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Invest in India's Healthcare Prowess

Presenting

HDFC Pharma and Healthcare Fund

Refer product labelling & riskometer on page 24
Refer disclaimer on page 25

NFO PERIOD: 14th to 28th September, 2023

Play on domestic spend and exports, aided by manufacturing leadership

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Domestic spend

- Penetration uptake
- Increasing elderly population^ and life expectancy
- Disease pattern change

Exports opportunity

- Patent expiries
- Complex drugs foray
- Outsourcing by global Big Pharma companies

Manufacturing leadership

- Booster shot from Government’s PLI scheme
- Labour cost advantage
- Ready R&D ecosystem

^ population above 60 years

PLI - Production Linked Incentive

For disclaimer refer slide 25

Companies in the healthcare domain operate in a multitude of segments

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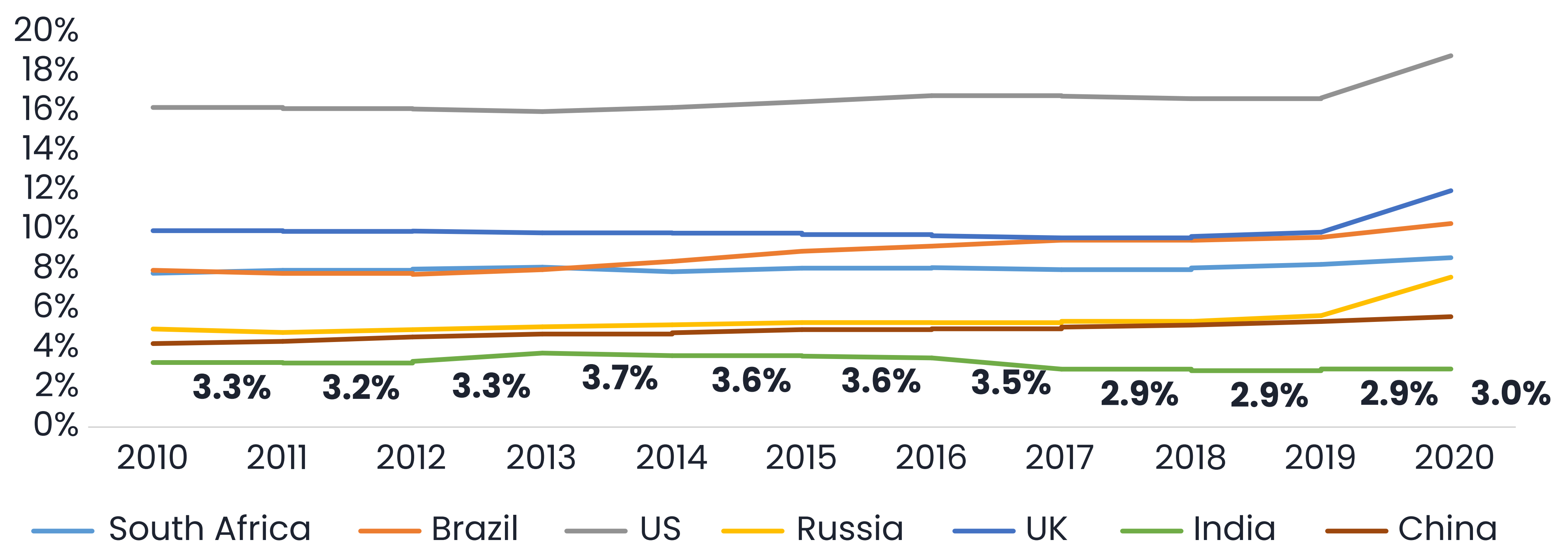
- Indian Healthcare and Pharma
  - Pharma
    - Domestic Formulations
    - Exports - US Generics & Biosimilars
    - Contract Development and Manufacturing Organization (CDMO)
  - Healthcare Services
    - Diagnostics
    - Hospitals
    - Retail pharmacy

For disclaimer refer slide 25

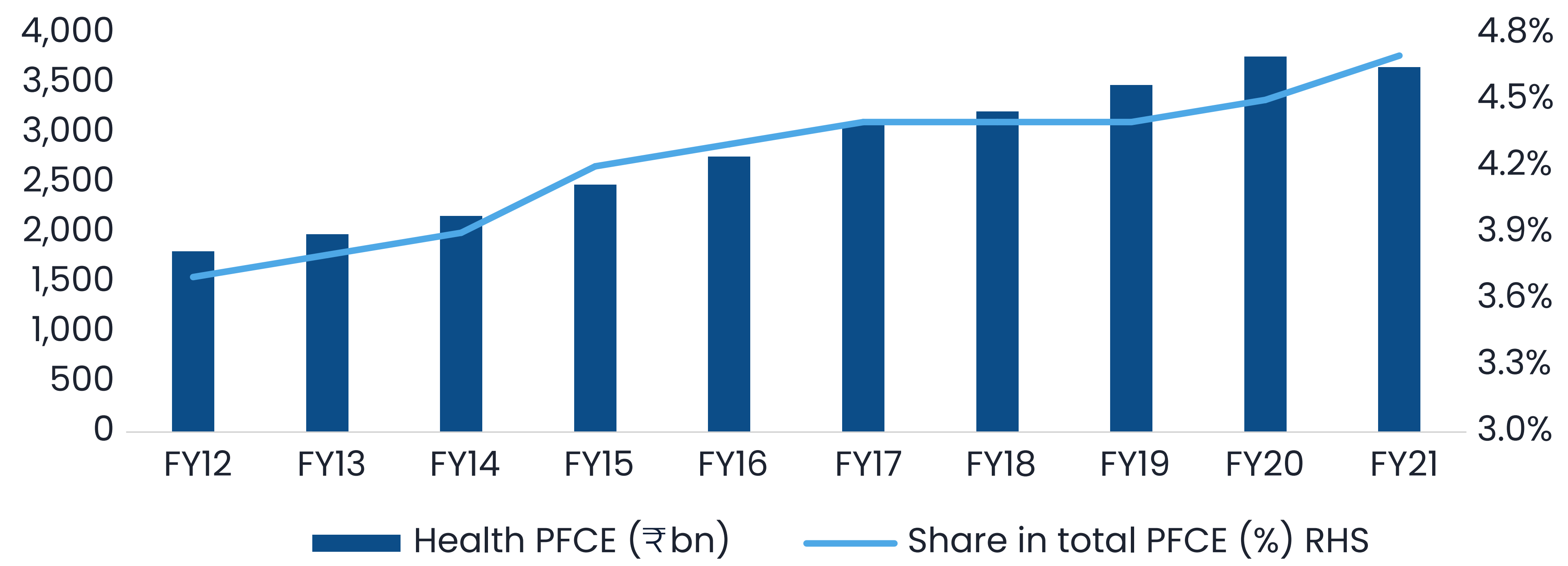
Indian Healthcare – Increase in spends, yet a long way to go

- India's healthcare spend to GDP ratio is amongst the lowest
- Rural healthcare penetration is low relative to population size
- Private healthcare spend is on the rise with share in PFCE increasing over last 10 years

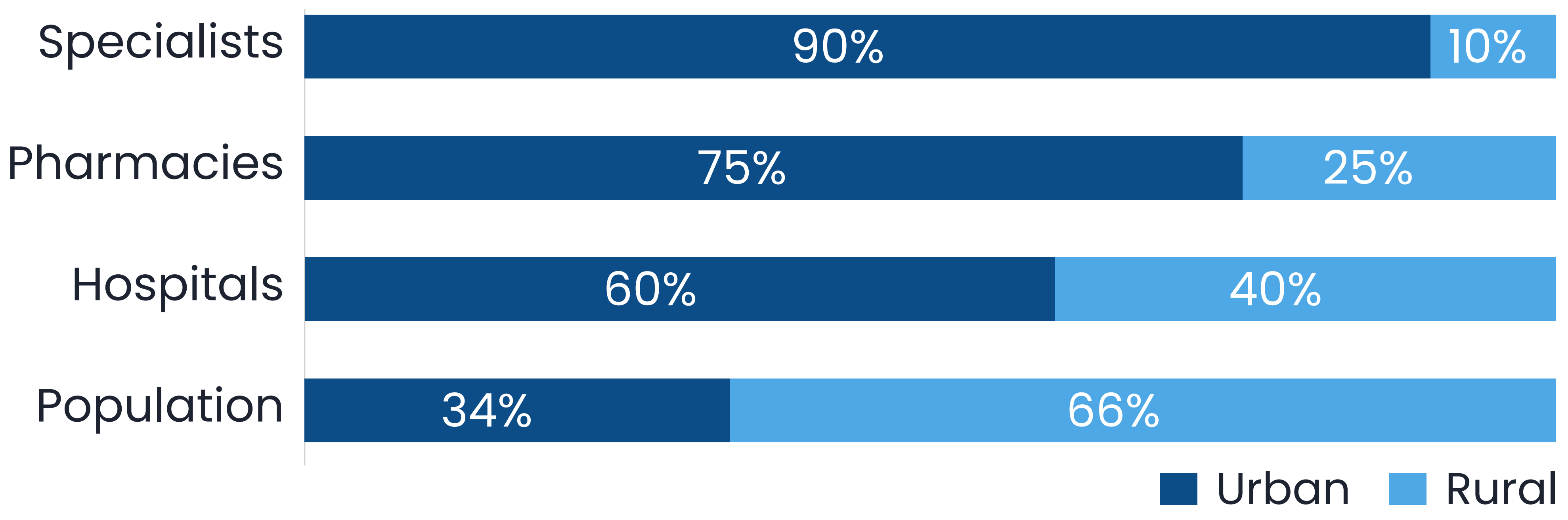
Healthcare spend % of GDP



Healthcare spending in PFCE %



Urban vs Rural share split %



PFCE - Private Final Consumption Expenditure

Source: Bernstein, WHO, Ministry of Statistics and Programme Implementation

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Trinity of growth levers ...

