



# PGIM INDIA HEALTHCARE FUND

(An open ended equity scheme investing in healthcare and pharmaceutical sector)



NFO Opens on: November 19, 2024  
NFO Closes on: December 03, 2024

# Build on Health: First for Yourself, Then in Healthcare

Medical bills in India are rapidly becoming bigger,  
reveals new index

**Hospitalisation costs surge 11.35% in a year, heart ailments rising: Report**

*People younger than 18 becoming susceptible to respiratory conditions, says insurance company*

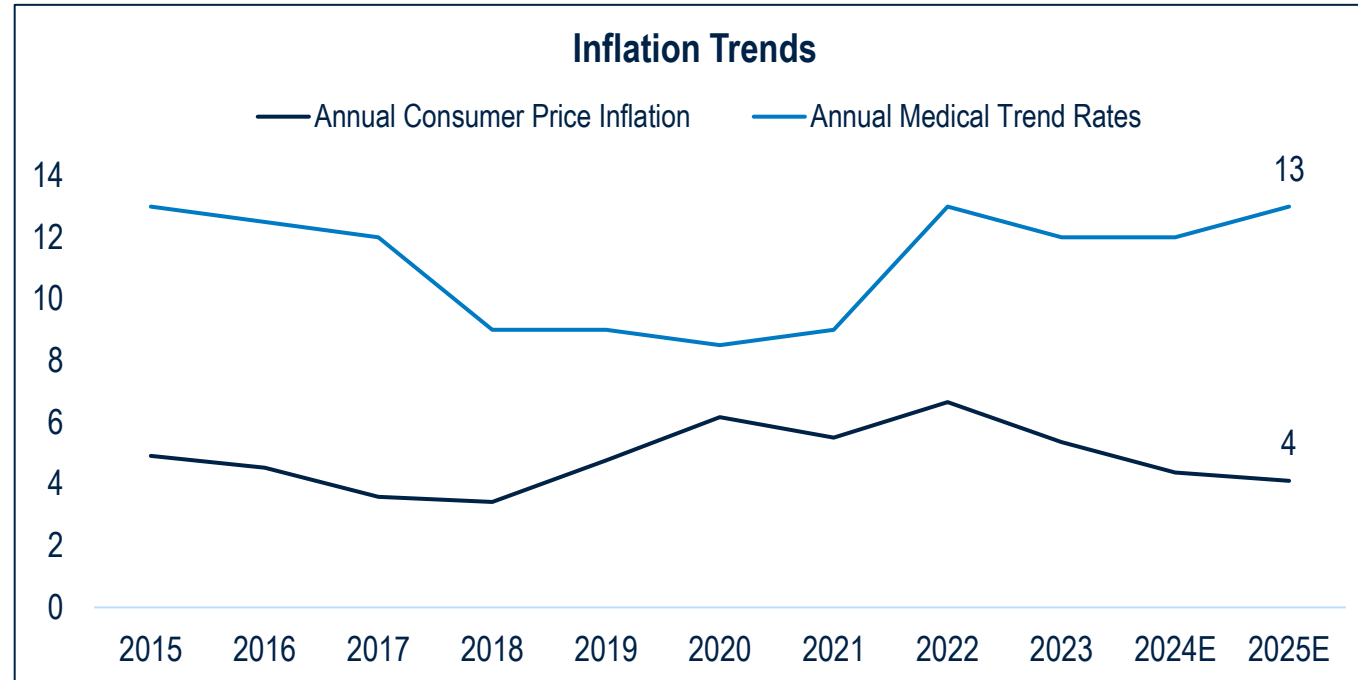
**Medical inflation in India reaches  
alarming rate of 14%, reveals report**

**Medical inflation driving up ticket sizes for retail  
health insurers**

***Healthcare sector companies tend to exhibit strong  
pricing power***

# Healthcare Inflation tends to be sticky

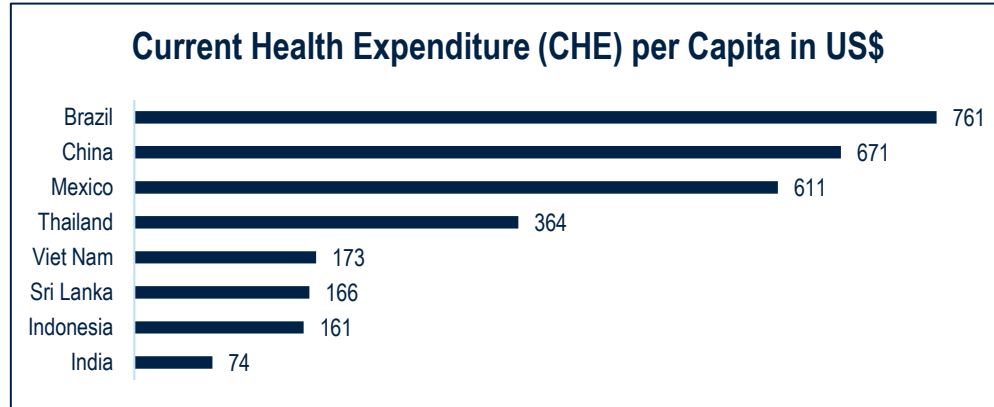
Medical trend rates are rising far faster than headline inflation



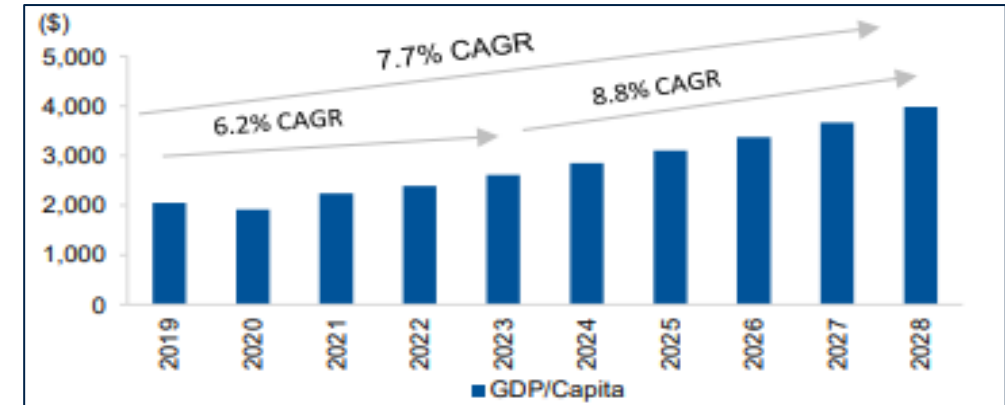
- ✓ Medical inflation is generally observed to be higher compared to headline inflation, in a country like India
- ✓ Healthcare sector’s inelastic demand and strong pricing power drive inflation resilience

# Healthcare can be a structural theme in India for the next decade

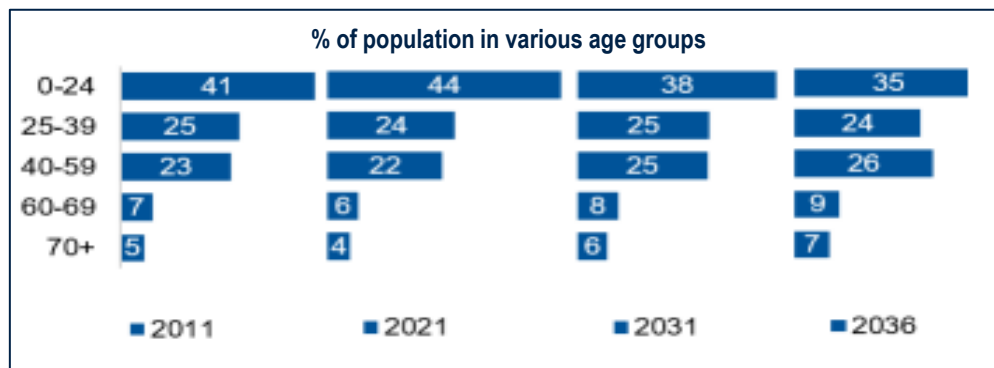
① Current healthcare expenditure in India, on a per capita basis, is significantly lower even when compared to other emerging markets



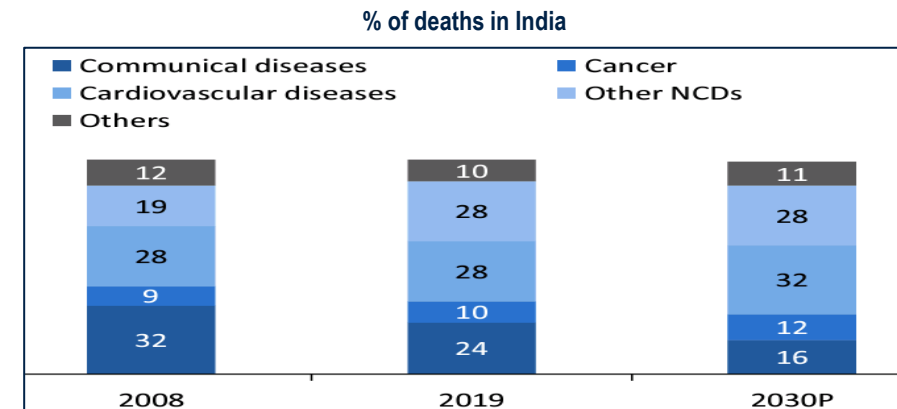
② This will change with rising household income and improved affordability



③ As India's population gets older....

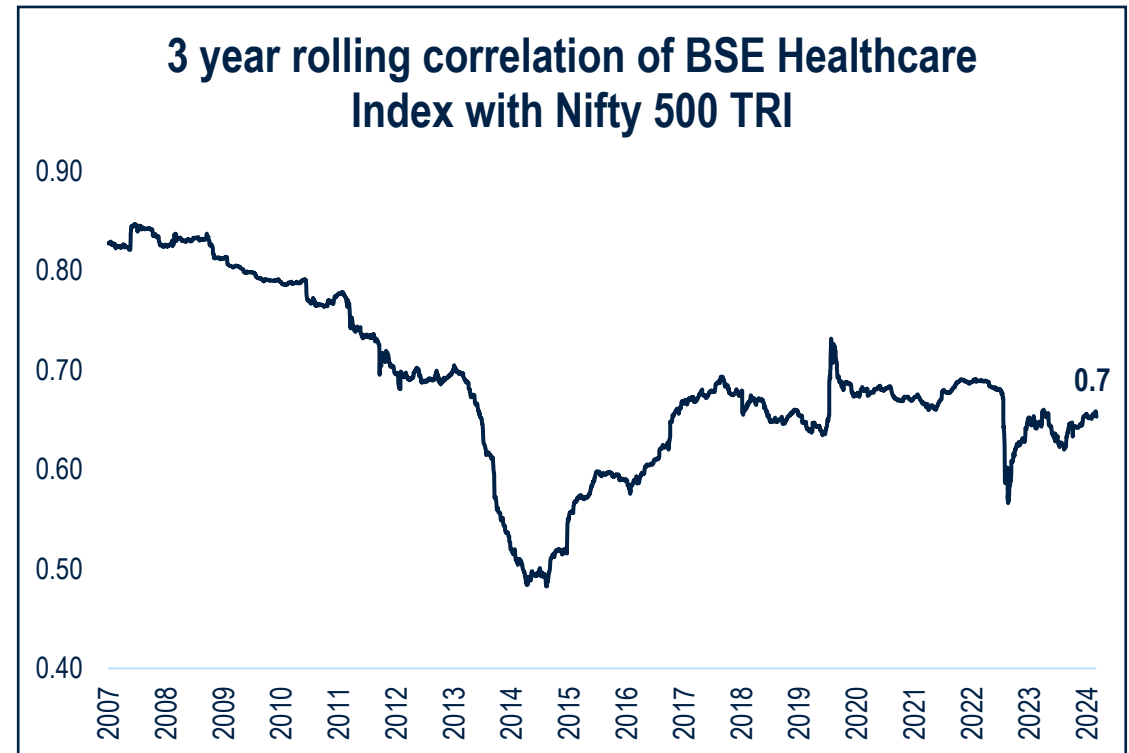
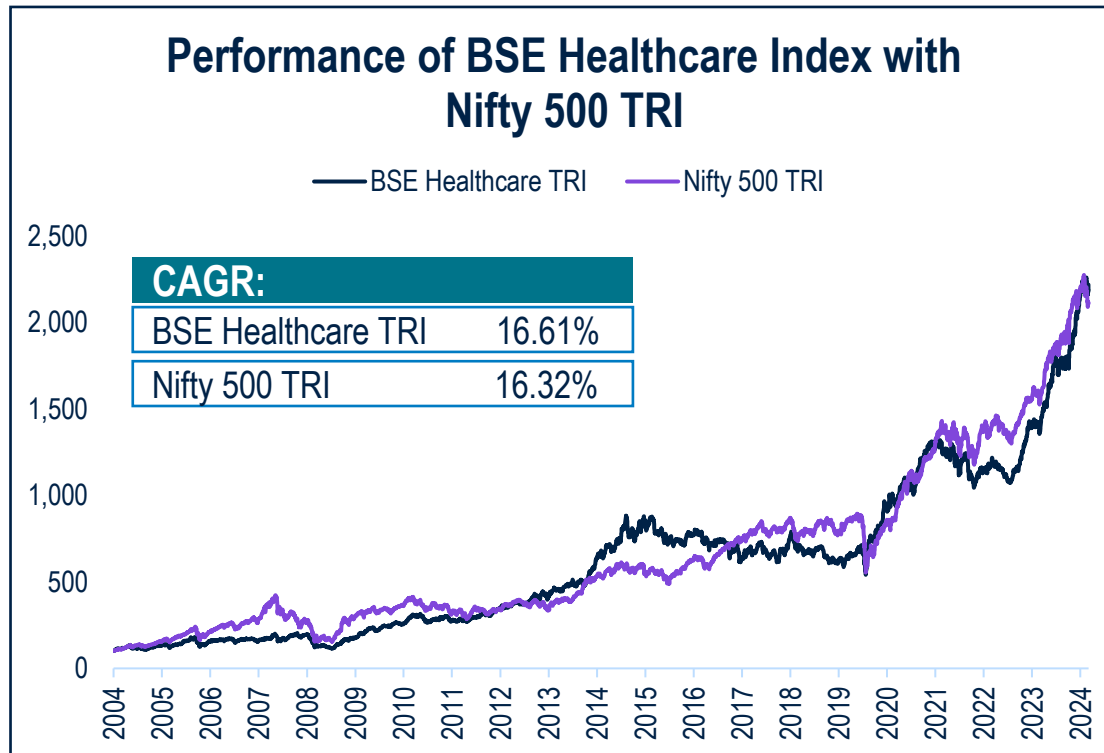


④ Prevalence of lifestyle disease will increase



✓ Rising income levels, increasing life expectancy and growth in lifestyle diseases are structural drivers for healthcare

# Comparable wealth creation with lower correlation...



(Above chart rebased to 100)

✓ **Lower correlation may help investors reap the benefits of diversification and risk management**

Source: MFI ICRA. Data from 31<sup>st</sup> August 2004 to 31<sup>st</sup> October 2024. BSE Healthcare TRI is the benchmark for this fund and Nifty 500 TRI represents the broader market. It should not be construed to be indicative of scheme performance in any manner. Past performance may or may not be sustained in the future.

