

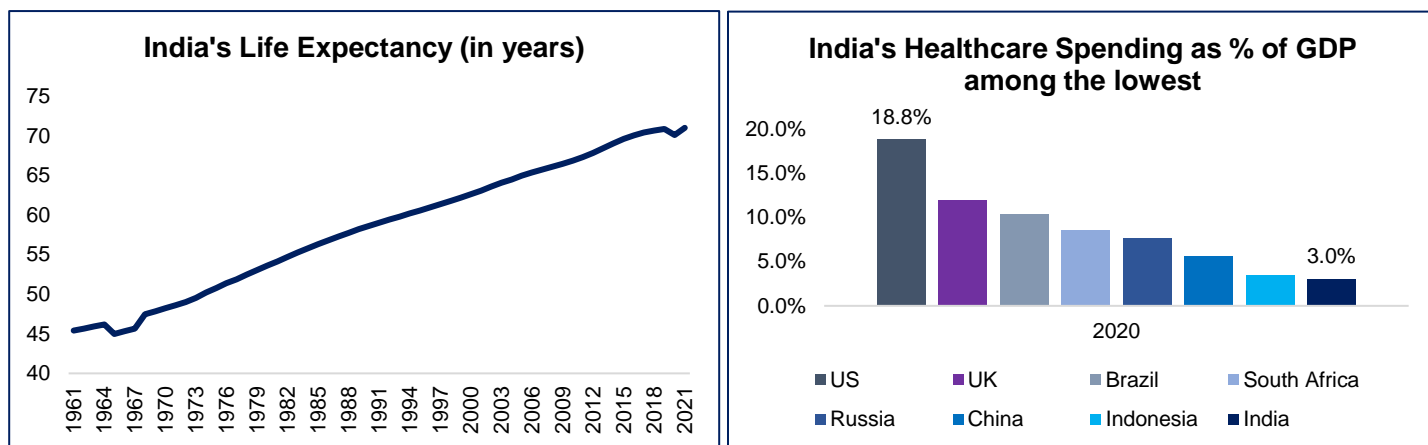
September 12, 2023

HDFC Mutual Fund's Tuesday's Talking Point

Indian Pharma and Healthcare – A Segment with Potential to Grow in the Future!

One of the hallmarks of development for India has been rising life expectancy. From about 48 years in 1970, India's life expectancy has increased to 71 years as of 2021 –. Apart from improving incomes, major government focus is a key factor behind increasing access to healthcare. As a result, while life expectancy has improved, a rise in elderly population and chronic diseases have prompted an increase in India's domestic spends in healthcare.

India's Pharma and Healthcare Segment has significant potential to grow



Source: World Bank, World Health Organization (WHO)

➤ **Healthcare spends on the rise, but a long way to go**

If one takes the case of Private Final Consumption Expenditure (PFCE), India's share of healthcare spending in PFCE has been rising. Just to give context, while in FY2012, INR 3 out of INR 100 was spent on healthcare in PFCE, in FY2021, the expenditure on healthcare stood at INR 4.6.

While India's spending on healthcare is rising, it is still much lower than several developed and emerging economies. As a percentage of Gross Domestic Product (GDP), India's healthcare spending is among the lowest, indicating potential to grow.

➤ **Penetration in Rural Areas low relative to population size, but expected to go up in the future**

Rural population constitutes 66% of India's population. Despite its size, the penetration of rural healthcare in terms of specialists, pharmacies and hospitals has remained low – less than 50%.

Despite the under-penetration, in domestic formulations, a segment within Pharmaceuticals, the growth in rural areas is outpacing the growth in urban areas, hinting at levels of penetration catching up in rural areas.

➤ **Uptake in Private Healthcare Insurance**

The growth of the Pharma and Healthcare Segment has been well supported by the uptake in private healthcare insurance. As per the Insurance Regulatory and Development Authority of India (IRDAI), since FY2017, the total lives covered by group and individual insurance have doubled, and currently stands at 21.4 crore. Furthermore, the total value of claims processed under private insurance has recorded ~16% CAGR over FY2016-21.