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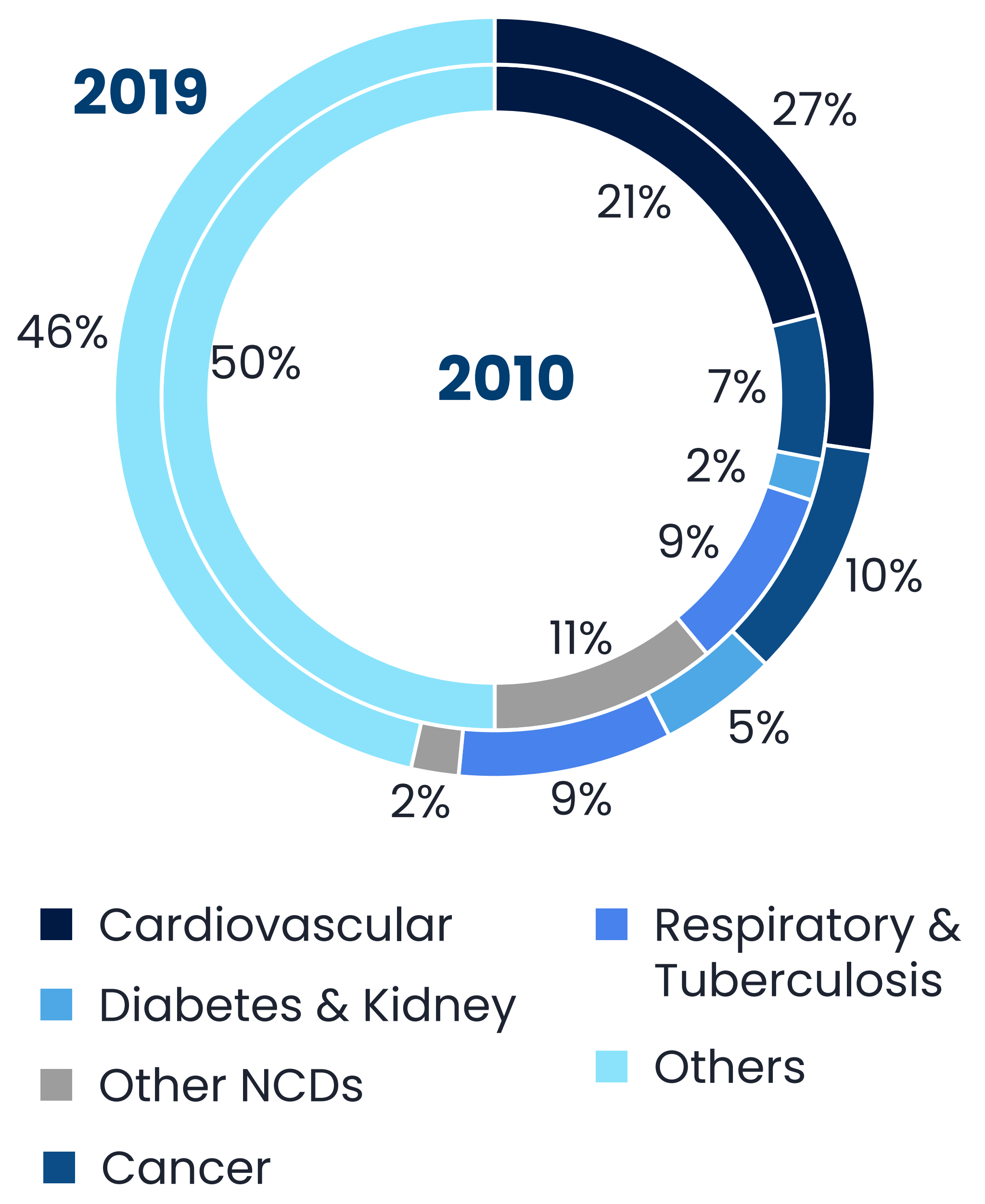
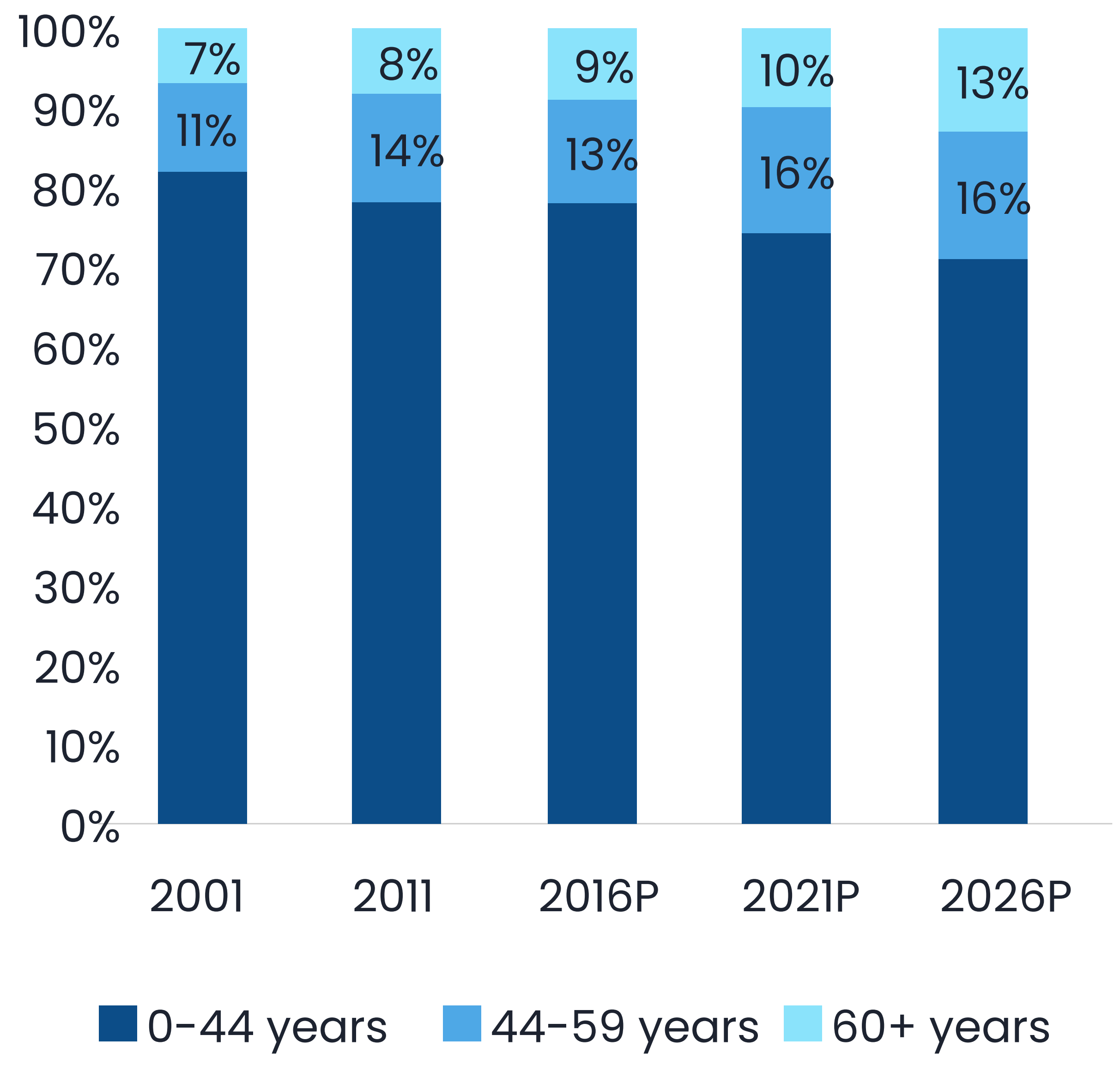
Chronic diseases on the rise

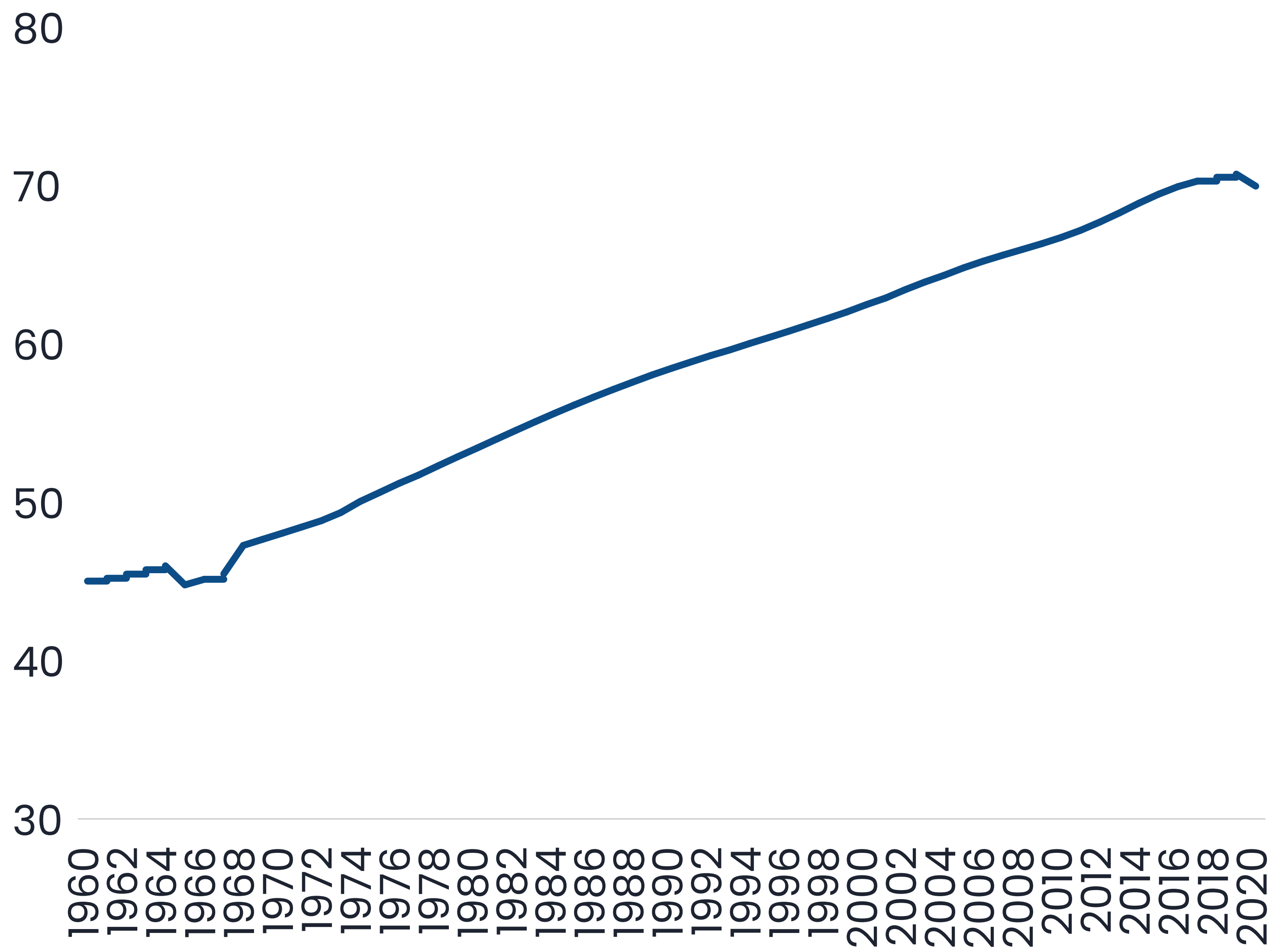


Elderly population expected to increase to 13% by 2026



Rising longevity

India life expectancy (years)



Rising longevity, rise in chronic diseases and growing elderly population will lead to increased healthcare spend over the long term

Source: Bernstein, Data Commons, Company data

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Well rounded growth outlook for domestic pharma

