Healthcare Services

Court signals wider drug price cap beyond cancer

Supreme Court indications on 12th Oct 2026 hearing:

- At the 12 Oct 2026 Supreme Court hearing, the court indicated that it may expand the medicine price cap beyond oncology. The observation follows the government's decision to cap trade margins on oncology medicines at 30%. Earlier, the court had raised concern over the wide gap between PTR and MRP on cancer drugs at private hospitals. It also noted that its earlier observations on unusually high mark-ups on cancer drugs had prompted the government to impose the 30% margin cap.
- The Supreme Court observed that several medicines remain outside the ambit of the Drug Prices Control Order (DPCO). It questioned why the government's decision to cap trade margins on cancer drugs could not be extended to non-cancer drugs.
- The Supreme Court questioned the government's position, asking why it could not exercise control over the entire drug market.
- The matter is now scheduled for further hearing on **27th Oct 2026**.

Government of India response:

- The 30% margin cap on cancer medicines is expected to generate annual savings of ~INR 25 bn, improve affordability, and reduce patients' out-of-pocket expenditure. The cap is intended to prevent excessive mark-ups while ensuring reasonable margins for distributors and retailers.
- The government indicated that it was not opposed to some of the suggestions made by the court at the hearing. It said it was not seeking to control the entire drug market, submitting that India already has some of the lowest drug prices globally. It told the Supreme Court that drug pricing policies must strike a balance between affordability and availability.

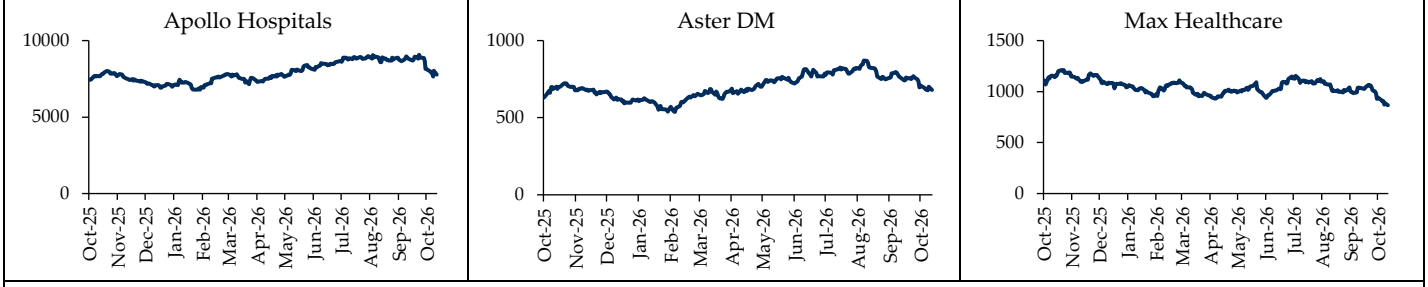
Our view:

- We note that the 30% margin cap on oncology medicines is intended to create price pressure on hospital companies, as the government expects oncology medicine prices to fall by ~70% post the cap.
- In the current scenario, the price cap is restricted to oncology-related medicines only. Leading hospital chains have a meaningful presence in oncology treatment, which contributes 18-20% of hospital sales.
- We assume (1) oncology sales as per company filings, (2) oncology drugs at 35% of oncology revenues, of which ~50% is from the non-scheduled segment, and (3) a ~30% impact in oncology drug prices. This implies a sales impact of 0.5-1% and an EBITDA impact of 2-5% (ex-HCG).
- For our coverage, we see a Sales/EBITDA impact of 0.5%/2.8% for Apollo Hospitals, 1.3%/5.0% for Max Healthcare and 0.6%/2.7% for Aster DM
- The Supreme Court's indication to expand the scope beyond cancer drugs is potential regulatory risk for hospital chains as pharmacy contributes ~12-20% of in-patient revenue for most hospital chains at EBITDA margins of ~30-35%. In the worst-case scenario of price cap, we see an impact of ~2-5% on sales, ~5-10% on EBITDA, and ~80-150bps on EBITDA margin for hospital chains.
- The healthcare sector has faced regulatory overhang for several years: stent and implant price cuts (which hit profitability few quarters in FY17, with recovery in FY18/19), Clinical Establishments Act (treatment cost standardization), and cap on room rents. We believe sector fundamentals remain strong, supported by strong demand, bed capacity expansion, and an improving specialty mix. Stock prices have corrected 5-12% in a month due to regulatory overhang which may prevail till next hearing date. We have a BUY on Apollo Hospitals and ADD on Aster DM and Max Healthcare.

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Price history



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

We, **Mehul Sheth, MBA & Virti Shah, BFM** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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