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Wary investors take refuge in pharma stocks

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MUMBAI: Pharmaceutical shares have been in the thick of action over the past couple of months as investors sought refuge in defensive or low beta stocks in a volatile market.

Shares of pharmaceutical and fast moving consumer goods are viewed as defensive bets as they are less reactive to sharp swings in the overall market.

Analysts and brokers tracking the sector say investors are now buying pharma stocks expecting better absolute returns, rather than merely outperforming the market in relative terms.

This, they say, has led to many stocks being fairly priced at current levels. As a result, pharma shares are likely to consolidate for a while even as their long-term prospects appear good.

Piramal Healthcare, Cadila, Abbot India, Lupin, Torrent Pharma are amongst the stocks that have hit 52-week highs in the past one month, while the major equity indices have been flat.

Analysts say there has been heavy institutional interest in pharma shares as fund managers try to cushion the decline in their portfolios. In addition, high net worth individuals (HNIs) too have been big buyers of pharma shares.

“We continue to see HNI interest in pharma stocks and have been advising them to buy at every dip as we see tremendous potential from a longer-term perspective,” said OM Ahuja, head-wealth management, Emkay Global Financial Services. He added that the risk-averse investor can take exposure to the sector through dedicated pharma schemes of mutual funds.

“In the last three months, the average absolute returns of pharma-centric mutual funds have been in the range of 12-13% as against a negative Sensex return of 0.6%,” he added.

Companies in the contract research and manufacturing space (CRAMS) like Ipca Labs will see good valuations going ahead, but investors should be very stock-specific in the case of generics owing to the intense competition and declining price points, analysts say.

“We are bullish on companies like Lupin, Cipla, Dr Reddy’s Labs as they have a good domestic formulation business, dominance in certain niche segments, good margins and are geographically well diversified,” said Hemang Jani, senior vice-president retail business, Sharekhan.

According to him, one should be stock-specific and invest in stocks that have good earnings visibility.

Mr Jani also says that companies concentrating on the US generics market will see significant price appreciation because patents on many high potential molecules are going to expire in the coming five years, giving them a huge opportunity to become global generic players.