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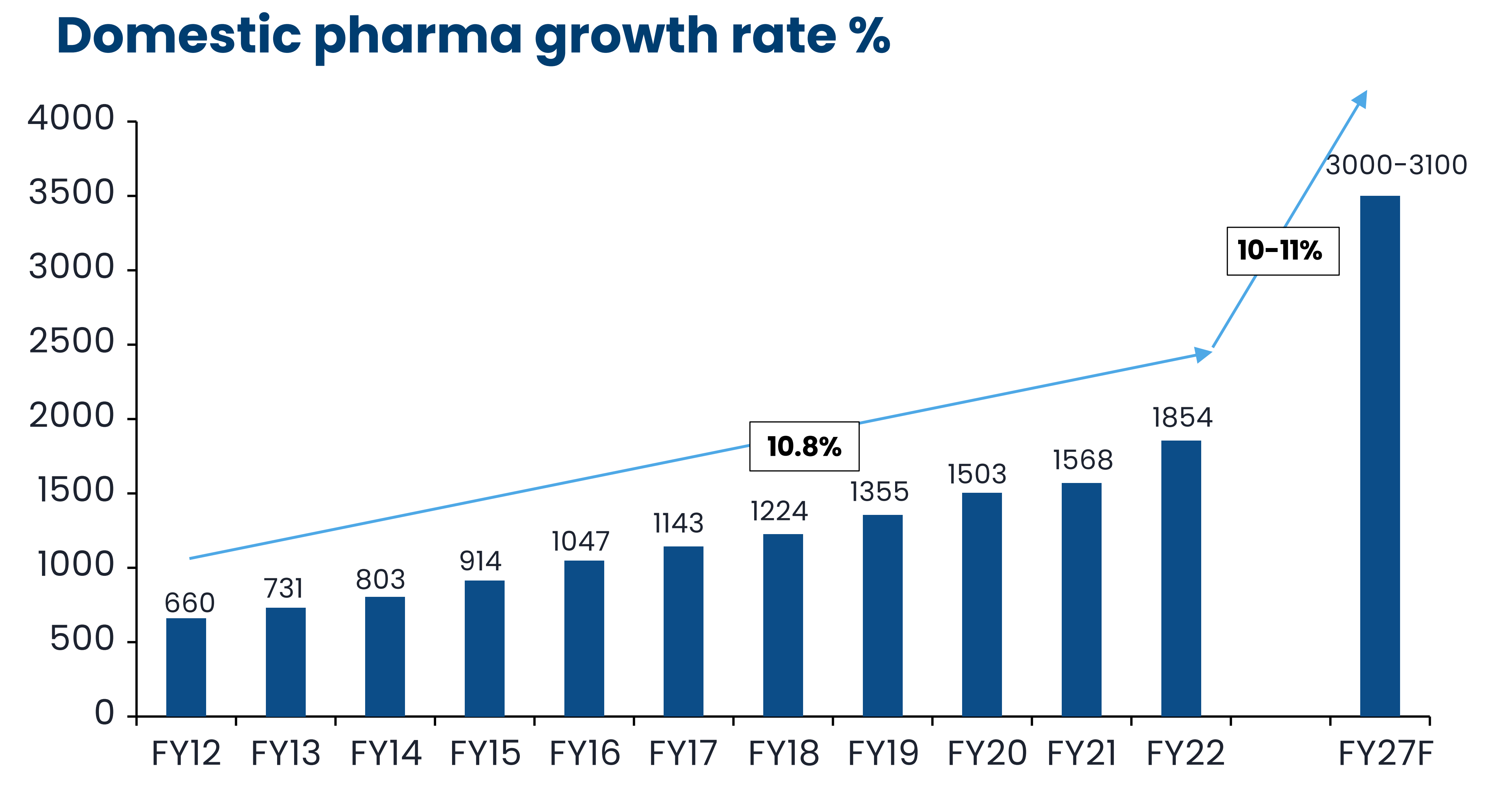
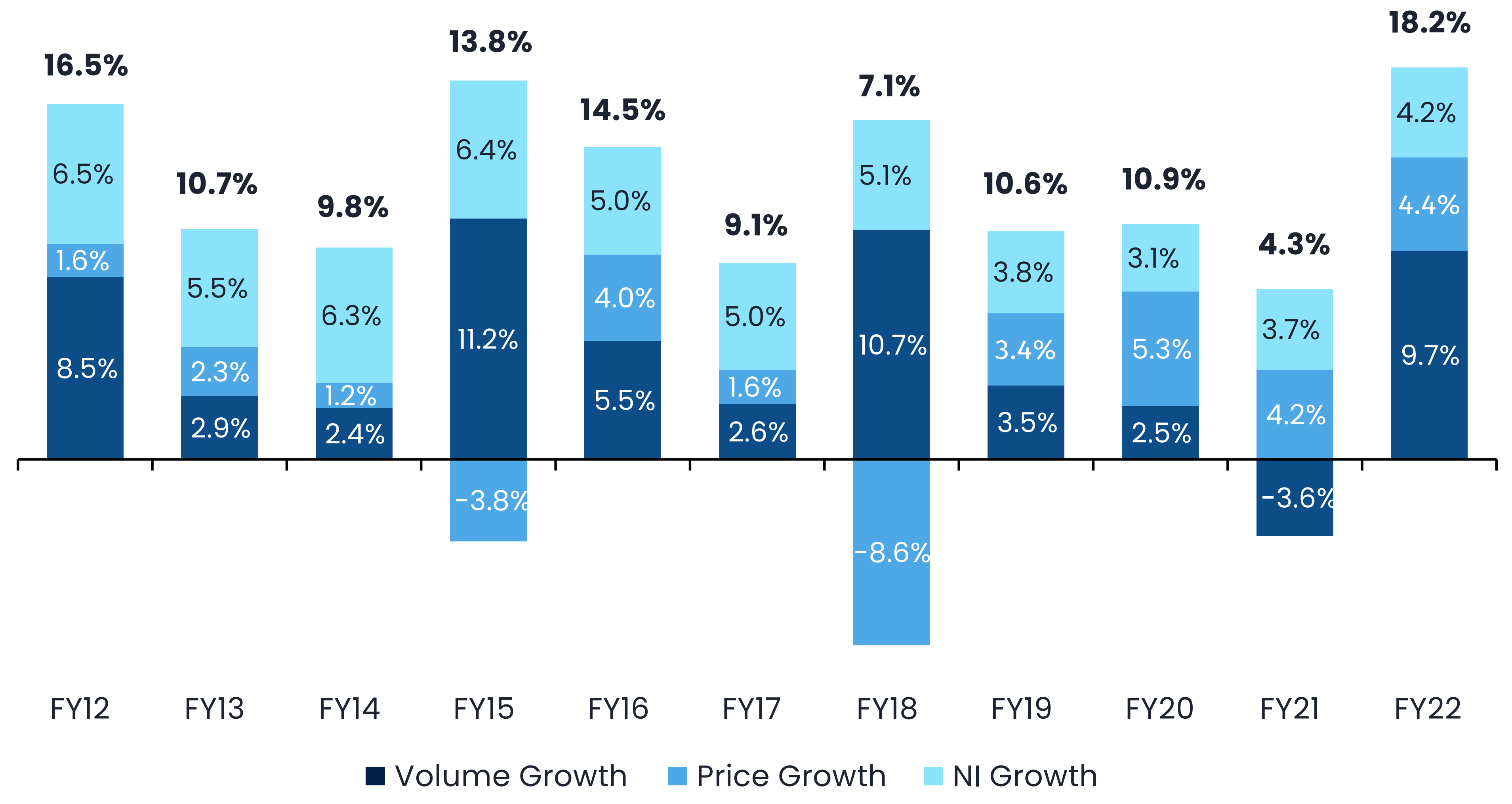
- Domestic pharma has grown ~ 11% CAGR between FY12 to FY22 and is expected to grow at similar rate for the next 5 years
- Growth has been broad-based and is driven by all three components viz. volumes, pricing increase and new product launches