# ....with higher consistency of long-term double-digit returns

Parameters	3 year Rolling Returns		5 year Rolling Returns	
	BSE Healthcare TRI	Nifty 500 TRI	BSE Healthcare TRI	Nifty 500 TRI
Average	14.99%	13.61%	14.96%	12.59%
Returns Range	No. of observations (%)			
< 0%	16.65%	6.23%	4.62%	0.96%
0% to 10%	8.61%	25.93%	16.50%	27.48%
10% to 15%	15.73%	25.51%	33.09%	33.17%
15% to 20%	26.24%	21.87%	18.95%	30.48%
Above 20%	32.78%	20.46%	26.84%	7.92%
<b>No. of observations (&gt;=10%)</b>	<b>74.75%</b>	<b>67.83%</b>	<b>78.87%</b>	<b>71.57%</b>

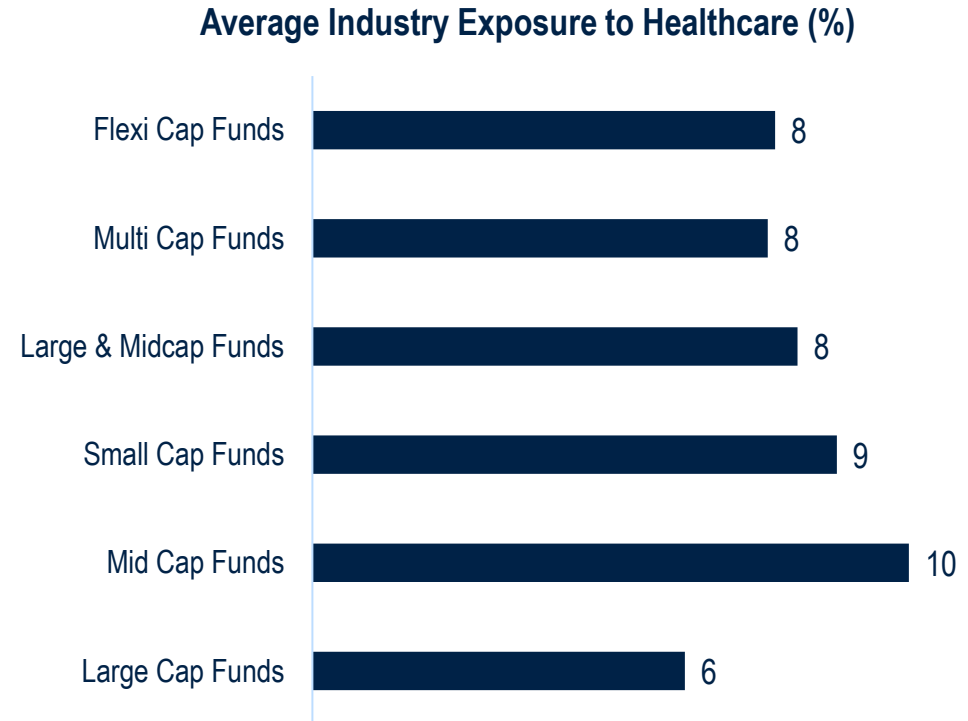
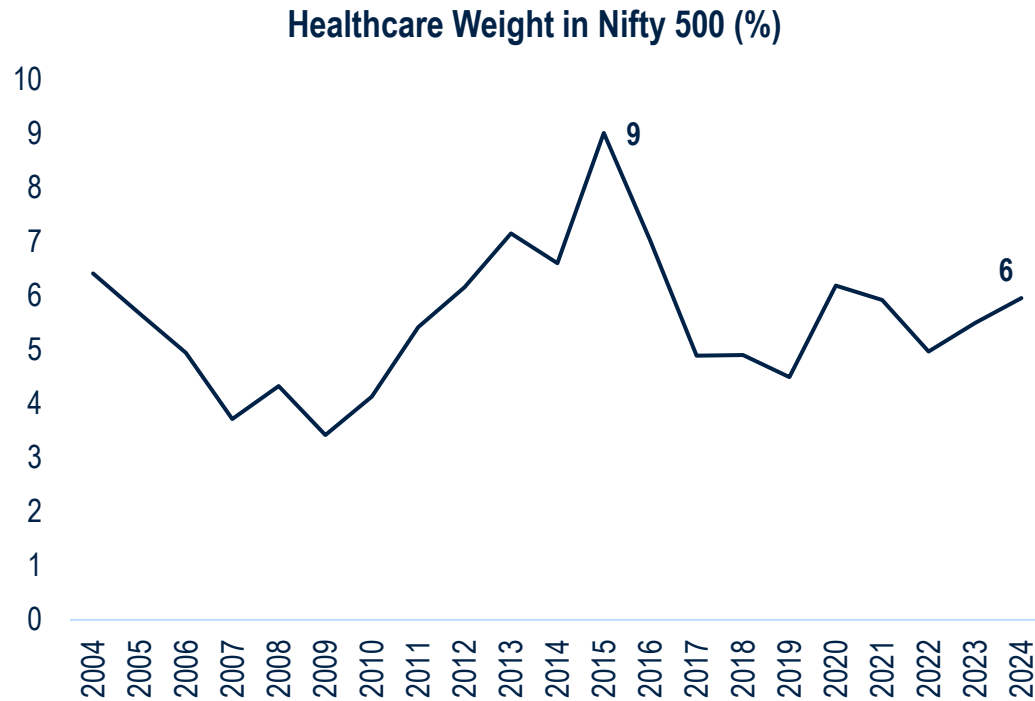
Source: MFI ICRA, PGIM India Internal Data. Data as on 31<sup>st</sup> August 2004 to 31<sup>st</sup> October 2024. It should not be construed to be indicative of scheme performance in any manner. Past performance may or may not be sustained in the future.

# HEALTHCARE HAS OPPORTUNITIES FOR ACTIVE FUND MANAGEMENT



# Healthcare Fund can capture unique opportunities

Healthcare weightage in broader indices/fund provides some exposure. But is that enough for most investors?



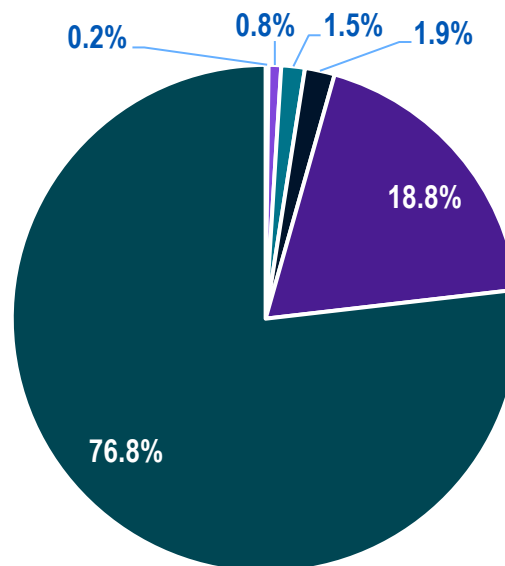
✓ Broader category funds exposure to healthcare is limited

# BSE Healthcare Index: Skewed towards Large Cap Pharma....

Pharma constitutes ~three-fourth of the BSE Healthcare Index

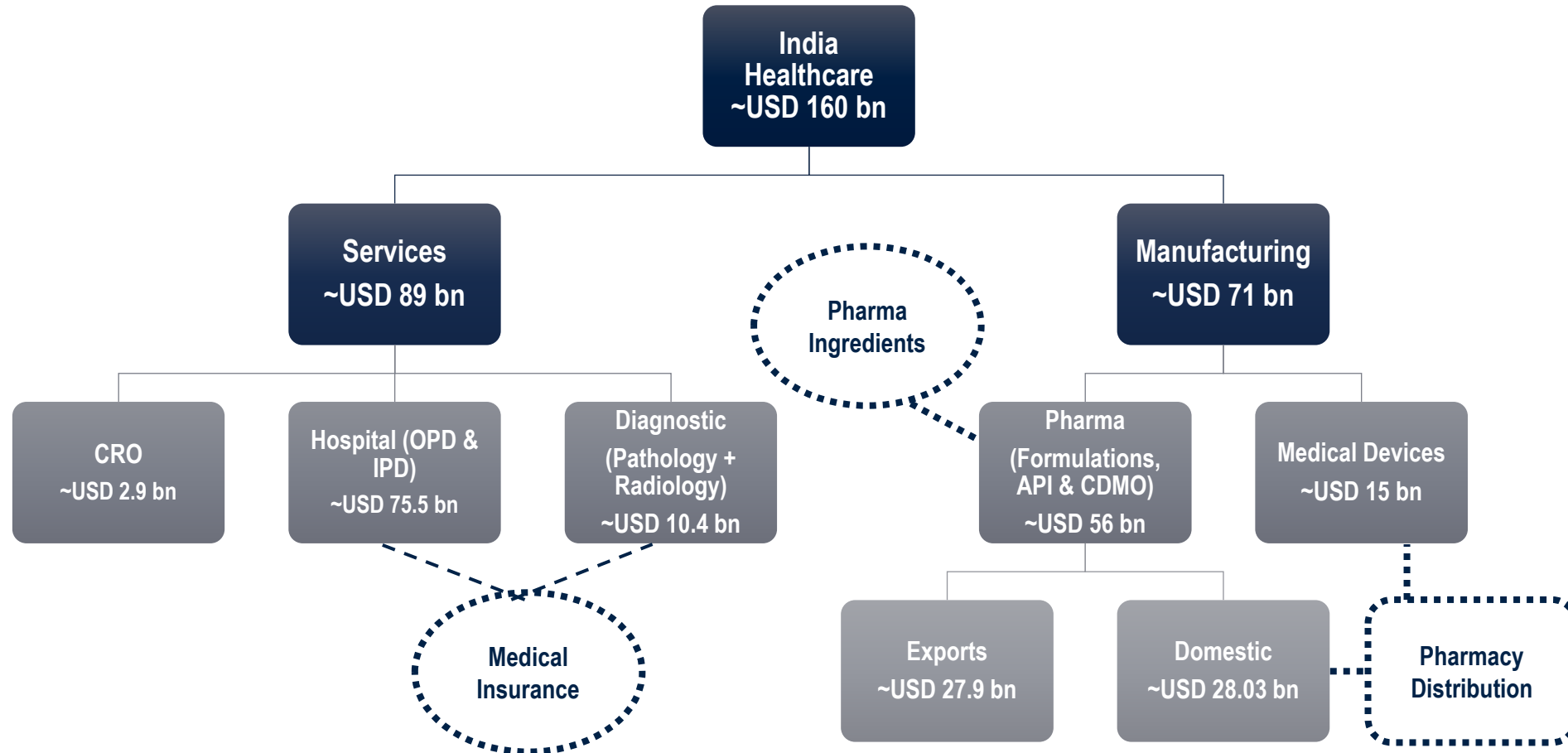
## Industry Classification (Weight in Index)

- Biotechnology
- Healthcare Research, Analytics & Technology
- Hospital
- Medical Equipment & Supplies
- Healthcare Service Provider
- Pharmaceuticals



✓ Although the sector offers a broad investible universe, the index does not adequately capture the full spectrum of opportunities available

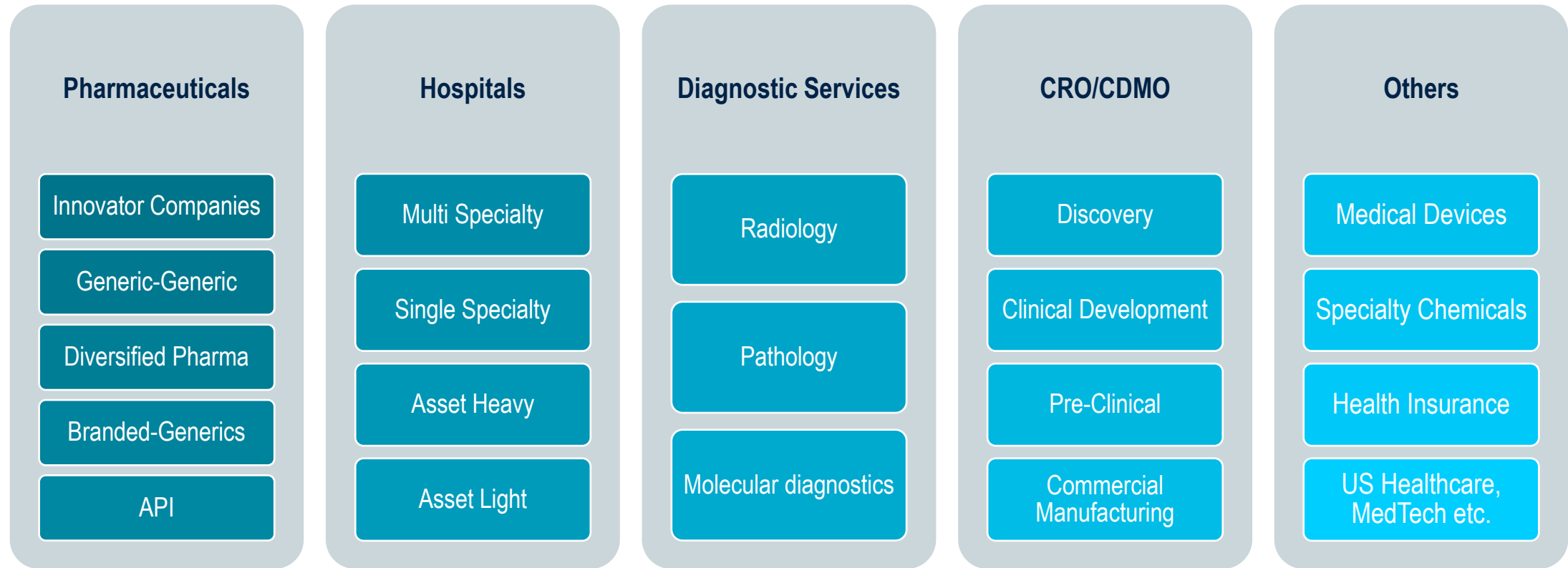
# ...Whereas more attractive opportunities lie outside