This uptake could benefit hospital chains and companies in domestic formulations.

The Indian Healthcare and Pharma segment is operating in a multitude of sub-segments, namely Pharma (domestic formulations – one of the sub-segments) and Healthcare services. Healthcare services are further segmented into hospitals, diagnostics and retail pharmacy.

Domestic Formulations

As per Indian Council of Medical Research (ICMR), over the past few years, disease pattern has been changing, causing patients to be on lifelong medication once detected with a chronic disease. This has resulted in repeated buying. While this has driven the growth of domestic formulations at a ~11% Compounded Annual Growth Rate (CAGR) between FY2012 to FY2022, growth has also been driven by three key components – volumes, increase in pricing and new product launches.

Healthcare Services

Hospitals have the largest addressable market with Total Addressable Market (TAM) of INR 5.6 lakh crore as of FY2023, growing at a rate of 10-12% CAGR. The number of hospital beds (per 10,000 population) remains low compared to other emerging markets, indicating significant potential for growth.

While the presence of 1.5-2 lakh labs has caused the India's **diagnostics** industry to be highly fragmented, large diagnostic chains are witnessing a higher growth compared to the overall industry growth, due to the increase in their market share and integration with standalone labs. Furthermore, over the past few years, within diagnostics, which have been growing at a 12%+ CAGR, the organized diagnostic chains have been steadily gaining market share.

India's **retail pharmacy** is highly underpenetrated – one of the lowest penetration levels of organized retail across all sectors. While our unorganized small players dominate the market with a share of ~90%, organized players command market share of 40-60% in other countries like China, United States of America, European Union among others.

Conclusion

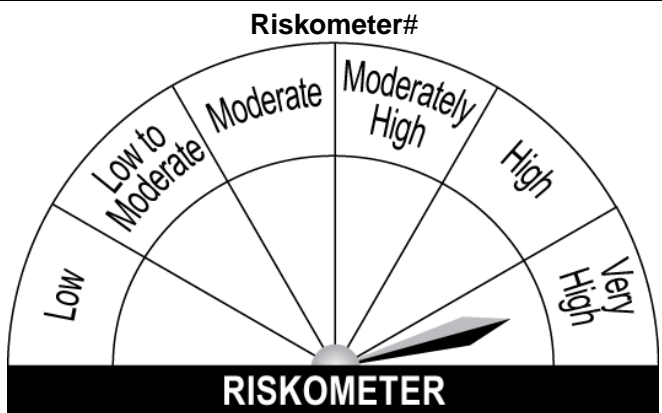
The S&P BSE Healthcare Index is trading at ~27x 1-year forward Price to Earnings Ratio (PER), implying a 14% premium to its 10-year historical average PER of ~23x. While the index is trading at a premium relative to its own history, valuations remain reasonable compared to S&P BSE Sensex.

In addition to this, the earnings outlook of the Pharma and Healthcare Segment remains robust, given strong domestic growth coupled with improved global generics pricing environment. Against that backdrop, this segment could be considered as an interesting investment opportunity. One way to avail this opportunity could be investing in our new fund offering (NFO), the HDFC Pharma and Healthcare Fund. The NFO period starts on September 14, 2023, and closes on September 28, 2023.

Sources: World Bank, Bernstein, WHO, ICMR, and other publicly available information

About Tuesday's Talking Points (TTP): TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. If you have a topic that you would like to be featured here please write to us at hello@hdfcfund.com

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<p>HDFC Pharma and Healthcare Fund (An open-ended equity scheme investing in Pharma and healthcare companies) is suitable for investors who are seeking*:</p>	 <p>RISKOMETER</p> <p>Investors understand that their principal will be at very high risk</p>
<ul style="list-style-type: none"> • To generate long-term capital appreciation • Investment predominantly in equity & equity related instruments of Pharma and healthcare companies 	
<p>*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #The product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made</p>	

The Scheme being sectoral in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.