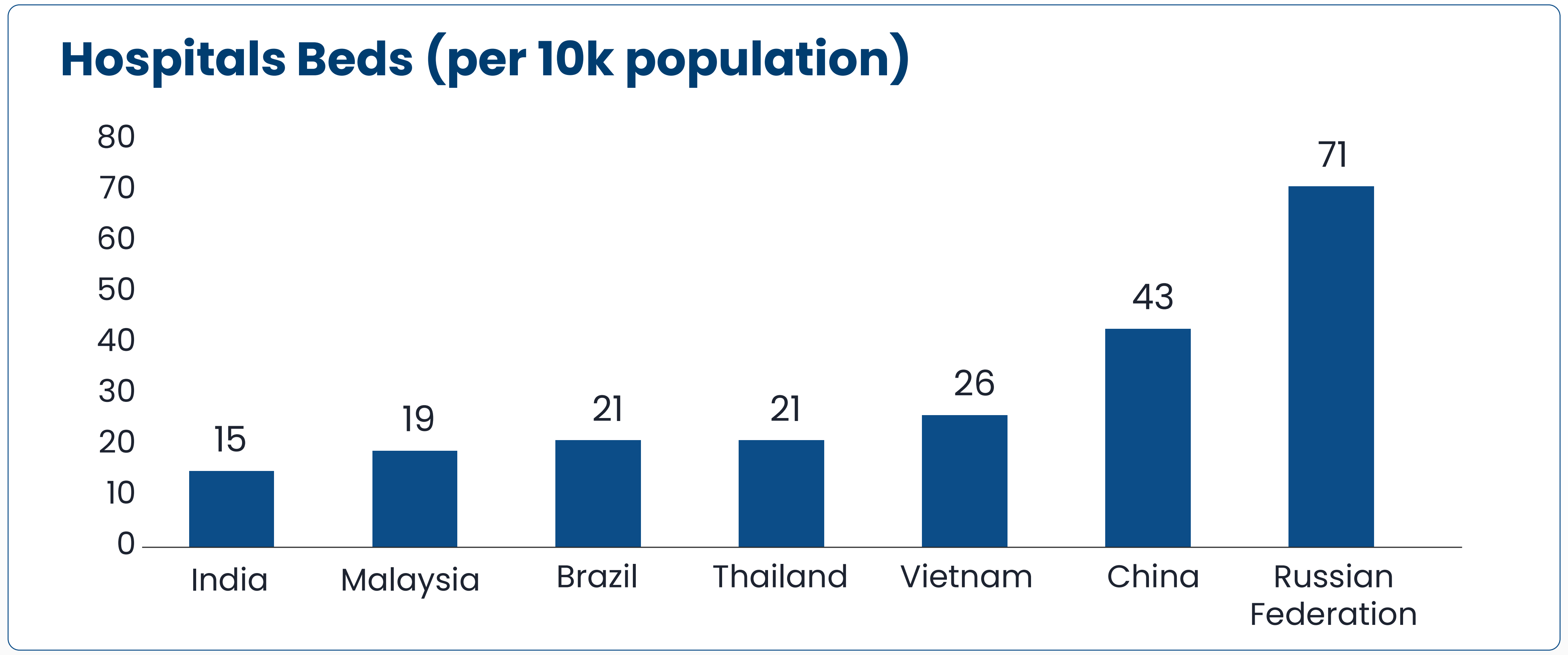


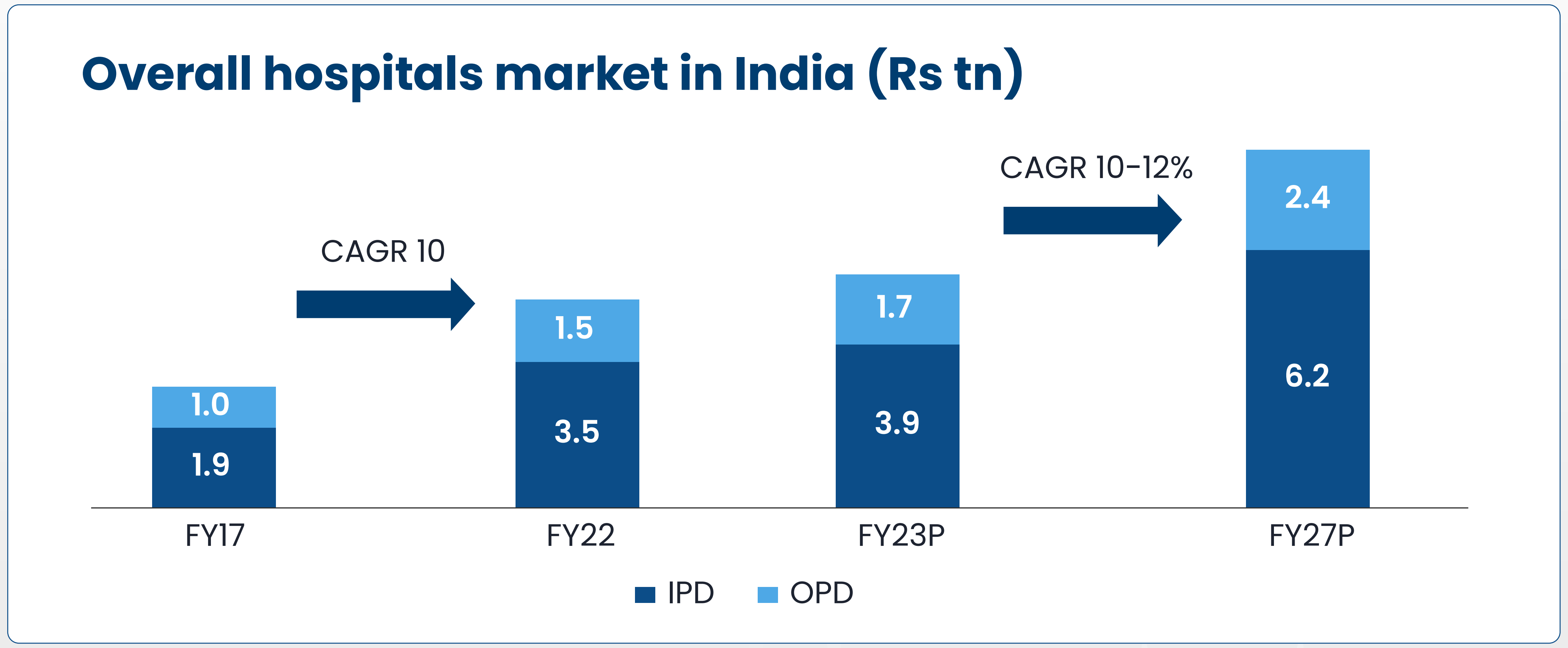


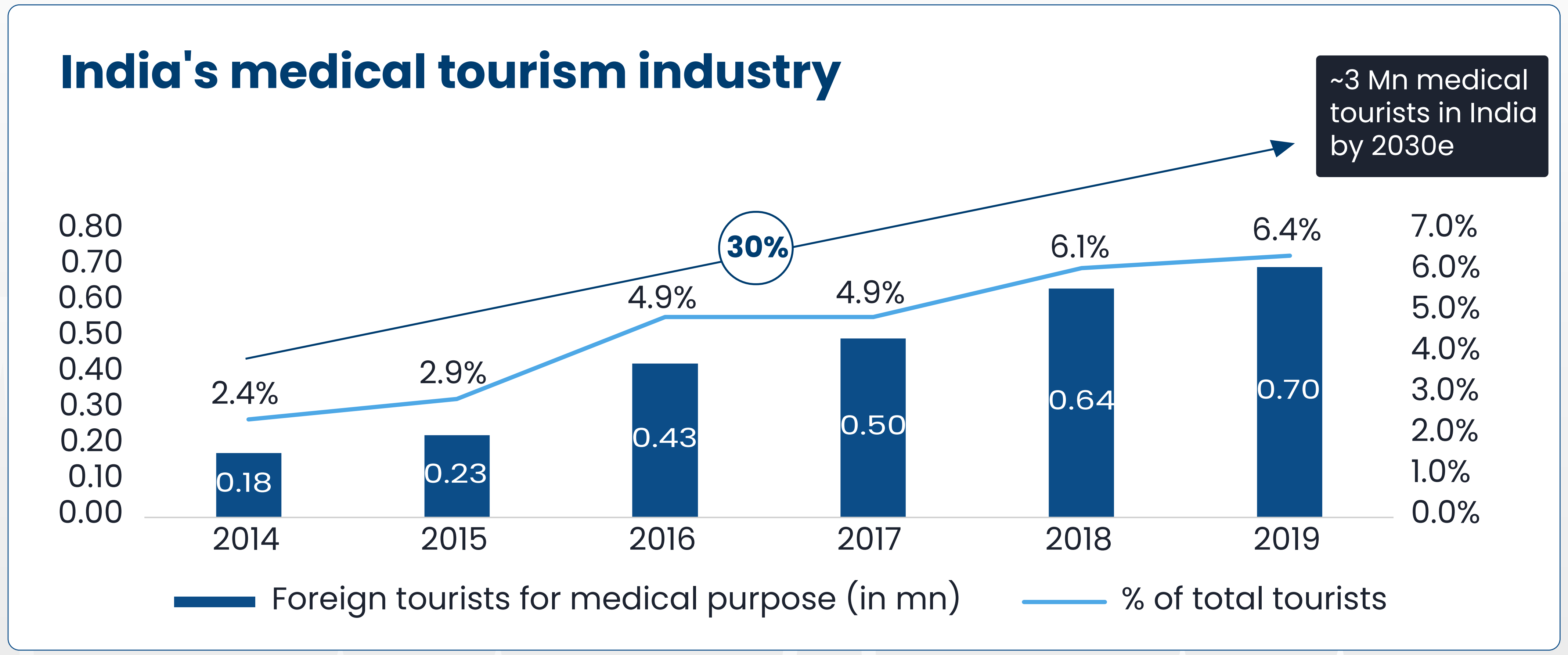
Source: Bernstein

Hospitals – Largest addressable market in healthcare

- Hospitals segment is growing at 10-12% CAGR and has Total Addressable Market (TAM) of ₹5.6tn as of FY23
- Hospital Beds (per 10,000 population) remains low compared to other emerging markets, indicating significant under penetration
- Foreign Medical tourists grew 30% CAGR during 2014-19 and are expected to grow 4x from pre-pandemic levels by 2030 (0.7mn to 3mn)







Source: Company data

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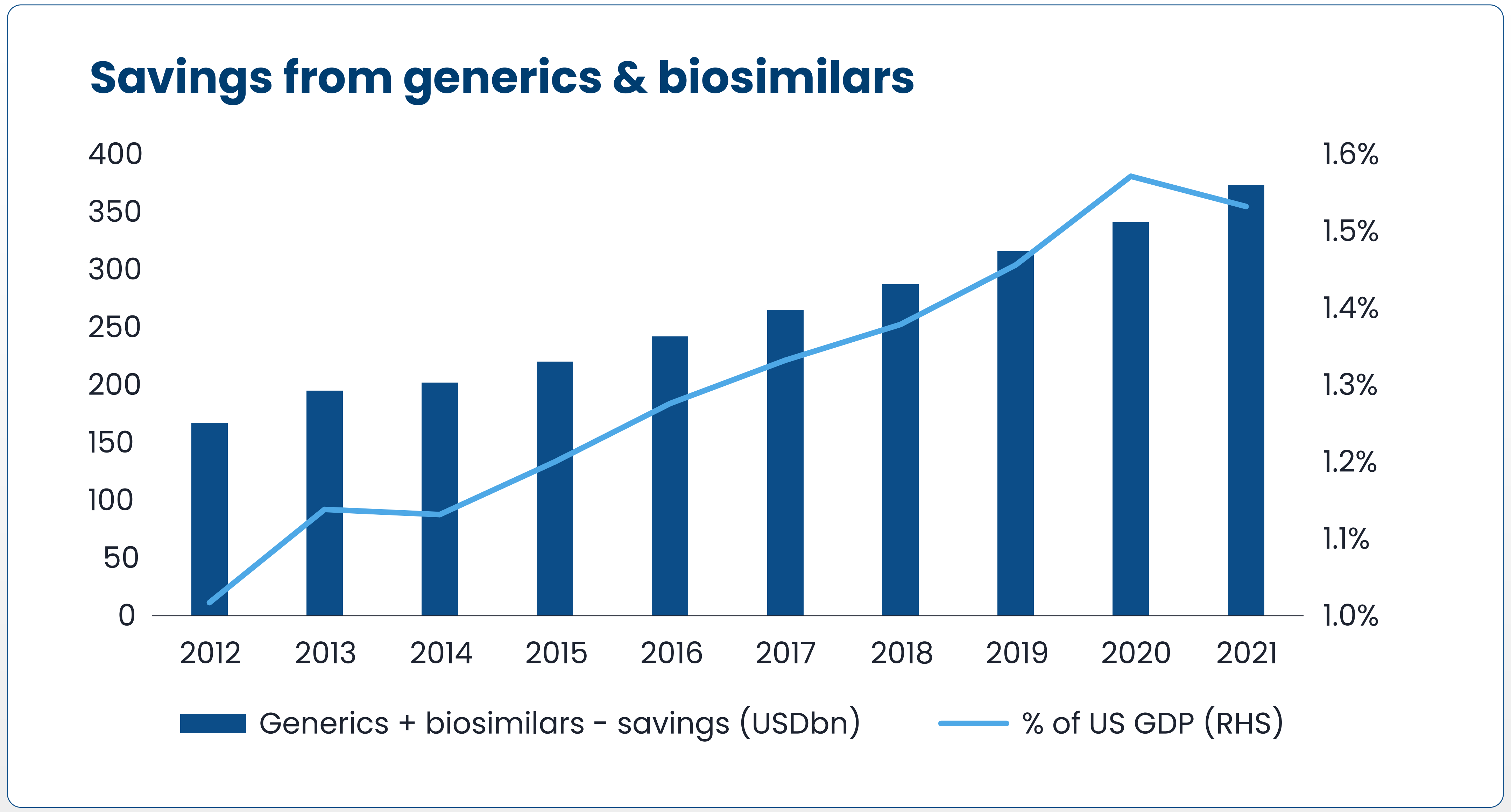
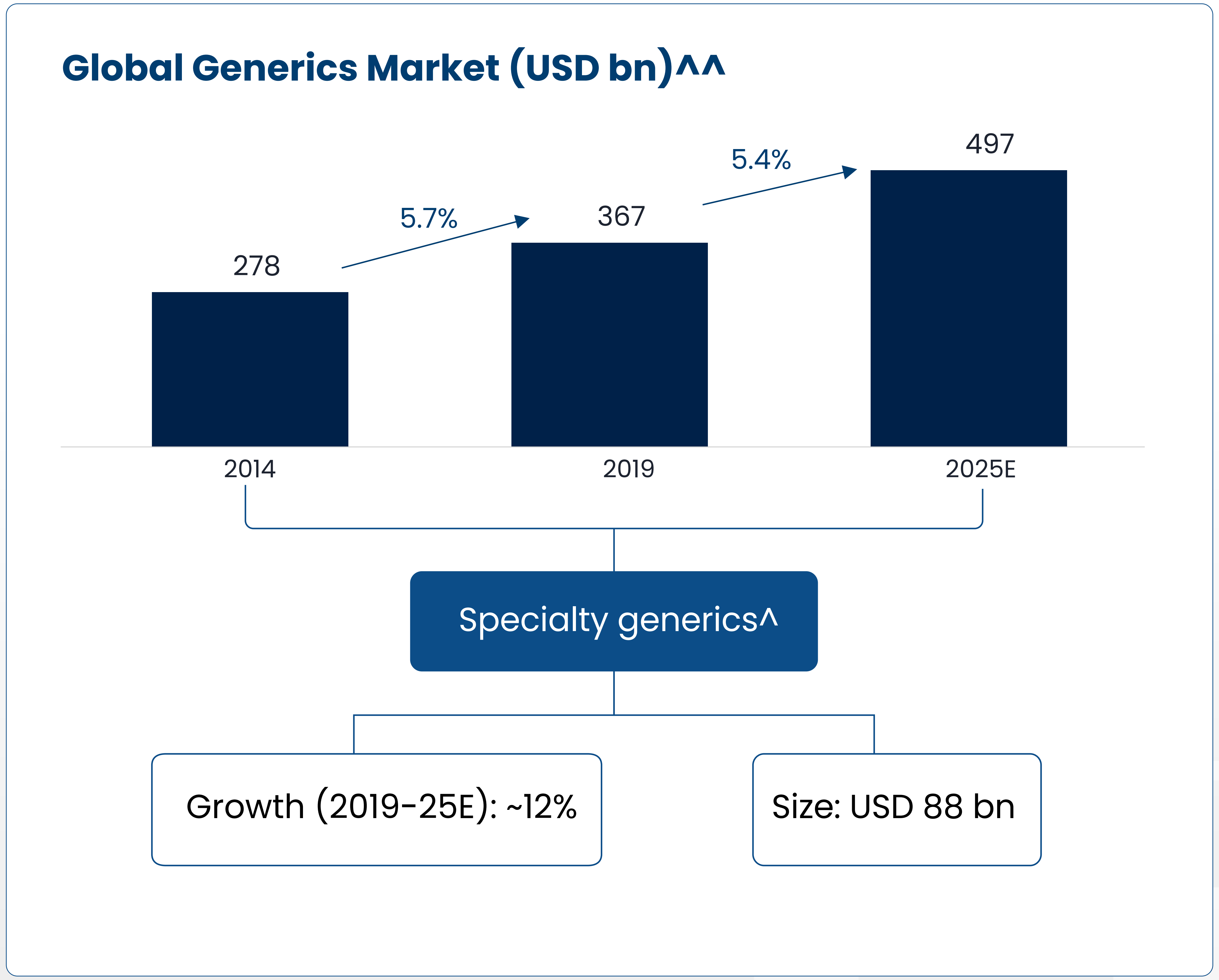
Cost Savings from generics usage makes for a strong business case

- Generics and biosimilars generate savings worth ~1.6% of GDP for the US market
- Global growth is pegged at 5.5%, within which specialty generics are growing at 2x rate





^Specialty generics are complex formulations such as drug-device combinations, injectables that are difficult to manufacture and require significant time and R&D spend to develop

Source: Association for Accessible Medicines, KPMG

^^Global generics market size shown is at retail level, actual manufacturer level size will be much lower due to adjustments for rebates, discounts and distribution margins