**Pharma accounts for ~77% of the BSE Healthcare Index, despite representing a smaller share of the sector's total revenue opportunities**

Source: CRISIL MI&A, Frost & Sullivan, Department of Pharmaceuticals, Dun and Bradstreet estimates, IQVIA.. API- Active Pharmaceutical Ingredient, CDMOs- Contract development and manufacturing organizations, OPD- Outpatient, IPD- Inpatient, CRO- Contract research organizations. Taken 84.43 as the USD INR conversion rate. Data as of FY 2024. The above-mentioned numbers are approximate estimates

# Diverse opportunities across various sub-segments within Healthcare



**Each sub-segment features distinct business models with unique economic characteristics**

# Winners Rotate: Bottom-up stock selection is important

Calendar year-wise performance (median returns of various sub-segments) of BSE Healthcare Index

Data Label	Pharma Ingredients	Domestic Formulations	Diversified/ Export Formulations	Hospitals	CRO/CDMO	Diagnostics	Medical Equipments	Pharmacy Distribution	BSE Healthcare TRI
CY 2013	4.2%	13.7%	16.0%	-10.8%	19.1%	NA	59.9%	-33.1%	23.5%
CY 2014	150.4%	55.9%	73.4%	19.2%	40.7%	NA	165.4%	185.1%	48.3%
CY 2015	80.6%	38.5%	42.9%	62.2%	50.5%	NA	-11.3%	11.6%	15.6%
CY 2016	-28.8%	-13.1%	-8.1%	0.2%	13.8%	33.7%	-4.7%	-16.3%	-12.4%
CY 2017	9.4%	13.0%	5.4%	13.6%	28.6%	-8.5%	48.1%	76.9%	1.1%
CY 2018	-34.8%	-4.8%	-23.0%	-34.5%	1.9%	-10.6%	-20.9%	-28.4%	-5.4%
CY 2019	-2.4%	10.4%	-14.6%	2.4%	-12.8%	33.6%	-1.5%	-22.2%	-2.8%
CY 2020	186.1%	51.6%	66.2%	47.1%	93.5%	54.6%	132.7%	77.5%	62.6%
CY 2021	9.1%	23.5%	-3.8%	54.6%	43.6%	65.7%	88.7%	276.6%	21.5%
CY 2022	-32.9%	-10.7%	-22.4%	7.9%	-16.6%	-40.8%	0.5%	-41.9%	-11.5%
CY 2023	29.9%	43.9%	61.0%	59.6%	22.9%	26.4%	21.3%	46.1%	38.0%

Different segments experience different business cycles, leading to varying performance trends

# WHY INVEST IN PGIM INDIA HEALTHCARE FUND?

# Investment philosophy and process



# Our framework for stock selection in Healthcare

Relative risk/return potential  
across sub-themes

Management quality &  
corporate governance  
standards

Consistency of revenue  
growth

Operating margin trend  
sustainability, working capital  
& capex intensity, leverage

Impact from evolving  
regulatory changes

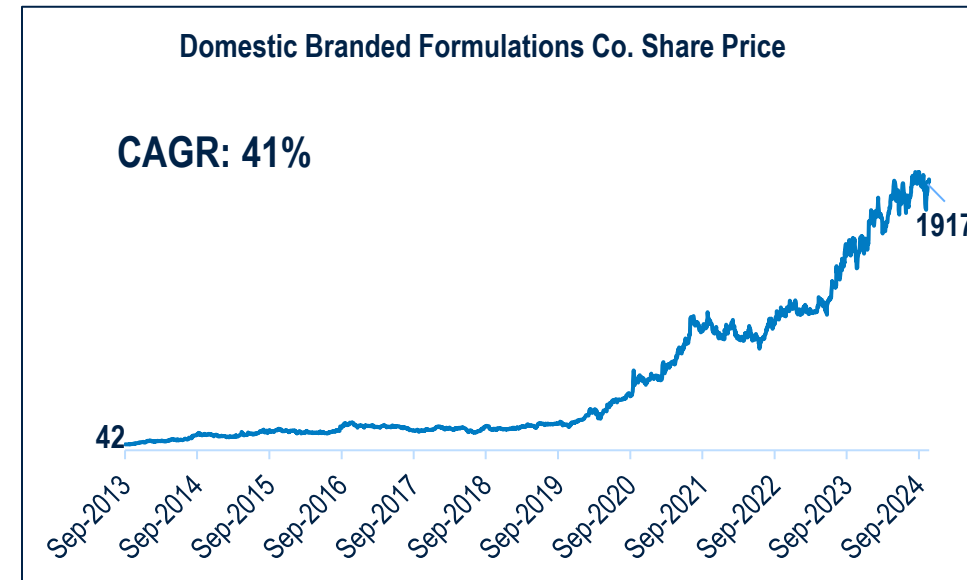
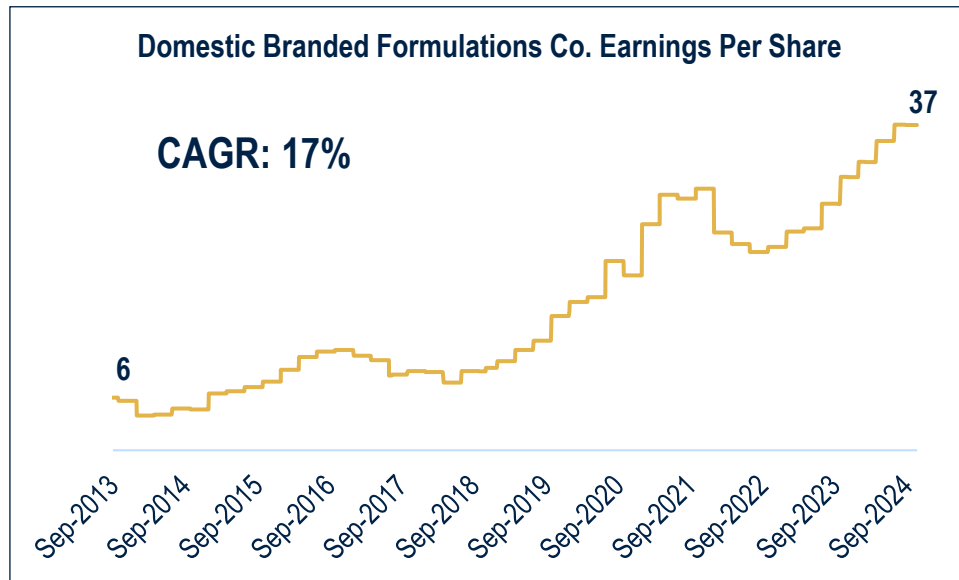
Valuation and growth  
potential



# Key drivers for various sub-segments

Domestic Pharma	Hospitals	Diagnostics	US Generics	CRO/CDMO
<ul style="list-style-type: none"> <li>▪ Therapy Mix / Presence in high-growth segments (Chronic vs Acute)</li> <li>▪ Field force productivity</li> <li>▪ Volume/Price/New launches contribution to overall growth</li> <li>▪ Percentage of portfolio under NLEM</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operating Metrics (Occupancy/ARPOB/ALOS , Case mix, Payor mix, etc.)</li> <li>▪ Expansion strategy and capital allocation track record</li> <li>▪ Brand strength in key micro-markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Breadth &amp; Depth of Test Menu</li> <li>▪ Brand recall in key markets</li> <li>▪ Volume growth trajectory in the number of patients and samples</li> <li>▪ Ability to scale up presence beyond key markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Portfolio pricing pressure</li> <li>▪ Product Pipeline (ANDA approvals)</li> <li>▪ Regulatory Compliance status</li> <li>▪ Investment in research, development, and innovation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Capabilities across Drug Discovery, Custom Development and Commercial supplies</li> <li>▪ Relationship with Global Innovators</li> <li>▪ Number of Products in late-stage Clinical Development</li> </ul>

# Case study: Domestic Branded Formulations Company



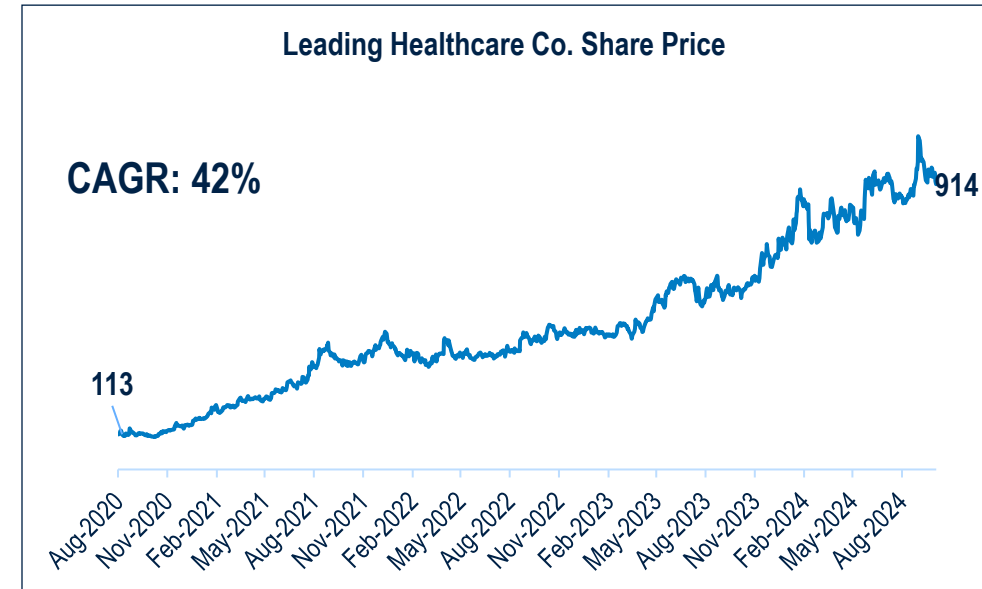
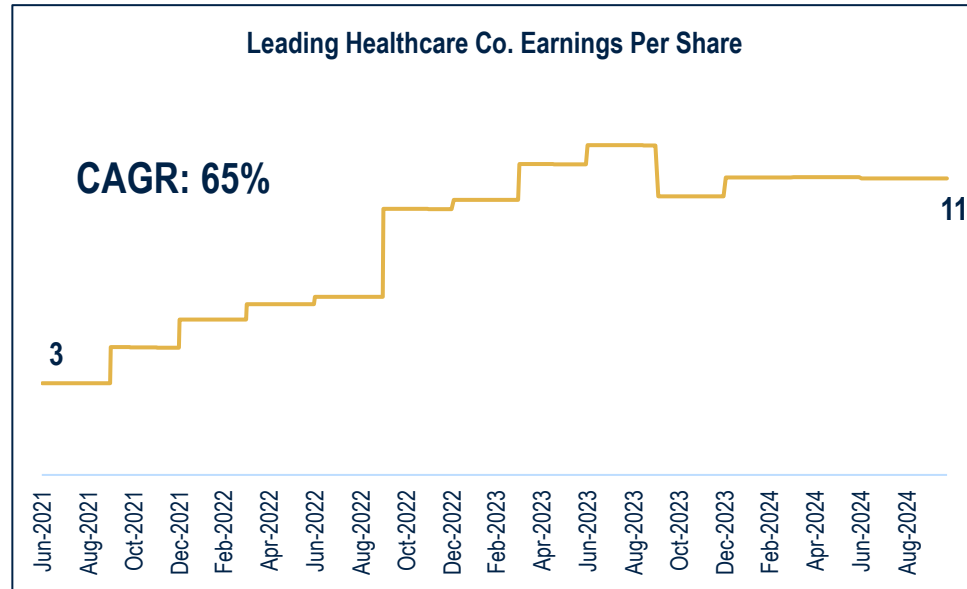
**Scalable Business Model:** The company has a strong presence in key therapies such as cardiac, gastrointestinal, and antiparasitic, enhancing the productivity of its medical representative force. The growing Contract Manufacturing Organization (CMO) vertical is supported by a healthy order book and increased production capacity.

**Robust Growth Potential:** Consistent earnings growth is driven by a core business that generates strong free cash flow. There were multiple levers for margin improvement, including field force optimization, scaling up recent acquisitions, and a gradual reduction in ESOP-related costs.

**Strategic Inorganic Expansion:** The company maintains a focus on value-accretive acquisitions to enhance its existing portfolio and competencies. It also has a successful track record in the lifecycle management of legacy brands through brand extensions and expanded distribution.

**Experienced Leadership:** Since the management change in 2020, the company has steadily gained market share in the Indian Pharma Market. It has a proven track record of driving growth and optimizing brand value.

# Case study: Leading healthcare services provider



**Dominant Market Position:** It is the second-largest private hospital chain in India by revenue, with a focus on high-end tertiary and quaternary care. The company is the leading provider, achieving the highest sales along with industry-leading ARPOB and occupancy rates. Its dominant position allows it to attract top doctors and medical staff, consistently delivering strong clinical outcomes.

