portfolio	Benchmark
Std Deviation	12.98	12.56
Beta (Slope)	0.86	1.00
Sharpe	0.04	0.06
R-Squared	0.69	1.00
Treynor	0.18	-0.21
Jenson	0.34	—

Market Cap Movement of the Portfolio



*Large, Mid and Small Cap are defined as follows:

- A) Large Cap: 1st -100th company in terms of full market capitalization
- B) Mid Cap: 101st -250th company in terms of full market capitalization
- C) Small Cap: 251st company onwards in terms of full market capitalization

Portfolio Holdings

Stock	Allocation
Sun Pharmaceuticals Industries Ltd.	14.95%
Dr. Reddy's Laboratories Ltd.	10.03%
Cipla Ltd.	9.38%
Apollo Hospitals Enterprises Ltd.	6.97%
Alkem Laboratories Ltd.	6.22%
Fortis Healthcare Ltd.	5.96%
Lupin Ltd.	4.99%
J.B Chemicals & Pharmaceuticals Ltd.	4.47%
Aurobinda Pharma Ltd.	3.29%
Divi Laboratories Ltd.	2.98%

Mutual Fund Investments are subject to market risk, read all scheme related documents carefully