INSTITUTIONAL RESEARCH

Healthcare Services

Supreme court raises concerns on pharmacy prices

Supreme Court raises concern over drug mark-ups:

- In a hearing on a petition seeking mandatory generic prescriptions, strict initial price controls on non-scheduled medicines and MRP caps on medical devices, the Supreme Court took serious exception to the absence of price-control mechanisms for life-saving drugs. It flagged the wide gap between Price to Retailer (PTR) and MRP at private hospitals. As an example, it cited a cancer drug with a PTR of INR 2,700 and an MRP of INR 27,000 (a 10x mark-up) and questioned the rationale.
- The court also criticized the practice of corporate hospitals requiring in-patients to buy medicines only from in-house pharmacies at inflated prices, while patients who source medicines externally risk being refused treatment.
- The court noted that for treatment under government-sponsored welfare schemes (like CGHS), hospitals are reimbursed in full by the exchequer on these inflated MRPs.
- The court questioned the government why a uniform 16% margin cap cannot be enforced across all pharma products under the Essential Commodities Act. The court today granted some time to the government to acknowledge the issues and to find a balanced resolution.
- The matter is now scheduled for further hearing on 12-Oct-26.

Our checks with select hospital chains suggests:

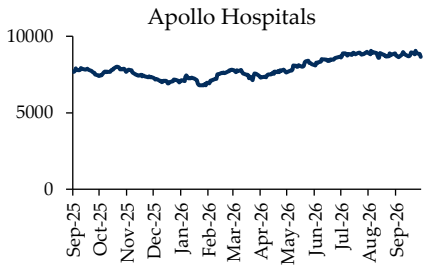
- Price caps on drugs and consumables are not new, and it is too early to comment on the outcome.
- Several medicines offered for in-patients are already under price controls.
- Hospitals highlighted select critical-care drugs have a short shelf life (30 minutes to a few hours) and carry additional costs for inventory handling and temperature-controlled storage. These technicalities are not taken into consideration.
- On purchase of medicines for in-patients, the hospital commented that there is no obligation on in-patients to buy from in-house pharmacies. In critical care, where timing is key, the in-house pharmacy is the first preference, but patients are free to buy from outside. OPD patients receive prescriptions and can buy from any pharmacy.
- The government has not reached out yet and healthcare bodies/associations may be able to put a strong case. Hospitals feel court observations have not taken several technical aspects into consideration.

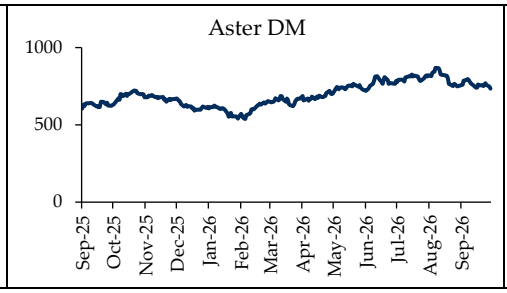
Our view: Pharmacy contributes ~12-20% of in-patient revenue for most hospital chains at EBITDA margins of ~30-35%. This makes it a high-margin segment and sensitive to regulatory risks. Assuming a margin cap along the lines suggested by the court, with pharmacy at ~15% of in-patient revenue and ~35% EBITDA margin, we expect an impact of ~2-5% on revenue, ~4-9% on EBITDA, and ~20-70bps on EBITDA margin for hospital chains. In the worst-case scenario of price cap, the hospital can divert the cost and charges across other services to normalize profitability. We see EBITDA impact of ~5% for Apollo Hospital, 6% for Max Healthcare, and 7% in Aster DM. The healthcare sector has faced regulatory overhang for several years: stent price cuts (which hit profitability few quarters in FY17, with recovery in FY18), standardization of treatment costs (Clinical Establishments Act), price controls on consumables and, most recently, a parliamentary suggestion to cap room rents. We believe sector fundamentals remain strong, supported by robust demand, bed capacity expansion, and an improving specialty mix, with visibility of gradual margin improvement. We maintain BUY for Apollo hospital, and for Aster DM and Max healthcare.

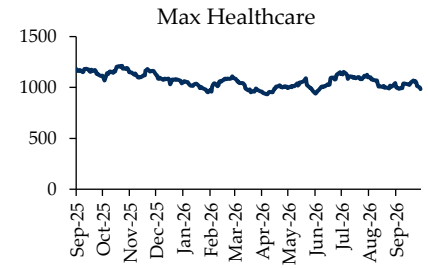
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Price history







Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

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