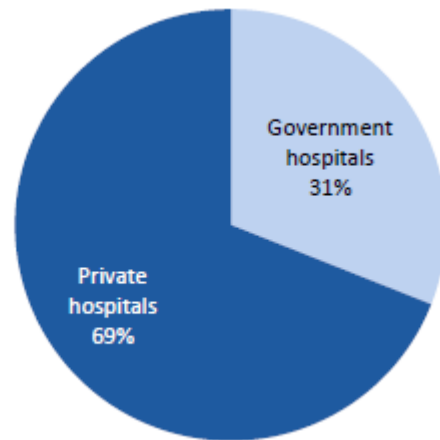
**Strong Growth Visibility:** A healthy balance sheet, robust free cash flow generation, and an unparalleled M&A track record enable the company to actively pursue value-accretive acquisition opportunities. The relatively under-penetrated healthcare infrastructure in its area of operation ensures that its core micro-markets remain attractive for continued growth.

**Experienced & Dynamic Management Team:** The management team’s execution focus is reflected in its ability to deliver industry-leading operating and financial metrics while maintaining high standards in clinical outcomes.

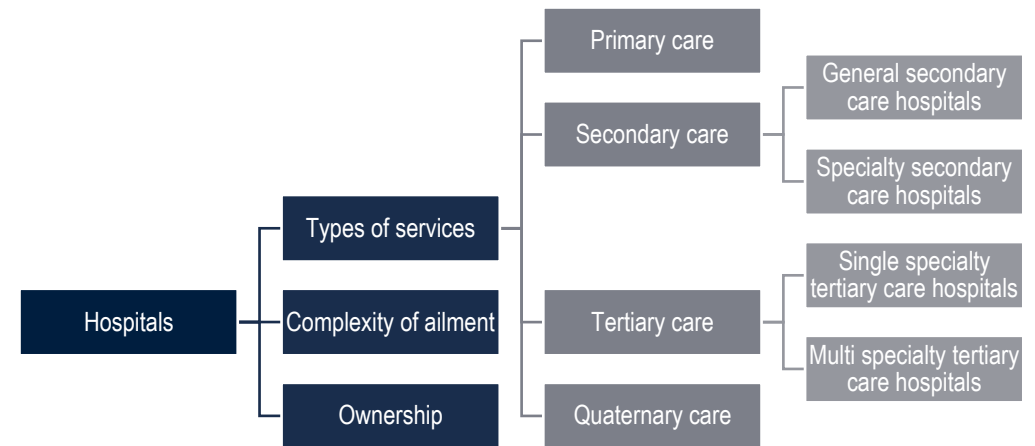
# HOSPITALS

# Structure of Hospitals

Private hospitals projected to command 69%-70% of the market by FY28



## Classification of Hospitals



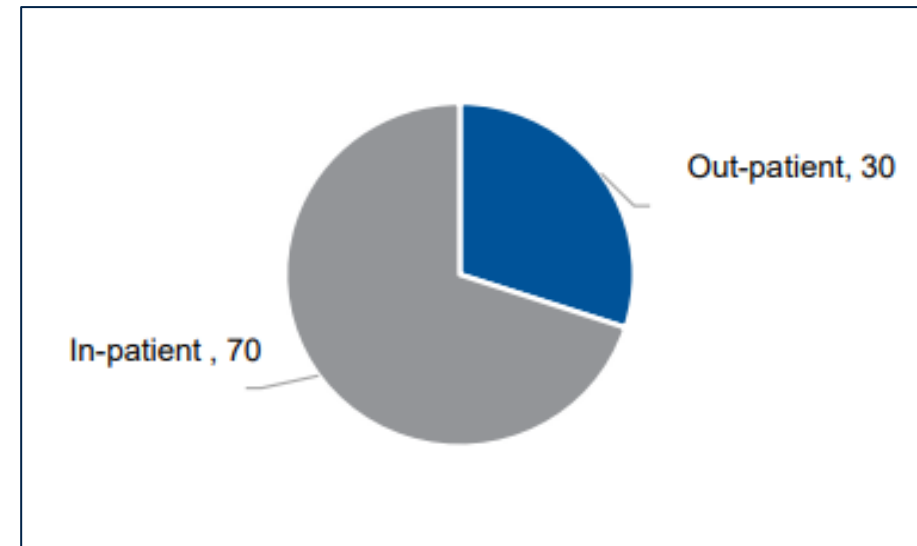
- **Primary Care Hospitals:** Focus on providing basic healthcare services, such as general check-ups, immunizations, and minor treatments. Act as the first point of contact for patients, addressing common illnesses and preventive care.
- **Secondary Care Hospitals** offer more specialized medical services beyond primary care, including general surgery, maternity care, and specialist consultations. Often serve as referral centers for primary care facilities.
- **Tertiary Care** Hospitals deliver advanced and highly specialized treatments, such as complex surgeries, organ transplants, and critical care. Equipped with sophisticated diagnostic and therapeutic facilities, catering to severe and complex medical cases.

# Revenue Mix: Hospitals derive bulk of their revenue from IPD

Pricing of routine and complex surgeries

Ailment	Remarks
Cervical Disc Replacement Surgery	Rs0.4-0.6mn
Bone Marrow Transplant (BMT)	Rs1-2mn
Cardiac Catheterisation/Chemotherapy/Kidney Dialysis / Total Laparoscopic Hysterectomy	<Rs50k
Colorectal Surgery	Rs0.2-0.5mn
Deep Brain Stimulation	Rs0.5-1.5mn
Hip Replacement Surgery	Rs2-4mn
Transcatheter Aortic Valve Implantation (TAVI)	Rs3.5mn
Salpingo-oophorectomy (Ovary removal)	Rs4-6mn
Robotic Cystectomy	Rs3-5mn

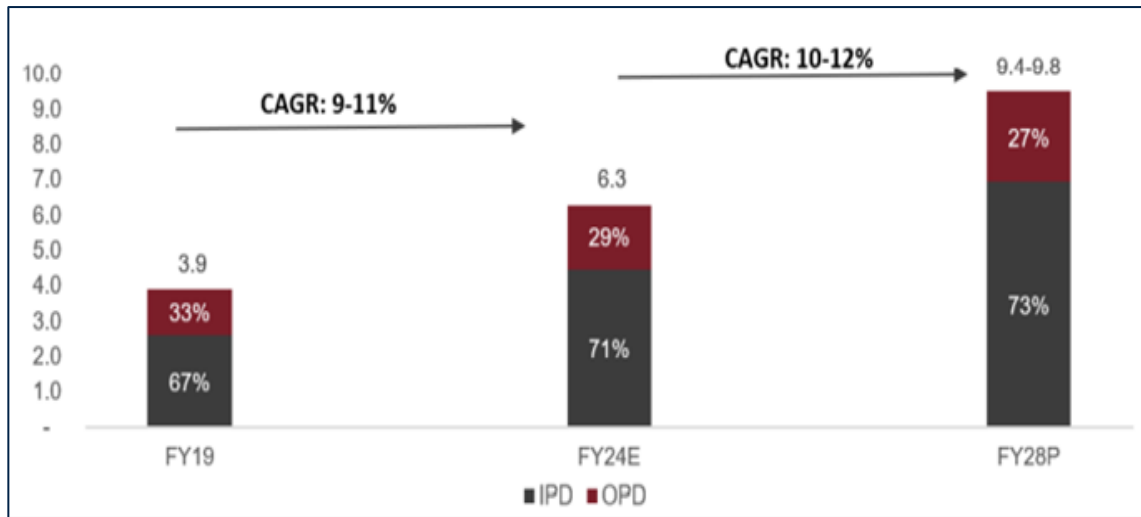
Major part of hospital revenue comes from inpatient services



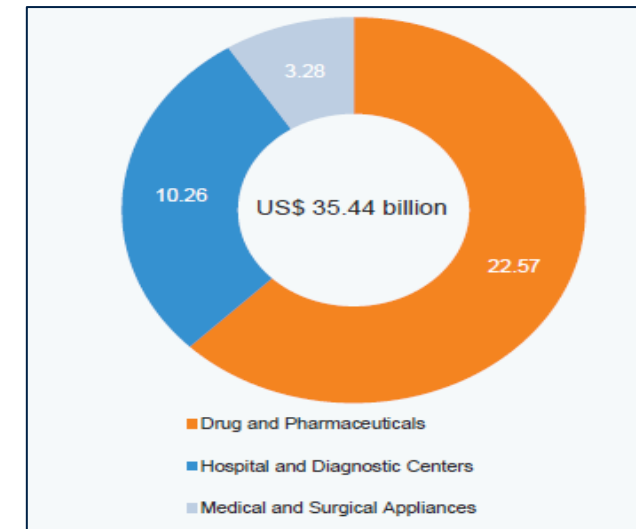
- Hospitals generate revenue primarily through the IPD and OPD segments. Typically, OPD contributes 30%, while IPD accounts for 70% of overall revenue.
- Major sources of revenue for hospitals are surgeries and diagnostics, with surgeries yielding the highest revenue per bed
- Hospitals specializing in complex specialties or catering to foreign patients tend to achieve higher revenue per bed and per patient.
- Various factors, including specialty mix, brand name, location, and payor mix influence a hospital's revenue-generating ability.

# Growth Prospects

Healthcare delivery industry estimated to grow to ~INR 9.4-9.8 trillion by Fiscal 2028



Cumulative FDI inflows from April 2000- March 2024 (USD bn)



- Hospitals industry is anticipated to sustain its growth momentum, projecting a CAGR in the range of 10% to 12% from FY24 to FY28
- Demand growth, cost advantages, and policy support have been instrumental in attracting FDI.

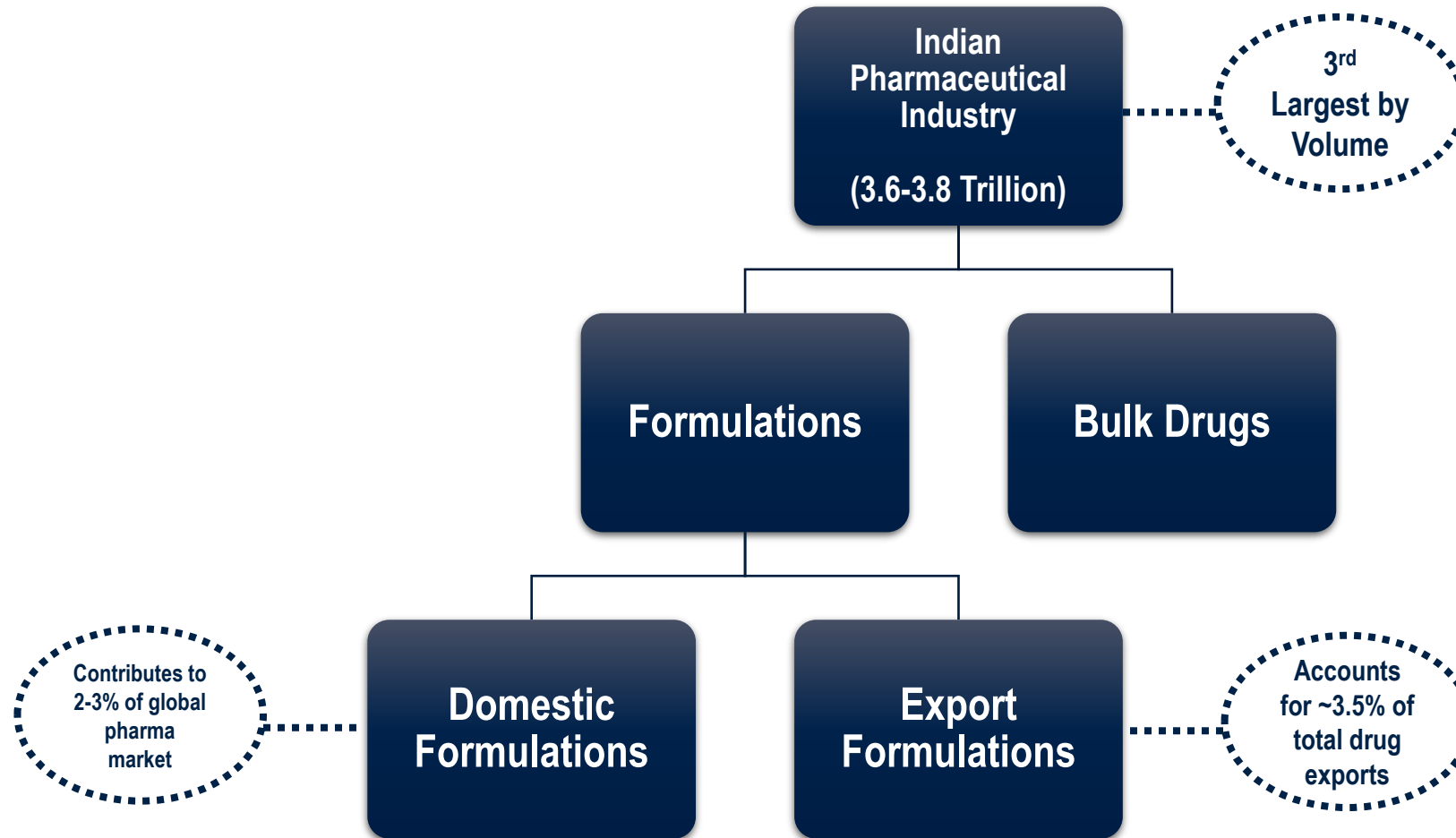
# Key Risks

- **Government Regulations:** Increasing government interventions, such as price caps on medical treatments and mandatory allocations for scheme patients (e.g., government-sponsored healthcare programs), can affect revenue streams and operational dynamics.
- **Economic Slowdown:** Lower GDP growth, high unemployment, and a reduced pace of urbanization can dampen demand for healthcare services, impacting hospital profitability and growth.
- **Rising Real Estate Costs:** The reliance on prime urban real estate makes the sector vulnerable to escalating property prices. Competition for premium locations can lead to price wars, affecting the feasibility of expanding hospital infrastructure and adding new beds.
- **Manpower Availability and Project Delays:** The industry faces a skilled manpower shortage, which can hamper operational effectiveness. Additionally, delays in land acquisition, regulatory approvals, and occupancy certificates can stall hospital projects, impacting growth and revenue.