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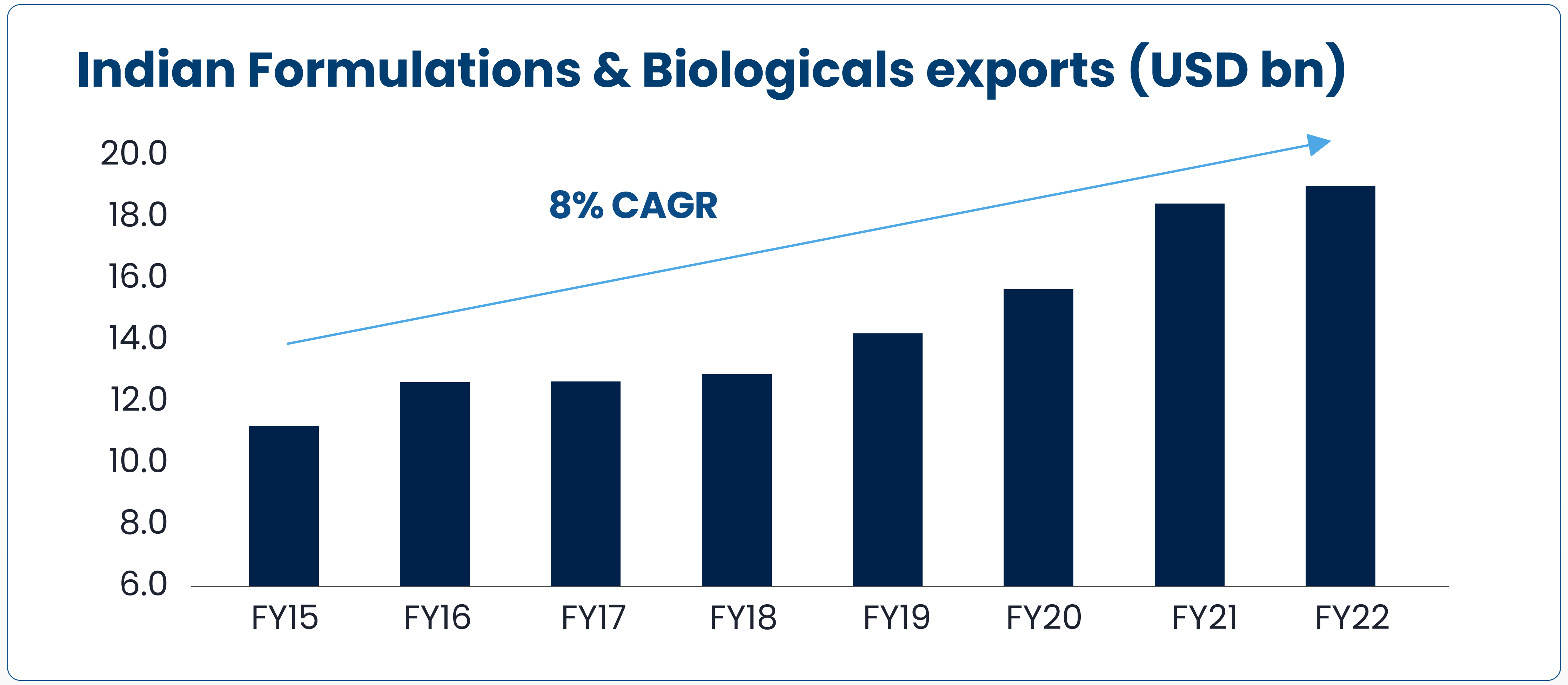
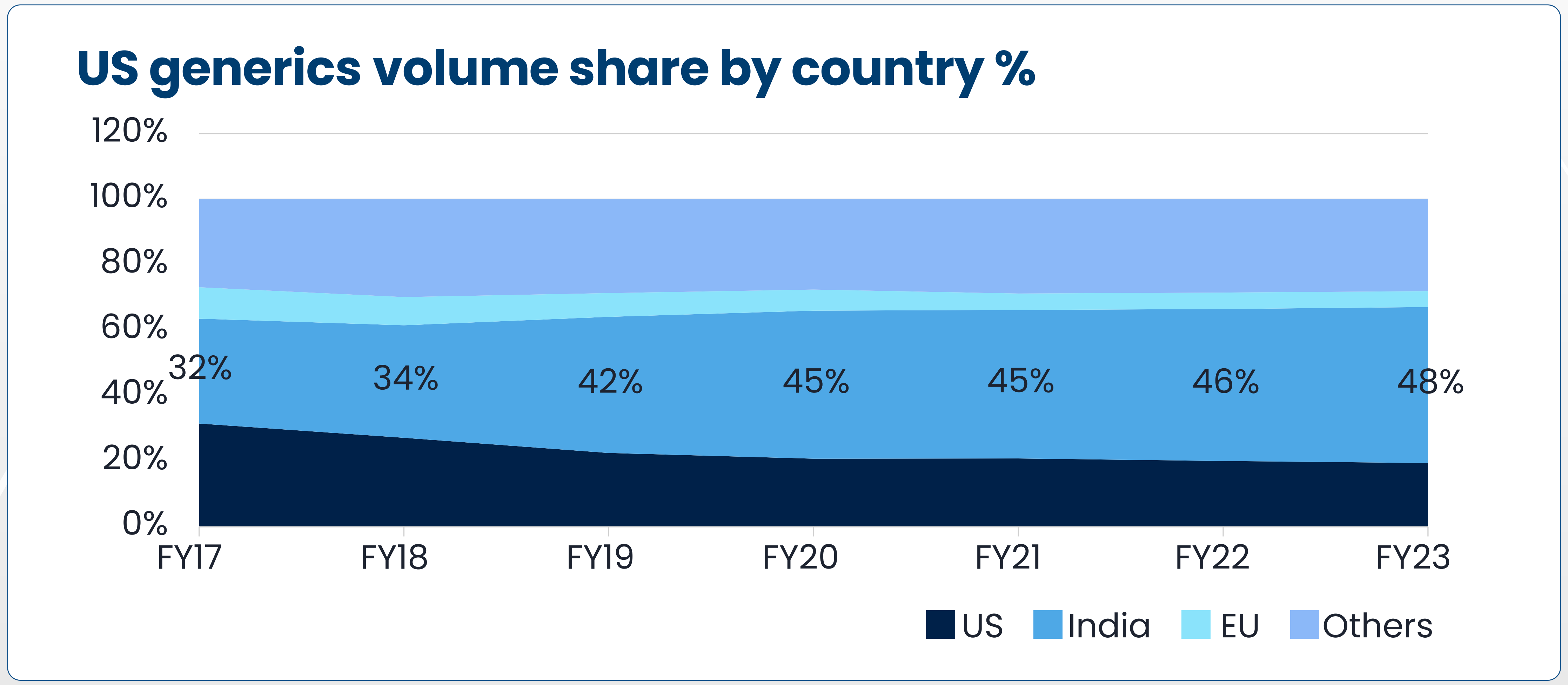
India’s share in US generics continues to uptrend

- Indian pharma exports has grown at ~8% CAGR vs 5-6% global pharma market growth over FY15-22

- Indian Companies are deeply entrenched in US generics





Source: Department of Pharmaceuticals - Ministry of Chemicals & Fertilizers, BOFA Global Research

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US generics is turning the corner

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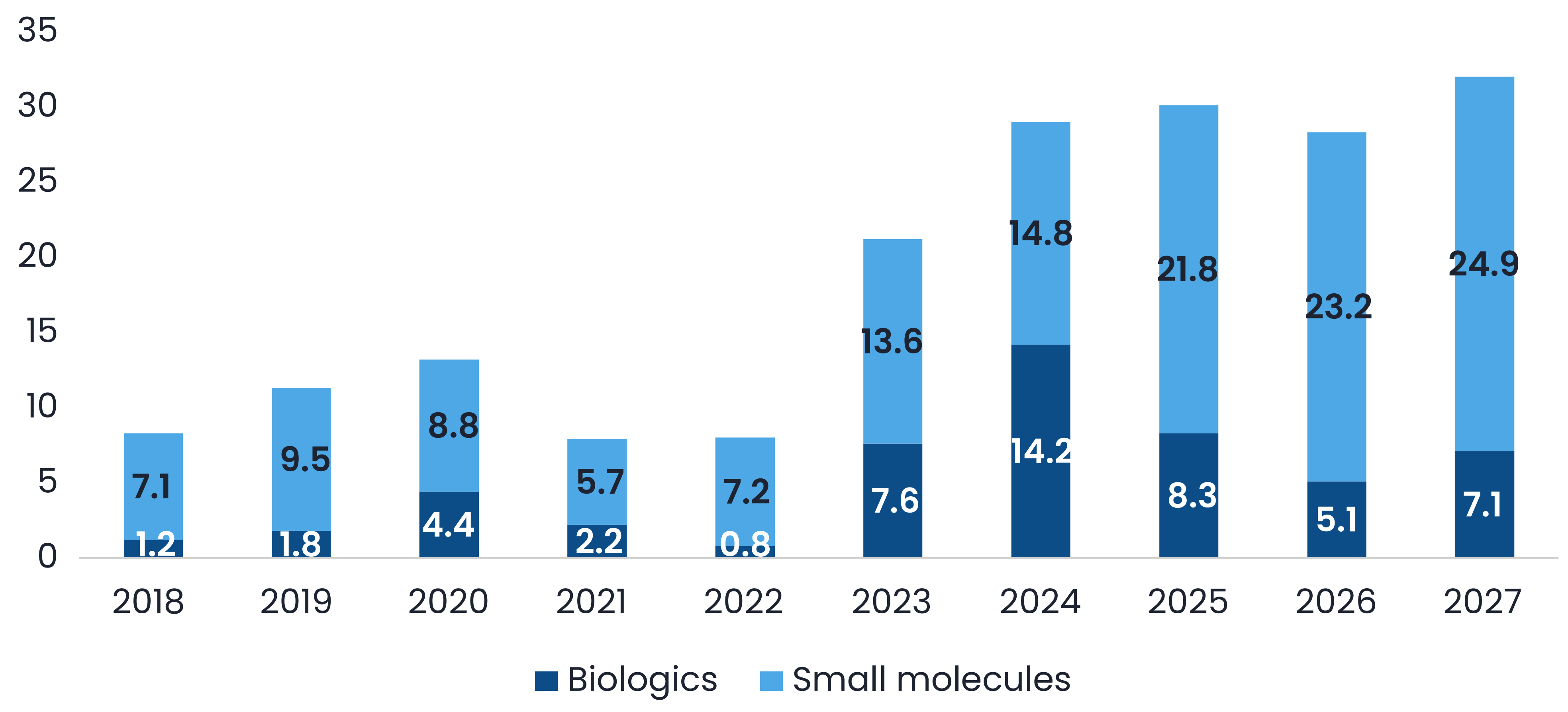
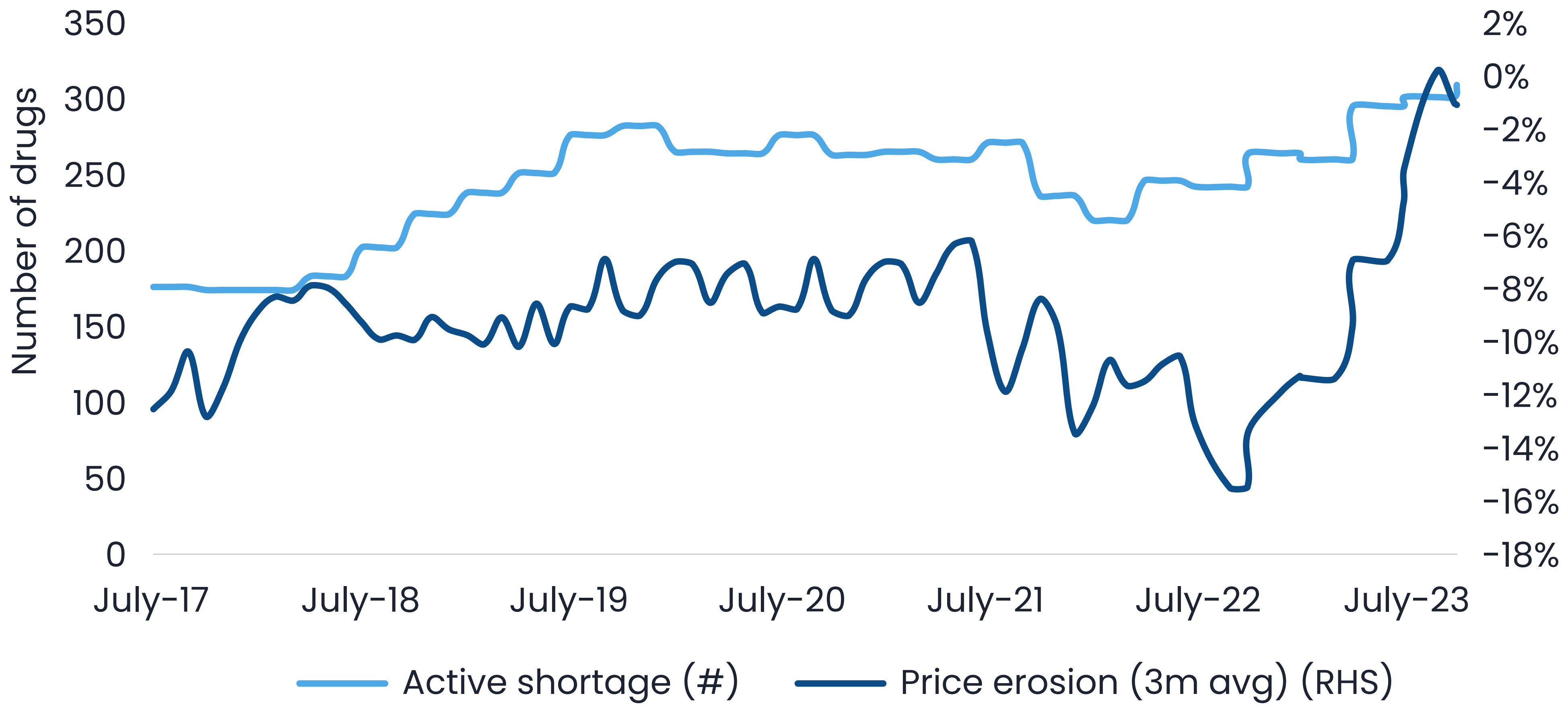
- Drug shortage in the US tends to be cyclical and is currently trending high
- Historically, drug shortages have resulted in an improved pricing environment
- ~USD 98 bn worth of small molecules will go off-patent in next 5-years vs ~USD 38 bn in preceding 5-years

