PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

Hindustan Times, Delhi
Monday 27th January 2014, Page: 12
Width: 8.21 cms, Height: 14.83 cms, a4, Ref: pmin.2014-01-27.42.93

Investing lesson from Ranbaxy share slump: Diversification is key

YOUR MONEY

DHIRENDRA KUMAR

So, Ranbaxy is at it again. The US FDA has again cracked down upon the pharmaceutical major's manufacturing practices and banned the output of a major plant from being imported into the US. On January 24, the day that the news broke, the stock fell by almost 20%. Of course, one could say that those who have invested in it had it coming. Over the last few years, the company has regularly been in trouble with US regulators. Periodically, it claims that all the issues are now fixed but every time, it has turned out that this is not the case.

From an investment perspective, Ranbaxy is an interesting case. Whenever the company has gotten into regulatory trouble and its stock price has fallen sharply, investors--including fund managers and other professional investors have believed that it would mend its ways and taken the fallen stock price as a good buy. They've done so because they have believed that the troubles stem from the old management and the new Japanese owners would set things right. And yet, they've been proved wrong every time. Despite this, several mutual funds have at least some Ranbaxy stock in their portfolios.

And yet, the premise is a reasonable one. If Ranbaxy had managed to clean up its act, it would have been a fine investment, as was Satyam for those who bought it soon after the Raju scandal broke. After all, fraud and regulatory failure is something that investors can't actually plan for but can happen any time in practically any business. For investors, the solution is a simple one, which is diversification. Dozens of equity mutual funds are invested in Ranbaxy, where typically it's one of a portfolio 30 or more stocks. A major purpose of diversification is to guard investors against such outlier shocks, and episodes such as Ranbaxy and Satyam prove the value of this approach.

dhirendra@valueresearch.in

Company