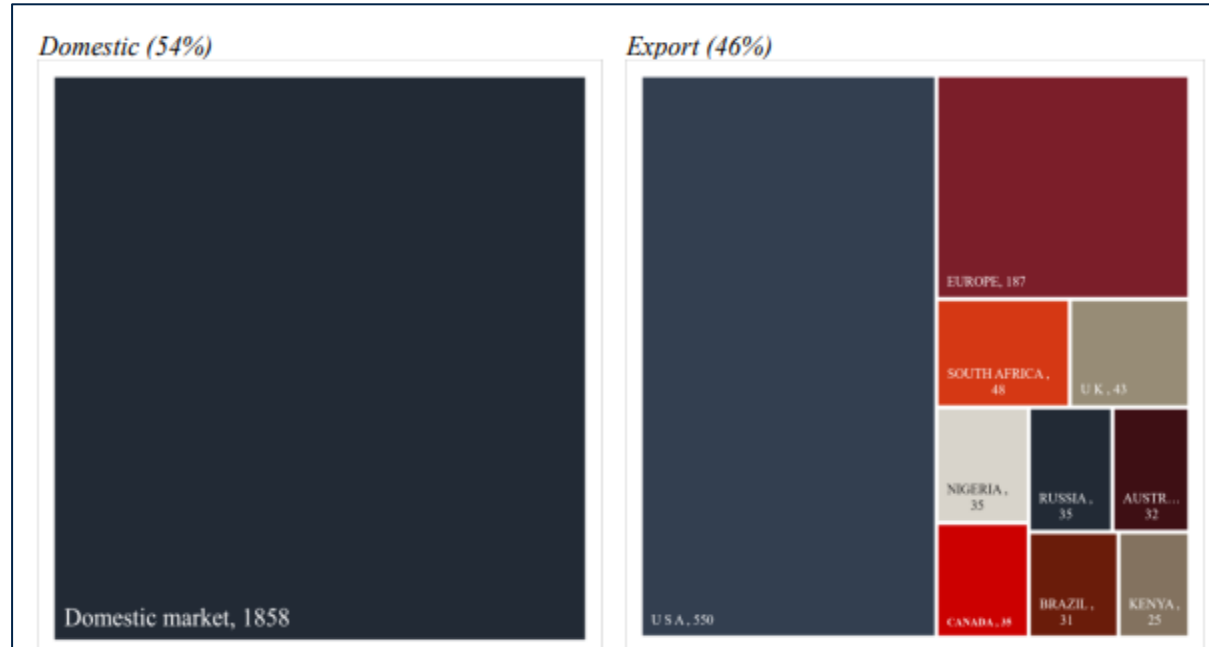
# PHARMACEUTICALS

# Structure of Indian Pharmaceutical Industry



# Revenue Mix

Indian Pharmaceutical Industry (FY2023) (INR bn)

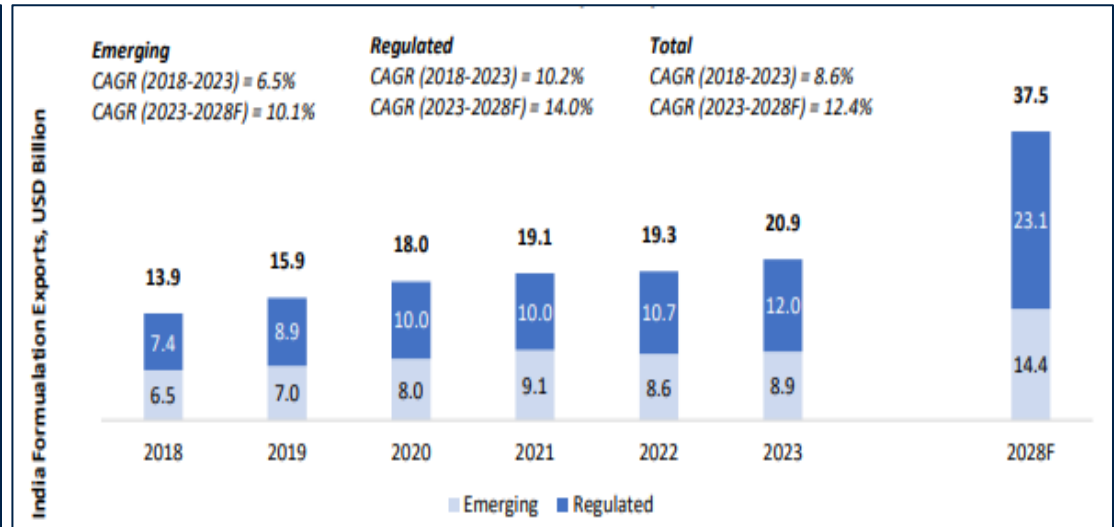
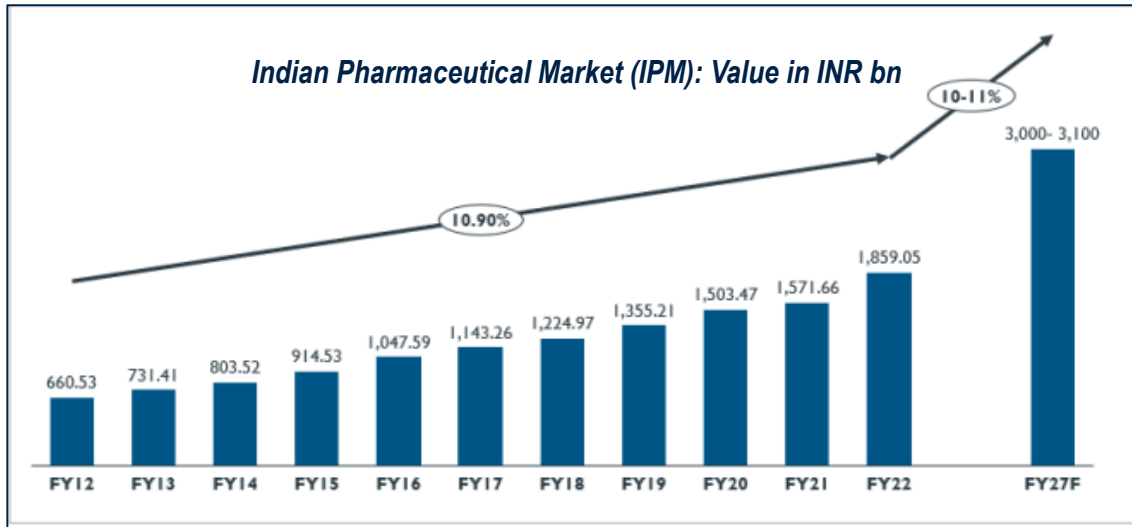


- The Indian pharmaceutical industry is the world's third-largest by volume and was valued at ₹3.6-3.8 trillion (including bulk drugs and formulation exports) as of FY23
- At present, low-value generic drugs constitute a large part of Indian exports. India accounts for approximately 3.5% of total drugs and medicines exported globally, and exports pharmaceuticals to more than 200 countries and territories, including highly regulated markets such as the US, the UK, the European Union, and Canada
- United States constitutes most of the export revenue for Indian Pharma

# Growth Prospects – Domestic Formulations

IPM is expected to grow at a CAGR of 10-11% from FY22 to FY27

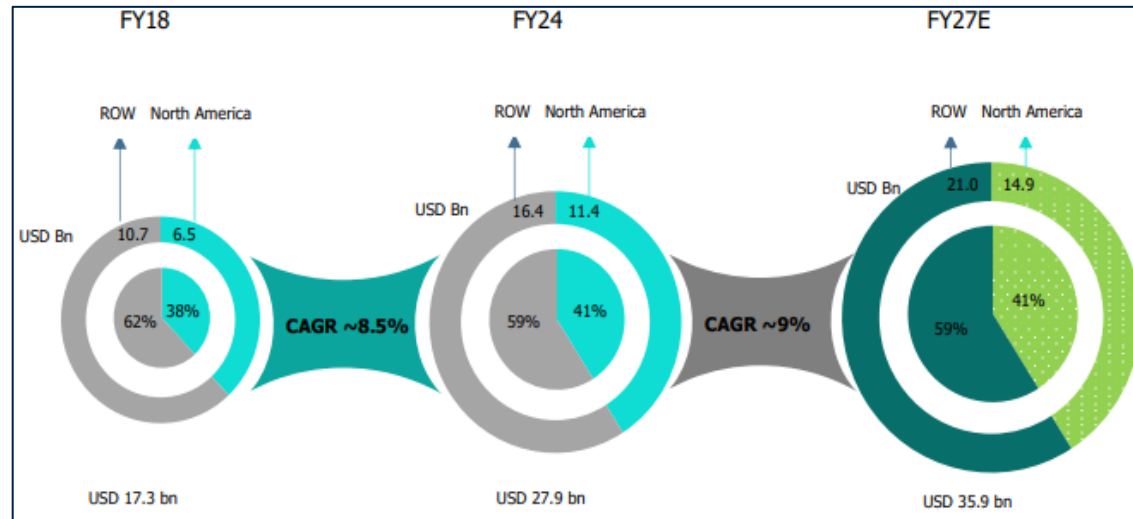
India's Formulation Exports by Value, 2018-2028F



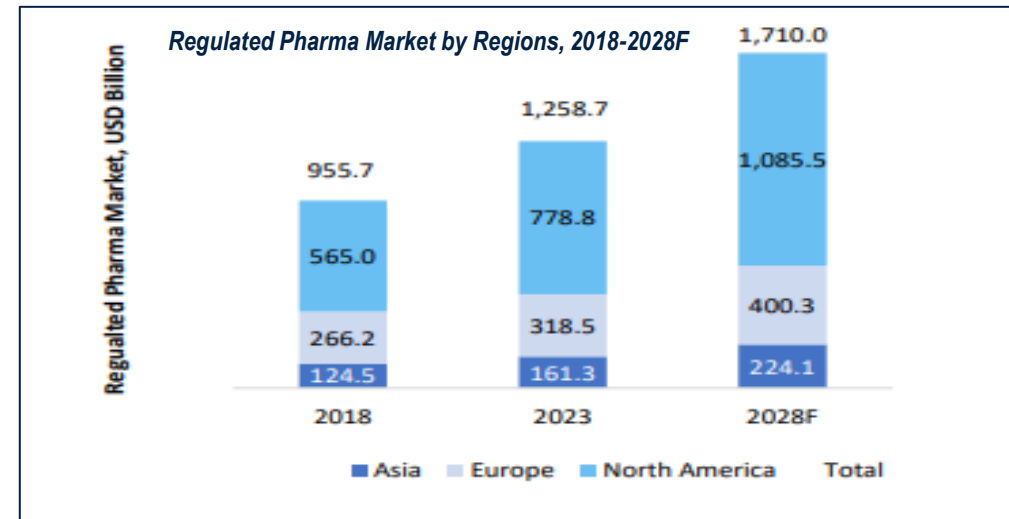
- The size of Indian Pharmaceutical Market (IPM) has increased from ₹ 660.53 billion in Financial Year 2012 to ₹ 1,859.05 billion in Financial Year 2022 at approximately 10.90% CAGR over Financial Year 2012-22. The IPM is forecast to grow at a CAGR of 10-11% to reach ₹ 3,000 – 3,100 billion by Financial Year 2027.
- The Indian Pharmaceutical Industry is poised for continued expansion, driven by balanced growth across domestic and export markets, with significant contributions from both regulated and semi/unregulated markets.

# Growth Prospects - Exports

North American market continues to garner major share in Indian pharma exports



North America makes up most of the opportunity in terms of regulated markets



- Low ANDA filing-to-approval ratio is reducing competitive intensity in the US generics market, which has slowed price erosion and increased demand for critical drugs. Thus, boosting the demand for exports
- Regulated markets account for over 50% of the industry's value, driven by higher unit prices. Indian companies are improving their systems to meet regulatory standards, creating new opportunities in these markets.
- The Bio-Secure Act 2024 is expected to benefit Indian pharma firms in CRAMS, as innovator companies may relocate their Phase I-III research trials to alternative destinations.

# Growth Drivers – Domestic formulations



**Increased patient population:** India has a large and increasing patient pool with a high disease burden of communicable and non-communicable diseases, thereby providing a large market for the sale of drugs. India contributes 15% of the global burden for highly prevalent diseases (respiratory infections, cardiovascular, diabetes, cervical cancer). India is mirroring the global trend with the increasing prevalence of chronic diseases. As of 2022, nearly half of India's population (49.8%) comprise individuals aged 25 to 64, representing the working age demographic. A sizable working age group, coupled with the swift urbanization process, contributes to a sedentary lifestyle, consequently elevating the risk of chronic diseases.



**Improved drug access:** In 2008, the Department of Pharmaceuticals launched Pradhan Mantri Bhartiya Janaushadi Pariyojana (PMBJP) to make generic medicines more affordable. Dedicated outlets known as Janaushadi Kendras, providing generic drugs at affordable prices, were opened under the scheme, bettering access to drugs



**Rise in insurance penetration:** Additionally, the increase in insurance penetration is allowing more and more Indian populations to access healthcare across all city and economic tiers. Representatively, the number of lives covered by insurance has increased from 482 million in FY18 to 594 million in FY23 (IRDAI)



**Growth in trade generics:** The market share for trade generics in the IPM market is ~20% by volume and 5% to 6% by value, with the segment exhibiting growth of 14% to 15% per annum. Large pharma companies intend to scale up their trade generics portfolio to tap into the growing market. (IQVIA)



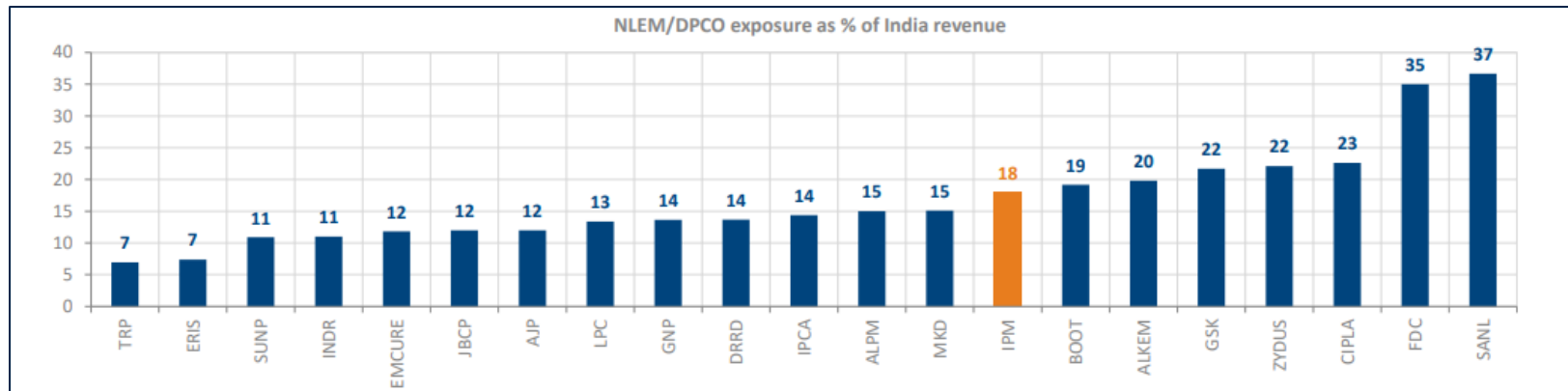
**Growth in Tier II and Tier III cities:** The pharmaceutical market in India, traditionally focused on major cities, is experiencing a shift towards Tier II and Tier III cities. Healthcare organizations are increasingly expanding into cities such as Nashik, Indore, Visakhapatnam, Jaipur, Mohali, Surat, and Dehradun. These locations offer advantages like reduced competition and lower real estate costs.