Opportunity^ (in USD bn) from patent expiries



US GRx price erosion vs Active shortages



^ Opportunity stands for USD bn worth of sales that generic companies can target before the product goes off patent

Source: "The Global Use of Medicines 2023" report by IQVIA Institute, Goldman Sachs Global Investment Research

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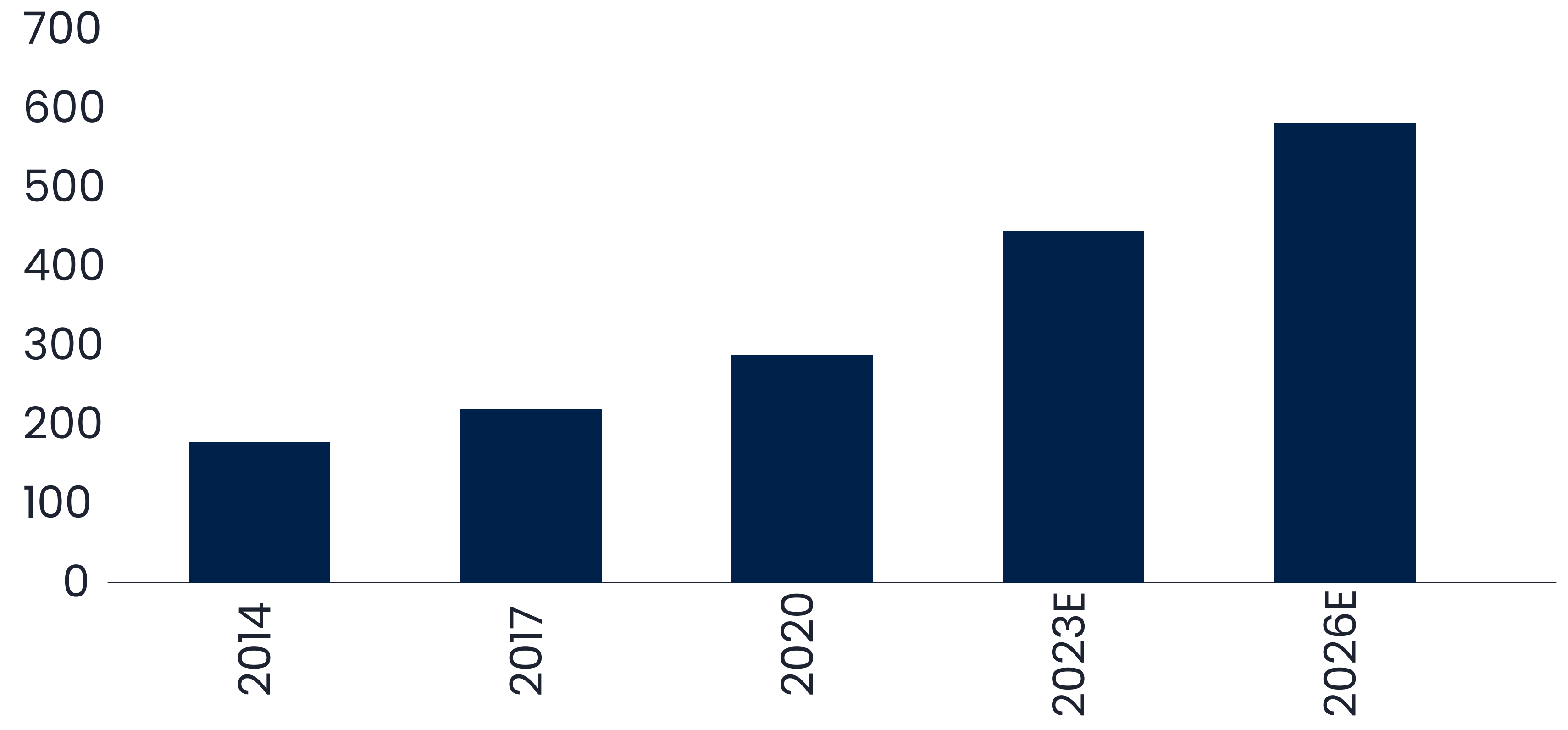
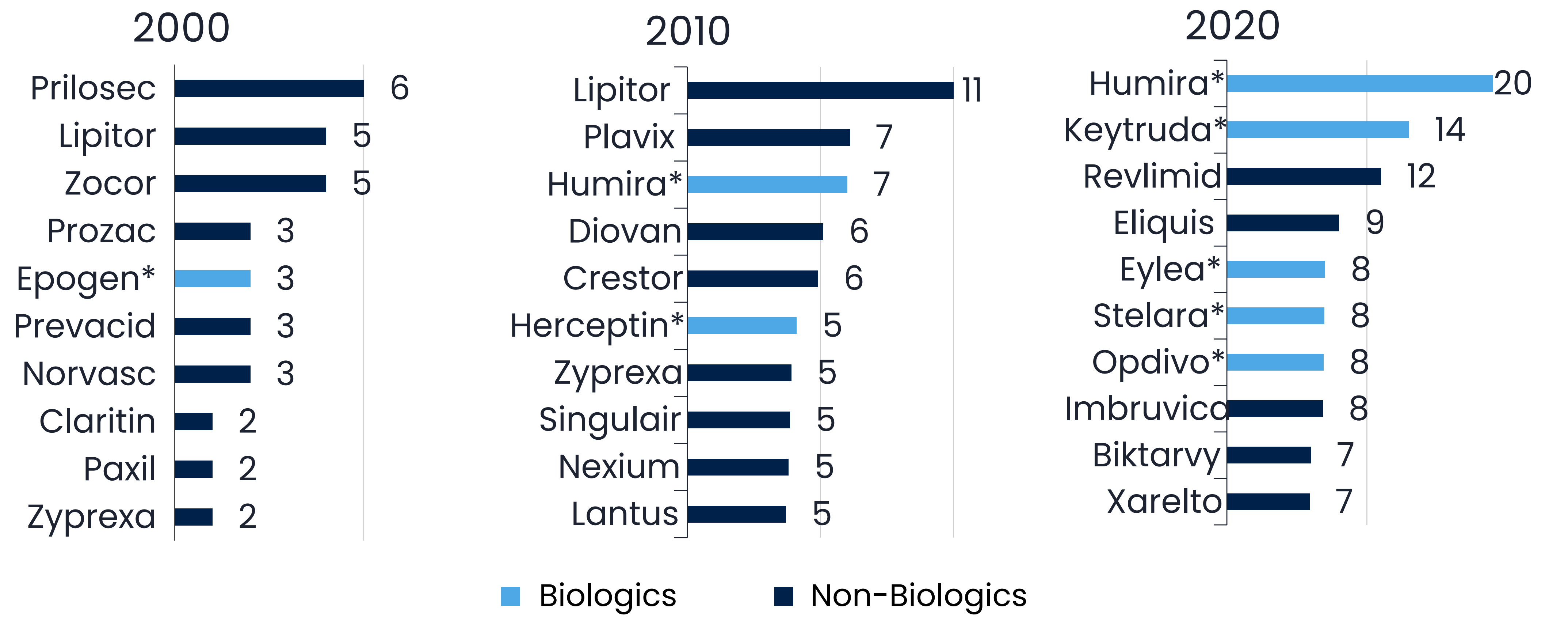
Biosimilars is still an untapped long term growth lever for Indian companies

- Biologics^ adoption in global pharma is progressing rapidly as such drugs address unmet needs (e.g., oncology) and are less toxic
- Half of today's top selling drugs are biologics
- Various Indian companies are investing to develop biosimilars, which are generic equivalents of biologic drugs

Global biologics market size (USD bn)



Half of today's top selling drugs are biologics (Sales in USD Bn)



^Biologics are medications developed from blood, proteins, viruses, or living organisms while traditional drugs are developed from chemicals as key starting materials; *denotes biologic drugs

Source: Industry data, Bernstein, Alvotech investor presentation

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CDMO : Outsourcing as an opportunity has a large TAM

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- Drug lifecycle entails a long drawn process of discovery and development stages, followed by commercial manufacturing
- Above involves high failure probabilities, forcing global Big Pharma to outsource (in part or full) drug lifecycle stages to CDMOs^
- Indian pharma companies are now playing pivotal role in driving global innovation through the CDMO route

8–12 years^^

	Discovery & pre-clinical development		Development			Commercial manufacturing
	Discovery	Pre-clinical development	Phase I trial	Phase II trial	Phase III trial	Commercialization
Outsourced market size	US$ 10-15bn		US$ 20-30bn			US$ 60-70bn

TAM - Total Addressable/Available Market
^CDMO - Contract Development and Manufacturing Organization; ^^timeline mentioned is only indicative and can vary considerably depending on the drug, Source: Company data

