

## Hospital Pricing at the center of dispute

- The recent proceedings by the Supreme Court of India regarding petitions on hospital pricing have raised concerns on the outlook of hospitals.
- The Supreme court of India has directed the Secretary of the Department of health, Union of India, to present a concrete proposal regarding the rates chargeable from patients before the next hearing (six weeks from 27th Feb'24)
- Considering the substantial investments made by hospitals in building infrastructure and acquiring talent resources, imposing a ceiling on prices aligned with Central government healthcare Scheme (CGHS) rates could potentially undermine the investment ecosystem within the healthcare services sector.
- Also, India continues to lag behind in healthcare expenditure as a percentage of GDP as well as bed density. As a proactive measure, we expect representation by the hospitals association, if required.
- We view this development as a buying opportunity for hospital stocks under our coverage (Max healthcare, Medanta, Apollo Hospitals).

## Event details

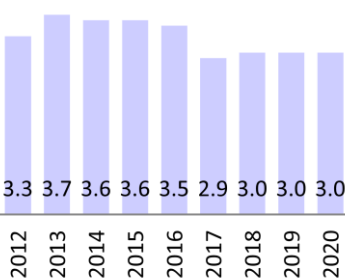
- The Supreme court of India has accepted the writ petition filed by the Veterans Forum for Transparency in Public Life (petitioner) and Union of India (Respondent).
- The Supreme court of India has ordered the Secretary of the Department of health, Union of India, to hold meetings with counterparts in state governments/union territories to address pricing aspects related to providing medical facilities.
- Union of India has indicated that the rates are to be determined under clinical establishment act, 2010 and rules framed thereunder.
- Further, while this act has been adopted by 12 state government and 7 union territories, there has been limited response from state-governments/union territories on determination of rates. The Supreme court of India has indicated adopting CGHS rates as an interim measure in case the central government does not come up with a concrete proposal till the next hearing.
- The next hearing would be after six weeks.

## Limited scope for implementing CGHS rates across board

- The ongoing proceedings in the apex court of India have raised concerns regarding the pricing of healthcare services for patients.
- While addressing the social landscape of healthcare access is crucial, one must also consider the economic viability of operating the medical facilities
- Further, the implementation of technological advancements for better treatment also require additional investments.
- Considering these aspects, applying CGHS rates across offerings would weaken the investment prospects in healthcare facilities.
- The healthcare spend by governments as a percentage of GDP remains low (3% in FY20). Also, the bed density (15 beds per 10,000 population) as well as the penetration of services require significant improvement across the country.
- We await further clarity on this matter. We understand that hospitals are also evaluating the option of representation to an appropriate government body, if required.

## India's Healthcare expenditure as a % of to GDP has been flat for last 4 years

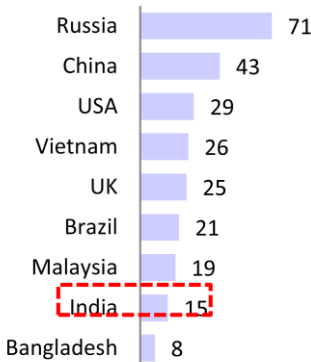
■ Healthcare expenditure as a % to GDP



Source: MOFSL, Company

## India has one of the lowest bed density in the world

■ Bed Density per 10,000 population



Source: MOFSL, Company

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**Reiterate BUY Max Healthcare, Medanta, Apollo Hospitals**

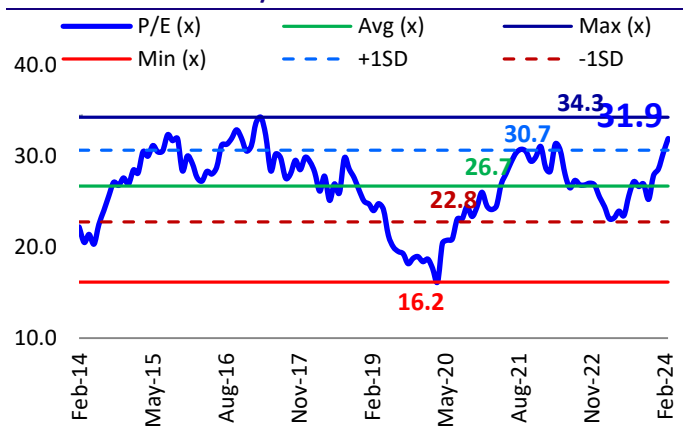
- Hospitals stocks have corrected by 7-14% over the past week, following an order from the Supreme court of India. We continue to believe in the structural tailwinds of the hospitals sector, as healthcare services continue to remain inadequate across various parts of India. The growing health awareness, rising incidences of illnesses, and increasing insurance penetration pave way for higher investment opportunities for delivering improved healthcare services.
- We believe Max healthcare, Medanta, and Apollo hospitals are well-positioned to provide the healthcare services on the back of a) Significant Doctor talent pool, b) diversified case mix, catering to a wide patient base, and c) the availability of land for brownfield expansion. We re-iterate our BUY rating on these hospitals.
- We value MAX on an SOTP basis (28x EV/EBITDA for hospital business, 20x EV/EBITDA for Max Lab, 4x EV/Sales for Max@home) to arrive at a TP of INR930.
- We value Medanta at 28x 12M forward EV/EBITDA to arrive at a TP of INR1,460.
- We value APHS on an SOTP basis (27x 12M forward EV/EBITDA for healthcare services, 12x 12M forward EV/EBITDA for backend pharmacy, 20x 12M forward EV/EBITDA for front-end pharmacy, 2x EV/sales for Apollo 24/7 and 25x EV/EBITDA for AHLL) to arrive at a price target of INR7,400.

**Exhibit 1: Yatharth/Shalby/Narayana has highest contribution from institutional schemes**

Companies	FY23		9MFY24	
	*Institutional sales %	Others	*Institutional sales %	Others
Max healthcare	17	83	18	82
Medanta	8	92	6	94
KIMS	8	92	7	93
Fortis Health	19	81	20	80
Narayana	21	79	21	79
Apollo Hospitals	10	90	10	90
Rainbow	0	100	0	100
Shalby	23	77	23	77
Yatharth	37	63	NA	NA
Jupiter	1	99	1	99
Artemis	19	81	20	80

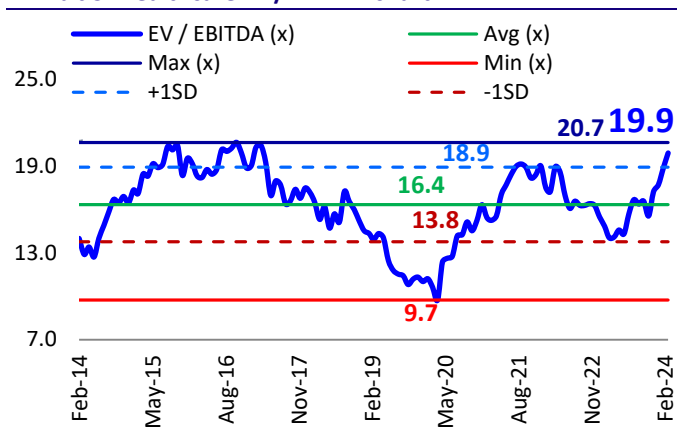
\* Institutional sales CGHS and PSU; Source: MOFSL, Company

**Exhibit 2: Healthcare P/E chart**



Source: MOFSL, Company, Bloomberg

**Exhibit 3: Healthcare EV/EBITDA chart**



Source: MOFSL, Company, Bloomberg

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