# Growth Drivers – Exports

- **Aging Population and Disease Burden:** The global demographic shift towards an aging population is a significant driver of pharmaceutical market growth. With the percentage of the global population over 60 years old expected to nearly double from 12% to 22% and reach ~2.1 billion by 2050, increase in the prevalence of chronic diseases and age-related conditions will drive demand for drugs targeting lifestyle diseases
- **Increased Generic penetration :** Healthcare reforms in the regulated markets such as the US are driving higher insurance coverage and greater usage of generic medicines. Innovator companies still form a major part (~64% by value, as of CY2022) of the global pharma market. Price differentiation and patent protection have helped the value growth of the innovator segment across the globe.
- **Boost from the impending patent cliff:** As patents on numerous brand-name drugs are set to expire, generic manufacturers will have the opportunity to enter the market with their versions of these medications. As a result, the total opportunity available to the generics segment between 2024 and 2028 is nearly USD 105.9 billion.
- **Focus on innovation, diversification, and cost-saving strategies by generic companies:** Generic pharmaceutical firms have constantly strived to diversify their portfolios by introducing reformulated generics to include extended-release, inhalable, and implantable formulations, to name a few, to improve drug efficacy and, at the same time, patient convenience. Additionally, companies diversify sourcing and manufacturing networks to mitigate supply chain risks while embracing digital tools and technologies to enhance operational quality and productivity. Generic pharmaceutical companies are leveraging operational excellence, technology adoption, and streamlined supply chain management to achieve substantial cost savings while maintaining competitiveness and meeting regulatory requirements.

# Key Risks – Domestic formulations

IPM - Average NLEM contribution in IPM sales (Financial Year 2018-22)



## Review of consolidation trend in IPM:

Pharmaceuticals, both formulations and API, have witnessed several Mergers & Acquisitions (M&A) over the last decade. Example: Sun Pharma – Ranbaxy

## Fixed-Dose Combinations (FDC) announcements related impact:

In September 2018, based on the recommendations of Drugs Technical Advisory Board, approx. 325 FDCs were banned which subsequently increased by an additional 80 FDCs announced in January 2019.

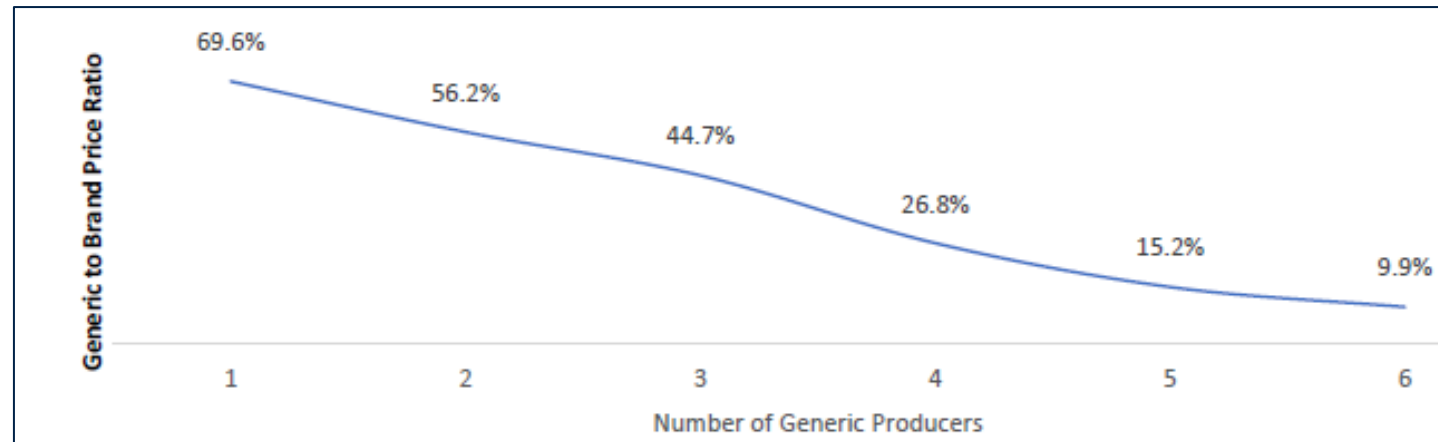
## Drug price control regulations:

NPPA has periodically issued ceiling prices for several molecules. Every April, these ceiling prices are revised in line with the changes in the WPI, to factor the underlying inflation on a YOY basis. For non-NLEM products, pharmaceutical companies are allowed to increase the prices of drugs by up to 10% every year.



# Key Risks – Export formulations

Median Generic Prices Relative to Brand Price before Generic Entry



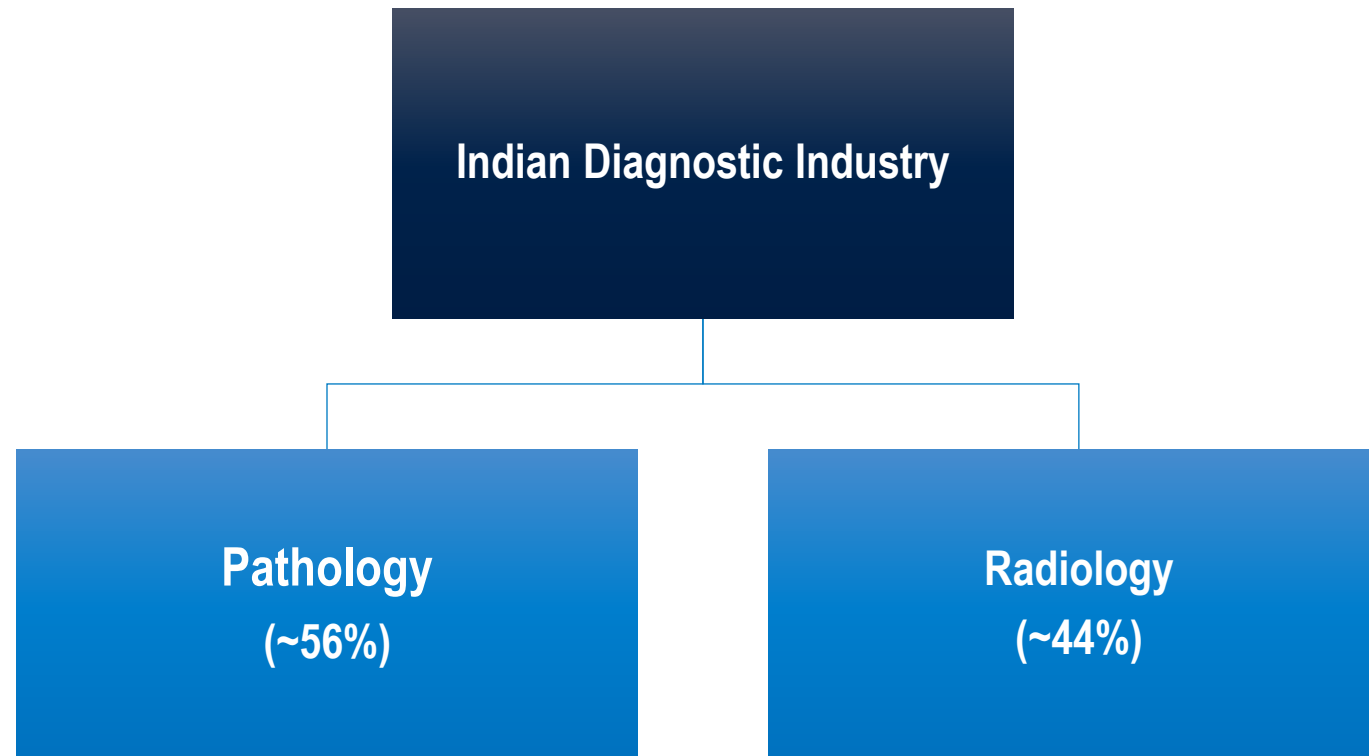
**Regulatory Compliance:** Stringent regulations imposed by regulatory authorities across different jurisdictions pose a significant challenge for pharmaceutical companies. Adhering to diverse and evolving regulatory requirements demands substantial resources and expertise, and non-compliance can lead to severe penalties and reputational damage.

**Pricing Pressures:** Pharmaceutical pricing remains a contentious issue globally, with governments, insurers, and consumers exerting pressure to control healthcare costs. Reimbursement challenges, pricing negotiations, and the rise of generic competition can erode profit margins and impact the commercial viability of pharmaceutical products.

**Competition and Innovation:** Intense competition within the pharmaceutical market, both from established players and emerging biotechnology companies, underscores the importance of innovation. Companies need to continuously invest in R&D to develop differentiated products and therapies, navigate patent cliffs, and sustain competitive advantage in an evolving landscape.

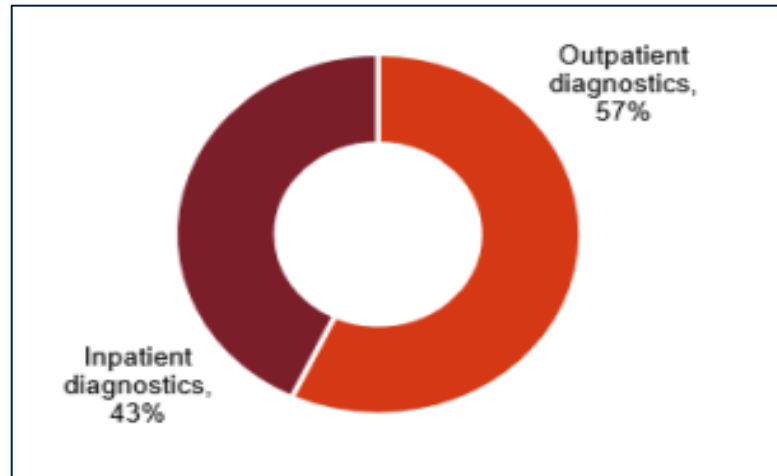
# DIAGNOSTICS

# Structure of the Diagnostics Industry

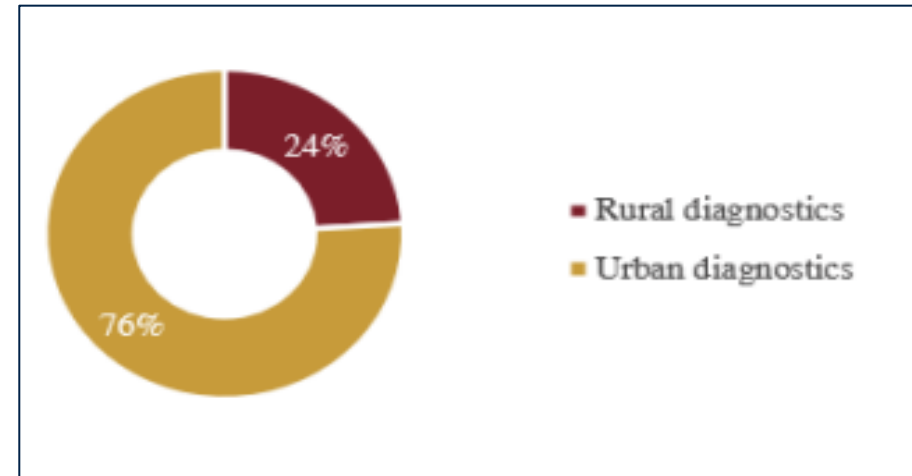


# Revenue Mix

Outpatients: Prominent segment for diagnostics (FY24E)



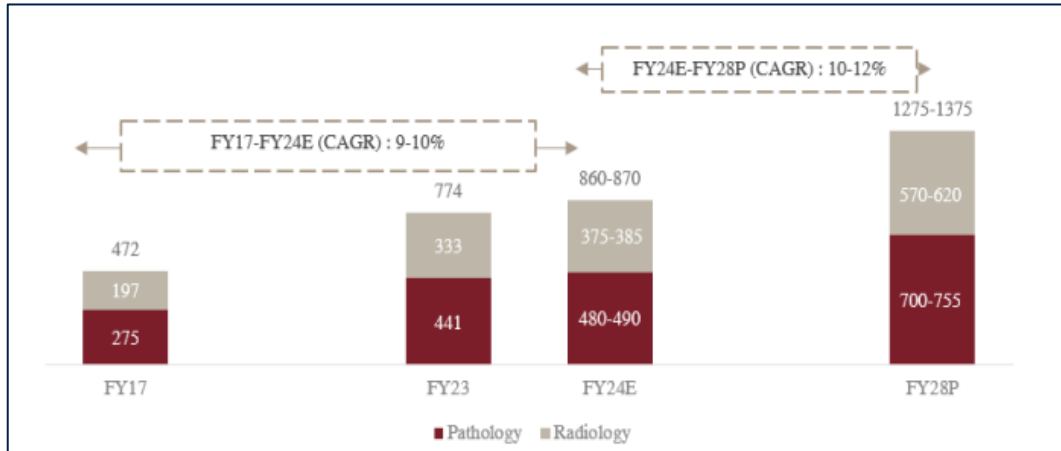
Region-wise revenue break-up of diagnostics industry (FY24E)