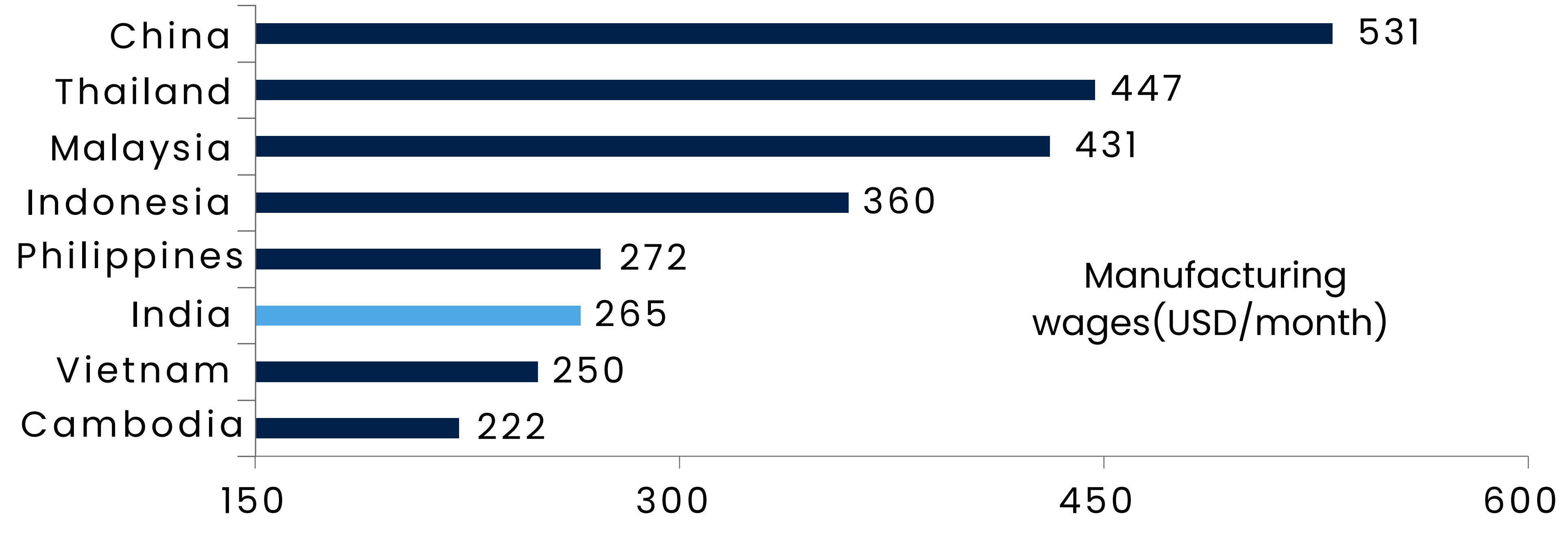
For disclaimer refer slide 25

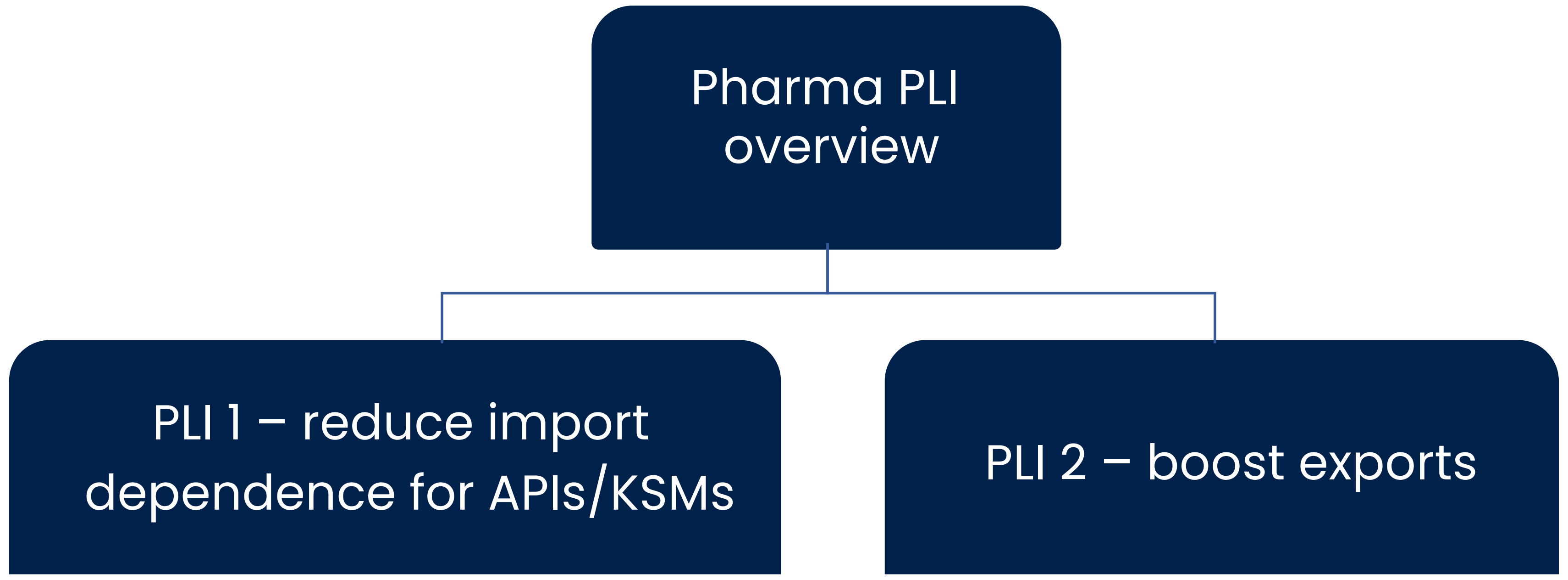
India's manufacturing competitiveness to only go from strength to strength

- India has the second highest share of USFDA approved facilities
- Favorable labor cost structure is a key enabling factor
- Govt's INR 210 bn Production Linked Incentive (PLI) scheme is an added boost

India has the second highest share of USFDA approved facilities	
US	33%
India	26%
China	9%
Italy	4%
Germany	4%
Others	3%

India's manufacturing wages vs Emerging economies





API- Active Pharmaceuticals Ingredient, KSM – Key Starting Material
Source: Ambit Capital research, USFDA
USFDA - United States Food and Drug Administration

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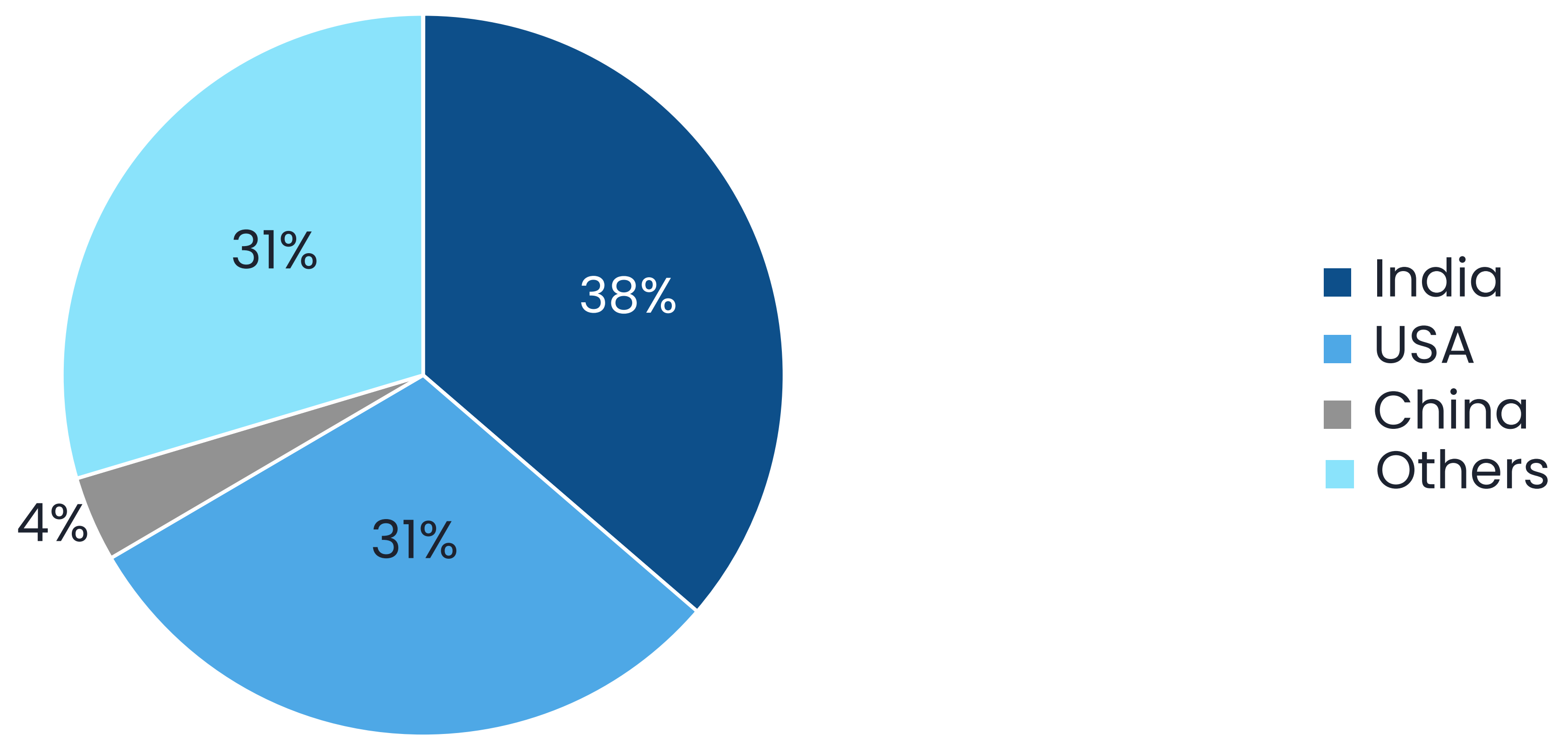
A ready R&D ecosystem meeting USFDA criteria can be leveraged for other markets

- Navigating USFDA's approval process is challenging, and India has the highest share of ANDA^ approvals
- China is considerably behind India on USFDA filings share
- Pharma R&D personnel (scientists, graduates) pool and consistent 5-9% of revenue spend to develop capabilities has resulted in above

Typical R&D spend of Indian companies –
5-9% of sales

ANDA approvals by countries since 2005



USFDA – United States Food and Drug Administration;
^ANDA is acronym for abbreviated new drug application, a technical term for generic drug filings in the US
Source: USFDA

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HDFC Pharma and Healthcare Fund

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Investment Strategy

Core Portfolio	Core of the portfolio (> 80%) will be invested in stocks in pharma and healthcare related companies within the basic industries like Pharmaceuticals, Hospitals, Healthcare Service Provider, Healthcare Research, Healthcare Analytics & Technology, Medical Equipment & Supplies
Multi-Cap Strategy	Healthcare space offers depth and diversity – the scheme would invest across market segments and market capitalization
Focus on underlying trends	Indian healthcare offers a unique proposition of growth drivers being domestic and global in nature. Seek to identify trend changes early which can drive profitably turnaround, thereby boosting potential for re-rating.
Structural growth drivers	Seek to invest in companies which operate in a secular growth segment and/or gaining market share due to unorganized-to-organized shift, superior execution, scale, better adoption of technology etc.

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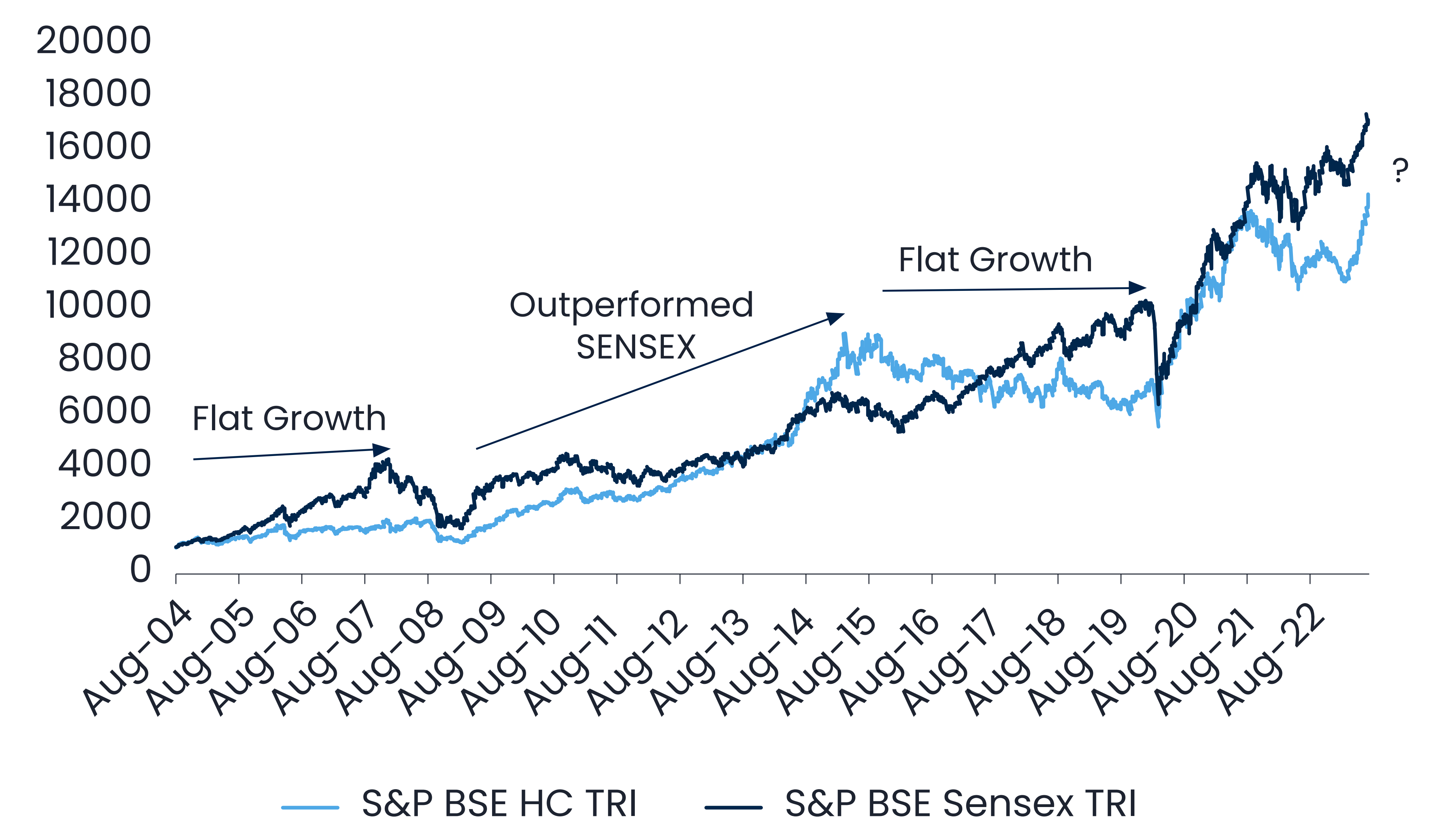

S&P BSE Healthcare Index TRI tends to outperform S&P BSE Sensex TRI after a period of flat index growth.

