MNC Pharma Companies Available at Favourable Valuation

08th July 2026

Executive Summary:

Need of the Defensive Compounder in Portfolio:

We have stated that ICM is our preferred strategy for growth allocation. In addition, we have positioned the portfolio to **capture higher upside**. As a result, the majority of our ideas are **high-beta and historically cyclical** in nature, utilizing B2B and B2G business models.

B2C Businesses are Strong Candidates for Defensive Compounders:

We believe a structural B2C business with **strong pricing power** will serve as a good **complement to our existing portfolio**. Historically, we have stayed away from the FMCG space, which constitutes a large part of the B2C sector in India. D2C brands have provided strong competition to the traditional FMCG segment, resulting in lower growth rates for these companies.

MNC Pharma Companies are Consumer Facing & they have Strong Pricing Power:

Given this context, we view certain multinational (MNC) pharmaceutical companies with B2C product portfolios as **strong contenders for a defensive allocation** due to their robust pricing power. Specifically, we believe MNC pharma companies with specialized, patented product portfolios and structural demand are better positioned.

These MNC Pharma Companies are available at Decadal Low Valuations:

On the back of negative market sentiment, the valuation multiples of these companies have corrected, making them available at very attractive levels. The price to Earnings (P/E) multiples of some of these companies have corrected ***from long term averages of ~45-50x to ~30-35x with dividend yield of ~2-2.5%***.

Positioning & Recommendation:

Given the strong pricing power, traditionally defensive nature, compounding fundamental, and decadal attractive valuations, ***we want to allocate to these MNC Pharma companies to complement our existing direct equity bucket***. We are comfortable even if this bucket underperforms in near term. We are positioning these companies as **compounder** from **next 3 to 5 years perspective**.

Among the MNC pharma pack, we specifically like following companies:

***Recommendations are for clients only**

Understanding the business model of MNC Pharma companies:

The aforementioned MNC pharma companies **operate as subsidiaries of their global parent organizations**, maintaining independent distribution and manufacturing networks while ***enjoying access to the parent company's innovation and brand name***.

The subsidiary and the parent company maintain an arrangement wherein the subsidiary ***utilizes the trade name, distribution rights*** for specific geographies, and patented technical know-how for the parent's products. In exchange for these resources, the **subsidiary pays royalty fees to the parent company**. These fees typically vary from ~2% to 5% of net revenue, depending on the agreement.

However, royalty payouts are entirely dependent on the specific agreement between the parent and the subsidiary. Furthermore, MNC pharma companies usually follow an **asset-light model**, largely outsourcing their manufacturing to focus primarily on distribution and sales.

Capital Allocation Analysis Suggests MNC Pharma Companies are Strong Cash-Generating, High-ROCE, and High-Dividend-Payout Businesses:

Typically, MNC pharma companies in India are **strong cash-generating businesses** due to their **asset-light operational models** and the parent companies' innovative edge. Their key expenses are limited primarily to employee costs, advertising, publicity, and sales promotion.

Because product manufacturing is largely outsourced to contract manufacturers, the **primary focus remains on distribution and sales**. Consequently, the majority of the cash generated is distributed back to shareholders as dividends.

Following table shows historical cumulative dividend payout as a % of cash flow generated by these businesses:

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			

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The threat from Pradhan Mantri Bhartiya Janaushadhi Pariyojana is limited:

The **Jan Aushadhi Scheme** was first launched in November 2008. It was revamped in 2015 and renamed the Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP) in 2016 to expand its reach.

As of March 2026, over **19,000** Janaushadhi Kendras are functional nationwide, offering a ***product basket of more than 2,100 medicines and 300 surgical items***. Jan Aushadhi (PMBJP) generic drugs contain the same active ingredients and are designed to deliver identical therapeutic effects as their branded counterparts, while costing significantly less.

However, our research, experience, and channel checks suggest that doctors continue to recommend branded products for their reliability, efficacy, and rapid relief. We believe the superior product quality of these branded products, backed by patented technology, acts as a ***strong competitive advantage*** for these companies.

Positioning & Recommendations:

We view these MNC pharma companies as **strong B2C franchises** with robust pricing power, structural demand, and a technology advantage derived from their parent companies. Historically, these companies have **served as defensive allocations** due to the inelastic demand for their products and their inherent pricing power.

Because these are **mature businesses**, their growth rates are limited and lower compared to those of our other portfolio companies; **however, this growth remains highly consistent across market cycles**.

Consequently, we see these companies as a complementary allocation to our existing portfolio and recommend allocating capital to one of the whitelisted companies from a 3-to-5-year perspective.

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