- Diagnostic tests are critical and drive 70% of medical decisions
- Outpatients account for 57% of the overall diagnostics industry. Pathology and radiology are integral components of both OPD and IPD services
- Rural areas account for only 24% of the diagnostics industry revenue. As of FY24, Delhi NCR, and Mumbai accounted for 14-16% of the diagnostics industry in value terms

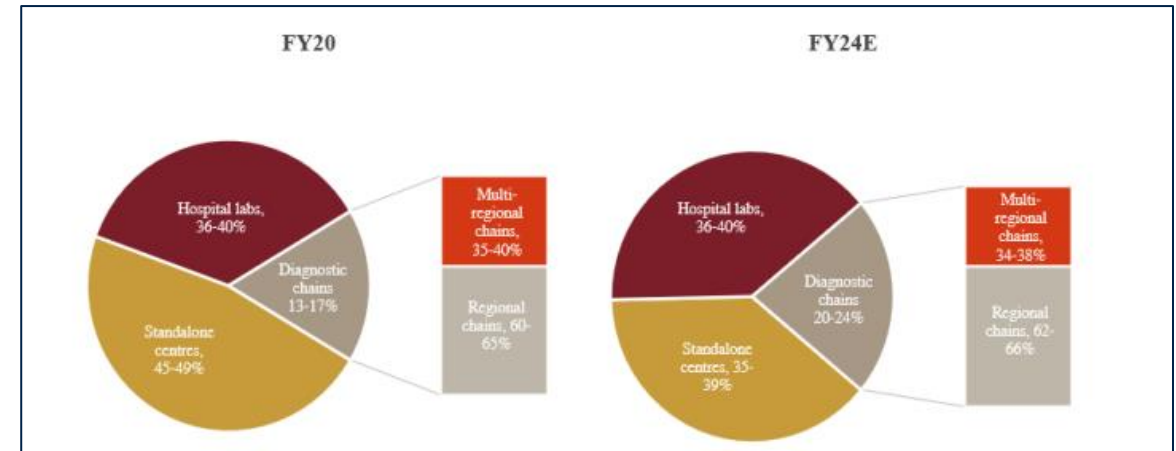
# Growth Prospects

Indian diagnostics industry, trend and projection (Rs. billion)



Fragmented industry is moving towards consolidation

(Estimated break-up of the Indian diagnostics industry)



- The Indian diagnostic industry is expected to grow at a CAGR of 10-12% reaching ~1.3 to 1.4 trillion INR by 2028
- The industry remains highly fragmented with a slew of new players entering the market. These new players have created an impact on incumbents forcing them to offer better value products at discounted prices.
- The Indian diagnostics industry is moving towards consolidation, with significant growth potential driven by rising penetration, awareness, and disposable income.

# Key Risks

**Shortage of skilled labour:** There is considerable shortage of full-time doctors and staff in the diagnostics industry, due to which training and retention of seasoned employees has become critical for players. The situation is more critical for standalone diagnostic centres, which may not be able to employ well-trained lab technicians and pathologists, thereby affecting the quality of outcomes.

**Intense competition:** The diagnostics industry is highly fragmented, with standalone players comprising the major share of the market as there are minimal entry barriers. Despite growing competition and undercutting of prices to gain market share, consolidation in the sector would bode well from the quality and standardization perspective.

**Geographical concentration makes diagnostics chains susceptible to local demand-supply dynamics:** Majorly all the labs are concentrated in urban areas, which may lead to untapped demand in rural areas

**Steep discounts by online players:** Online players offering steep discounts pose a significant risk to the Indian diagnostic industry. These discounts may lead to price erosion and margin compression for traditional brick-and-mortar diagnostic centres

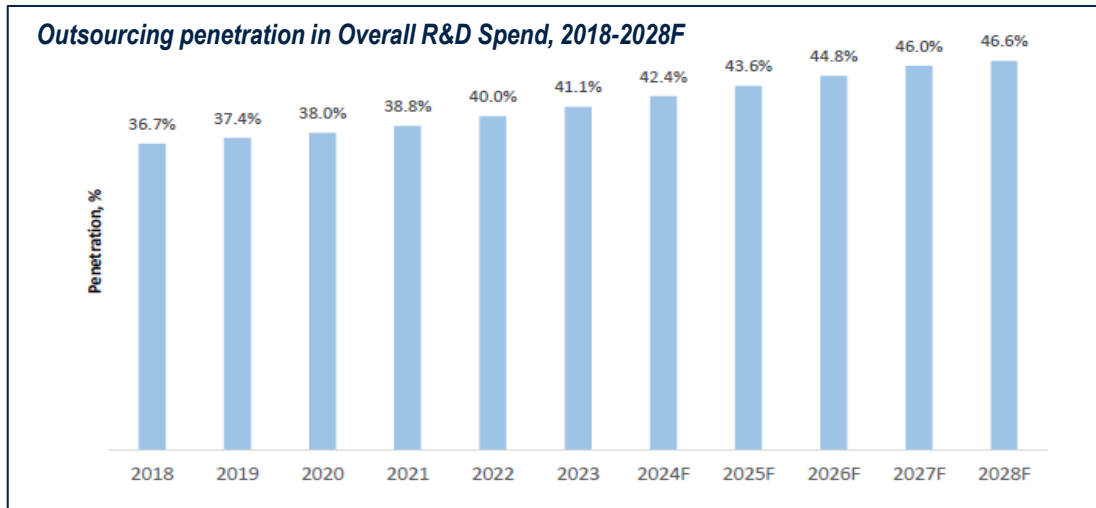
**OTHERS**



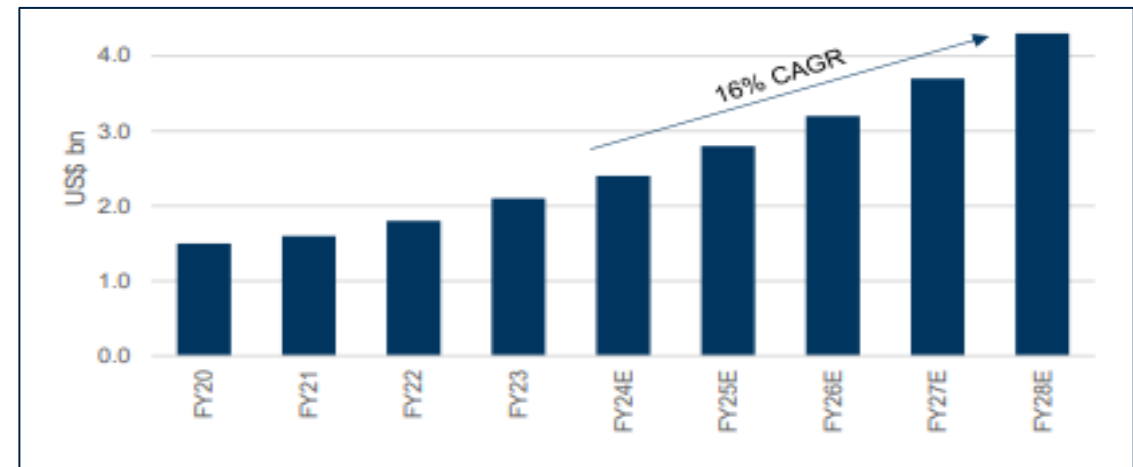
# Outsourcing: The Catalyst for CRO and CDMO Expansion

Navigating New Frontiers: Outsourcing powers the future of CRO and CDMO

Global Pharmaceutical Innovator R&D- Increasing Trend of Outsourcing



Indian CRO Market Growth Projections



## Growth Drivers

- Better cost competitiveness vs. China
- Large repository of regulated sites with improving capabilities
- Improving ease of business and fiscal incentives
- Incremental R&D spending
- Favourable IP protection laws

Increased outsourcing will propel growth in CDMO and CRO sectors

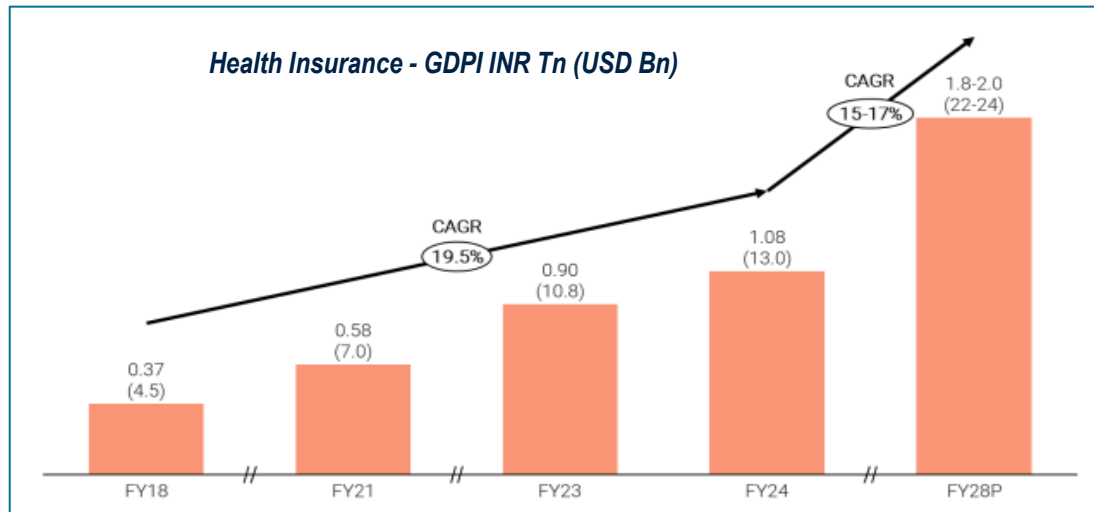
The implementation of the Biosecure Act 2024 will be beneficial for the CRDMO segment. The segment is bound to experience significant growth on the back of cost competitiveness and incremental R&D spending. Indian CRDMOs distinguish themselves as preferred partners based on the same



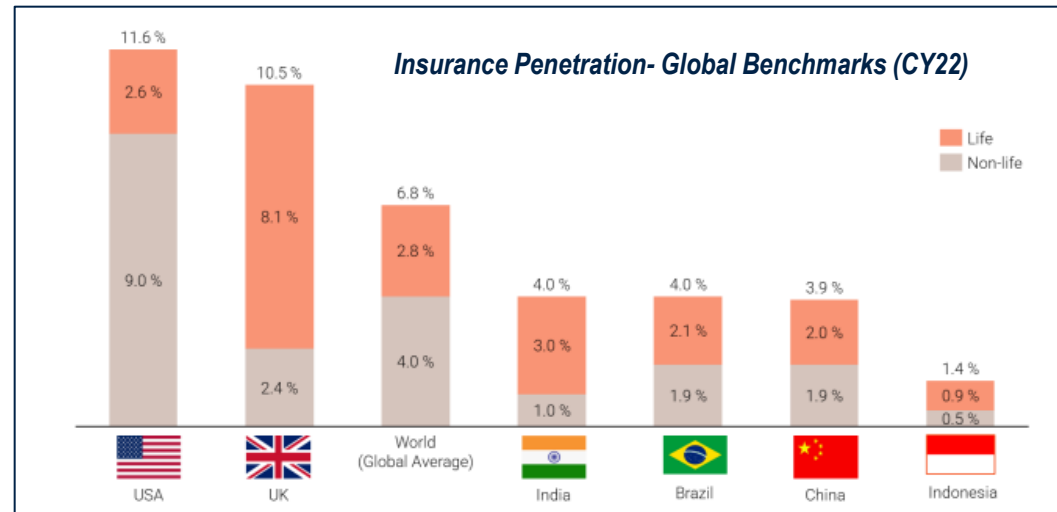
# Insurance: Industry is poised for rapid growth

Growing Awareness and Support: Fueling the expansion of Health Insurance

Health insurance premiums are expected to reach ~INR 2 Tn by FY28



Insurance in India is expected to grow rapidly across both life and non-life



The health insurance GDP has more than doubled from INR 0.37 Tn (USD 4.5 Bn) in FY18 to INR 1.08 Tn (USD 13.0 Bn) in FY24

The health insurance segment is expected to grow on the back of an increase in insurance penetration and growing awareness in the coming years

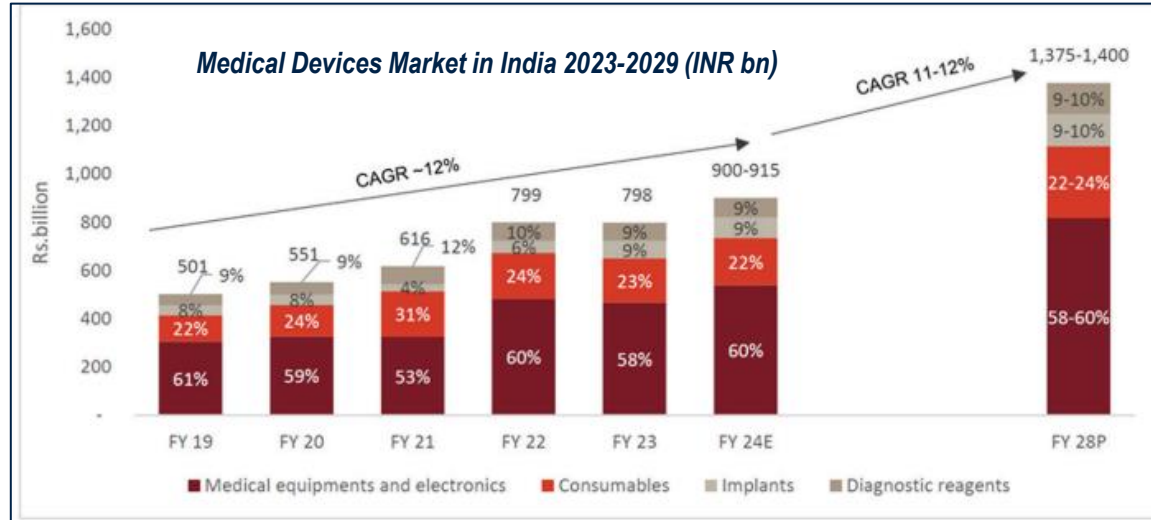
### Growth Drivers

- Demand-side: increasing awareness for health
- Regulatory and government support
- New and specialized insurers
- Development of digital-first ecosystem