Return Periods	CAGR as on July 31, 2023	
	S&P BSE HC TRI	S&P BSE Sensex TRI
1 year	22.1	16.9
3 year	15.7	22.4
5 year	15.1	13.4
10 year	12.5	14.6
15 year	14.3	12.3

Source: www.bseindia.com and internal calculations. Performance shown from the inception date of the benchmark index i.e. August 23, 2004.

Past performance may or may not be sustained in the future.

HDFC AMC/Mutual Fund is not guaranteeing or promising or forecasting any returns on investments..

*CAGR: Compounded Annual Growth Rate

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Diverse Opportunities in the Healthcare Space

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- Companies are split into multiple segments, which tend to outperform each other at different points in time
- Bottom-up stock selection based on underlying category trends can thus result in sustained outperformance relative to benchmark
- For instance, companies with high domestic sales in the mix outperformed the generics category in 2021 and 2022, but latter have outperformed former YTD2023

Segment*	Category returns %					
	CY18	CY19	CY20	CY21	CY22	CYTD23^
API	35%	24%	108%	22%	27%	8%
Domestic	-22%	-2%	48%	35%	17%	13%
Generics	-1%	-12%	77%	-6%	-19%	48%
Healthcare Services	-4%	28%	52%	86%	-8%	18%

Source: Capitalline, ^Data as of 31st July 2023
*Denotes that significant share of revenue for companies forming part of a category is generated from that particular segment; market cap weighted average of share price performance of companies gives category level performance

Number of stocks considered for each category : API - 1, Domestic - 2, Generics - 4 and Healthcare Services - 4.
API - Active Pharmaceutical Ingredient

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Risks and Mitigants

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Risks	Mitigants
Regulatory risks such as adverse plant inspections by USFDA^	▪ In the past, companies were dependent on a few plants for US supplies ▪ Companies have now de-risked operations via product filings & sourcing from multiple facilities
Competitive intensity/product level concentration	▪ Pricing deflation is a constant headwind faced by companies in global generics ▪ A large pipeline, foray into complex products and entering newer geographies insulates from such pressures
Government regulations around price controls in India	▪ Focus on over-the-counter, non-prescription products and unbranded generics has reduced exposure to price controlled drugs
Government regulations in the hospital sector	▪ Revenue growth from new bed additions and insurance uptake would counter any risks

^USFDA is acronym for United States Food and Drug Administration

About the S&P BSE Healthcare Index Benchmark

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By Industry	Number of Companies	Weight	Market Capitalization (in INR tn)
Pharmaceuticals	71	76.5%	13.02
Hospital	14	18.9%	2.54
Healthcare Service Provider	6	2.1%	0.37
Healthcare Research, Analytics & Technology	4	1.5%	0.35
Medical Equipment & Supplies	3	0.9%	0.15
Biotechnology	1	0.2%	0.04
Total	**99**	**100%**	**16.46**

Market Cap Segment	Number of Companies	Weight
Large Cap	6	49.1%
Mid Cap	14	29.3%
Small Cap	79	21.6%
Grand Total	**99**	**100%**

Source: Capitalline, S&P BSE; Data as of 31st July 2023

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Why Invest in HDFC Pharma and Healthcare Fund?

- Domestic healthcare spends to increase due to rising longevity, low penetration and growing elderly population
- Rising chronic diseases to result in repeated buying and higher margins for pharma companies
- Growing share of Indian companies in US generics, improved pricing erosion environment and large chunk of drugs going off-patent over the next few years provides a big opportunity for Indian pharma companies
- Biosimilars - an untapped long-term growth lever for Indian pharma companies
- Indian pharma companies are now playing pivotal role in driving global innovation through the CDMO route
- **Manufacturing Leadership** - India has the second highest share of USFDA approved facilities; the manufacturing competitiveness has improved further with introduction of PLI scheme and low labour cost

CDMO - Contract Development and Manufacturing Organization

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Nikhil Mathur

Fund Manager and Senior Equity Analyst

- Nikhil has collectively over 12 years of experience of which 8 years is in Equity research and 4 years in other corporate roles.
- He joined HDFC Asset Management Company Ltd in September-2021. Prior to that, he worked for more than 4 years with Ambit Capital Pvt. Ltd where he was leading equity research of Healthcare Sector in India. Nikhil has also worked with Goldman Sachs (India) Pvt. Ltd. for 2 years, where he was part of the Global Investment Research division.
- Nikhil has done MBA in Finance from IMT, Ghaziabad in 2013, done graduation in Civil Engineering from Punjab Engineering College, Chandigarh in 2009 and has cleared all three levels of the CFA Program.

Fund Facts

Particulars	HDFC Pharma and Healthcare Fund	
Type of Scheme	An open-ended equity scheme investing in Pharma and healthcare companies	
Investment Objective	To provide long-term capital appreciation by investing predominantly in equity and equity related securities of Pharma and healthcare companies. **There is no assurance that the investment objective of the Scheme will be realized.**	
Benchmark Index	S&P BSE Healthcare Index	
Fund Manager $	Mr. Nikhil Mathur	
Investment Plans	• Direct Plan • Regular Plan	
Investment Options	**Under Each Plan:** Growth, Income Distribution cum Capital Withdrawal – Payout and Reinvestment of IDCW	
Minimum Application Amount	**During NFO Period** **Purchase:** ₹100/- and any amount thereafter **During continuous offer period (after scheme re-opens for repurchase and sale):** **Purchase / Additional Purchase:** ₹100/- and any amount thereafter Note: Allotment of units will be done after deduction of applicable stamp duty and transaction charges, if any.	
Load Structure	**Entry Load**	Nil
	Exit Load	• In respect of each purchase/switch-in of units, an Exit load of 1% is payable if units are redeemed/switched-out within 1 year from the date of allotment. • No Exit Load is payable if units are redeemed / switched-out after 1 year from the date of allotment. • No Entry / Exit Load shall be levied on bonus units and Units allotted on Re-investment of Income Distribution cum Capital Withdrawal. • In respect of Systematic Transactions such as SIP, Flex SIP, STP, Flex STP, Swing STP, Exit Load, if any, prevailing on the date of registration / enrolment shall be levied.

$ Fund Manager Overseas investment – Mr. Dhruv Muchhal

For further details, refer SID and KIM available on www.hdfcfund.com and at Investor Service Centres of HDFC Mutual Fund

Product Labelling and Riskometer

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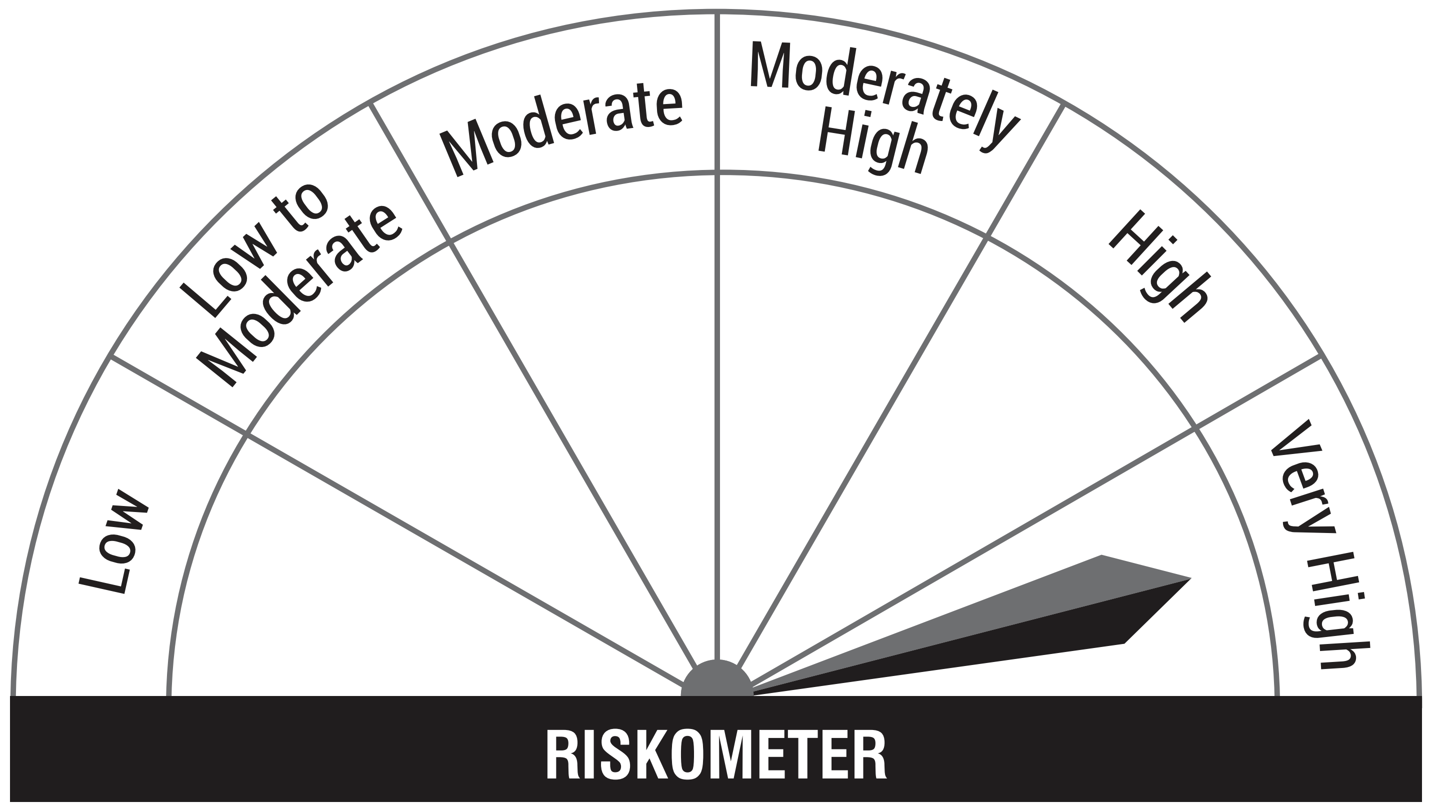
HDFC Pharma and Healthcare Fund (An open-ended equity scheme investing in Pharma and healthcare companies) is suitable for investors who are seeking*:

- To generate long-term capital appreciation
- Investment predominantly in equity & equity related instruments of Pharma and healthcare companies

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

#The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made

Riskometer#



Investors understand that their principal will be at very high risk

The Scheme being sectoral in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.

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Disclaimer

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Thank You