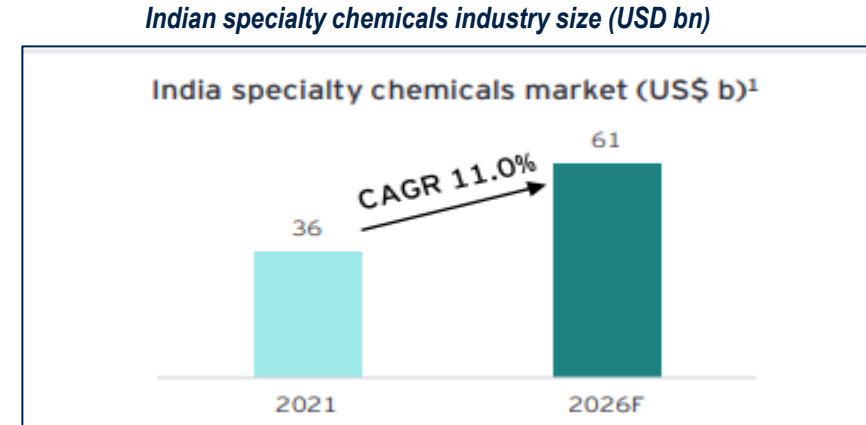
Note(s): (1) Health insurance excludes overseas medical insurance and personal accident (2) P – Projected Group includes both Group and Government business (3) Group and Retail exclude both Personal Accident and Travel. Source(s): GIC Segment wise report, Redseer analysis and estimates, IRDAI

# Medical Devices + Specialty Chemicals: Untapped potential

The medical devices market in India exhibits a promising growth trajectory



Specialty chemicals are an underpenetrated market with untapped potential



The Indian chemical industry is expected to reach USD 304 billion by 2025

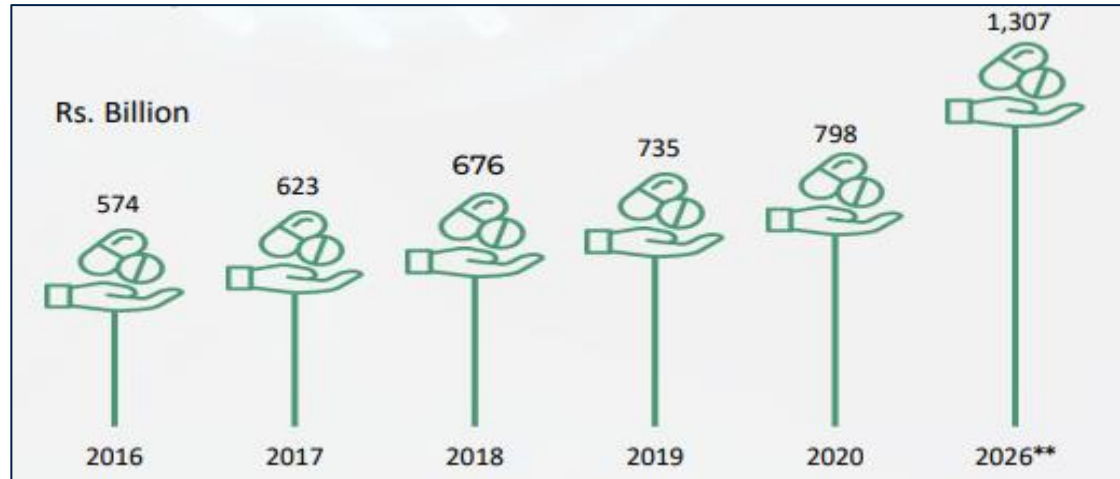
India is the 4th largest Asian medical devices market after Japan, China, and South Korea. With increase in government support and potential benefits from the “China +1” strategy, the sub-segments are poised to experience significant growth in coming years

## Growth Drivers

- Technological advancements
- Government policies and initiatives
- Focus on Preventive Health

# Active Pharmaceutical Ingredients (APIs): Backbone for pharma growth

Market size of Active Pharmaceutical Ingredient (API) industry in India from 2016 to 2020 with estimates until 2026



Same API, Multiple Brands

Company Name →	GSK	Micro Labs
Brand Name	Crocin	Dolo
API	Paracetamol	
Generally used for*	Pain Reliever, Fever Reducer	

## Growth Drivers

- “China +1” strategy
- Government policies and initiatives (PLI schemes)
- Rising demand for formulations
- Global manufacturing opportunities

Active Pharmaceutical Ingredient (API) refers to the substance within a pharmaceutical product that produces the intended therapeutic effect. APIs are the core elements of a drug

India is the 3<sup>rd</sup> largest API market in the Asia-Pacific region. The API business is capital intensive and has high entry barriers. API manufacturing has evolved from a commodity business into niche, specialized and highly regulated business with time. The segment is bound to grow on the back of increasing efforts to reduce dependency on imports. Currently India imports over 60% of its API requirements.

# Spotlight on our sector expertise



## A Anandha Padmanabhan

Fund Manager – Equity  
PGIM India Asset  
Management Pvt. Ltd.

Presenting Anandha, our **Healthcare expert** and the **Fund Manager** of the portfolio.

Anandha Padmanabhan is currently the Fund Manager at PGIM India Asset Management, with over **17 years** of experience in Indian equity markets. He has been tracking the Healthcare domain of Indian equities for over **15 years**. He holds qualifications as an ACA, CFA, and FRM, and has a B.Com degree.

He manages multiple PGIM India MF schemes. Anandha joined PGIM India AMC in March 2019. Prior to this, he has been in the Investment function at Renaissance Investment Managers and Canara Robeco Asset Management.

# About PGIM India Healthcare Fund

Scheme Name	PGIM India Healthcare Fund
Type of scheme	An open ended equity scheme investing in healthcare and pharmaceutical sector.
Investment objective	<p>The primary investment objective of the scheme is to seek to generate consistent returns by predominantly investing in equity and equity related securities of pharmaceutical and healthcare companies.</p> <p>However, there is no assurance that the investment objective of the scheme will be achieved. The Scheme does not guarantee/ indicate any returns.</p>
Plan / Options	IDCW** (Payout of Income Distribution cum Capital Withdrawal option / Reinvestment of Income Distribution cum Capital Withdrawal option) and Growth.
Minimum Application Amount	<p>Initial Purchase/ Switch-in - Minimum of Rs. 5,000/- and in multiples of Re. 1/-thereafter.</p> <p>Additional Purchase - Minimum of Rs. 1,000/- and in multiples of Re. 1/-thereafter.</p> <p>For SIPs - Minimum no. of 5 installments and Minimum amount per installment - Rs. 1,000/- each and in multiples of Rs.1/- thereafter.</p>
Exit Load	<p>For Exits within 90 days from date of allotment of units : 0.50%.</p> <p>For Exits beyond 90 days from date of allotment of units : NIL</p>
Fund Manager	<p>Mr. Anandha Padmanabhan Anjeneyan (Equity Portion)</p> <p>Mr. Utsav Mehta (Equity Portion)</p> <p>Mr. Vivek Sharma (Equity Portion)</p> <p>Mr. Puneet Pal (Debt Portion)</p>
Benchmark Index	BSE Healthcare TRI



\*\*Income Distribution cum Capital Withdrawal option

# Riskometer and Important Disclosures

## PGIM India Healthcare Fund

(An open ended equity scheme investing in healthcare and pharmaceutical sector.)

**Product labeling for the scheme is as follows:**

<p><b>This product is suitable for investors who are seeking*</b></p> <ul style="list-style-type: none"> <li>• Long term capital growth</li> <li>• Investment in equity and equity related securities of pharmaceutical and healthcare companies.</li> </ul>	<p><b>Scheme Riskometer</b></p>  <p><b>RISKOMETER</b></p> <p>Very High - Investors understand that their principal will be at very high risk</p>	<p><b>Benchmark Riskometer</b></p>  <p><b>RISKOMETER</b></p> <p>Benchmark riskometer is at very high risk</p> <p><b>AMFI Tier 1 Benchmark - BSE Healthcare TRI</b></p>
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\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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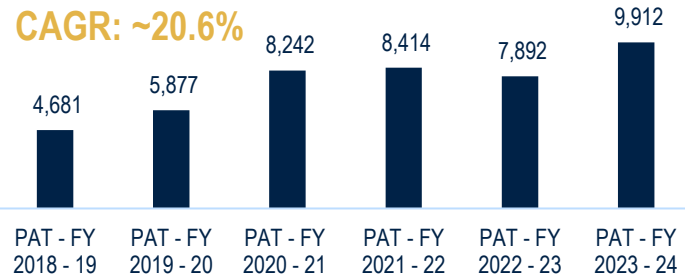
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Mutual fund investments are subject to market risks, read all scheme related documents carefully.

# ANNEXURE

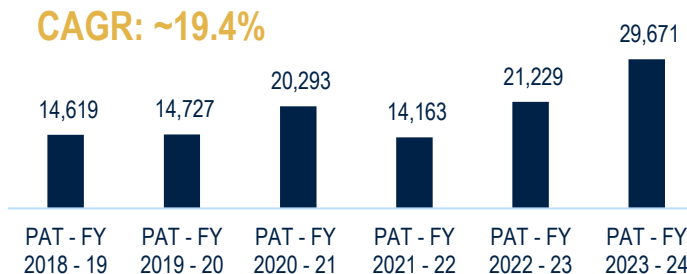
# Growth in Profit Pool for different sub-segments

## Domestic Formulations



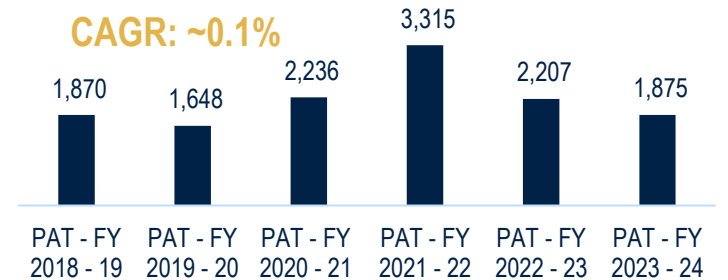
**No. of domestic formulation companies: 19**

## Diversified/Export Formulations



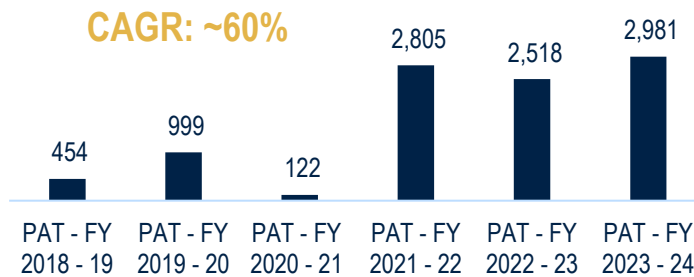
**No. of export formulation companies: 20**

## CDMO/CRO



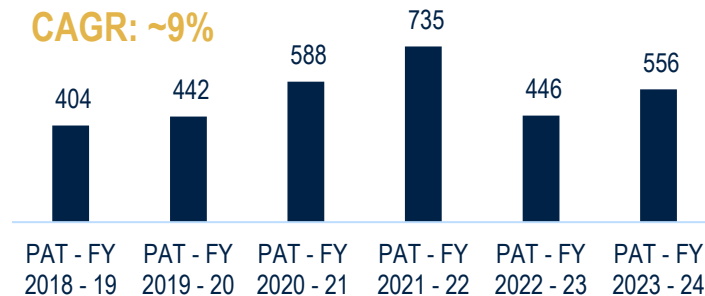
**No. of CDMO/CRO companies: 8**

## Hospitals



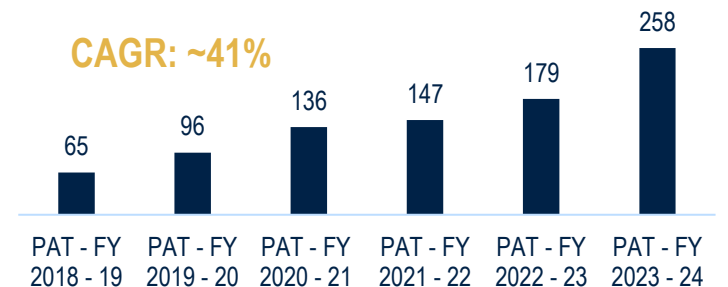
**No. of Hospital companies: 10**

## Diagnostics



**No. of Diagnostic companies: 3**

## Medical Equipments



**No. of Medical Equipment companies: 1**

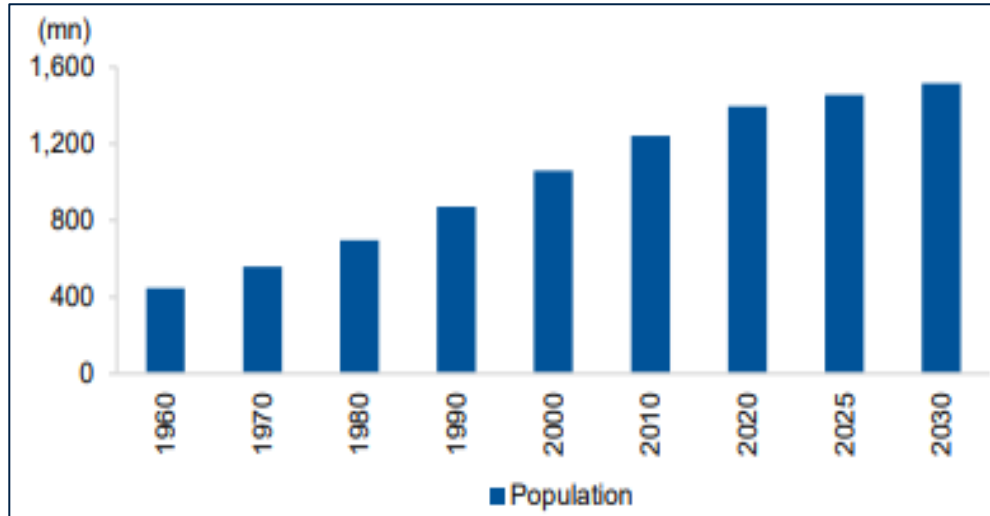
**Within healthcare, diverse sub-segments offer varying profit pools and profit growth rates, underscoring the value of targeted stock selection and active management in capturing the sector's full potential**



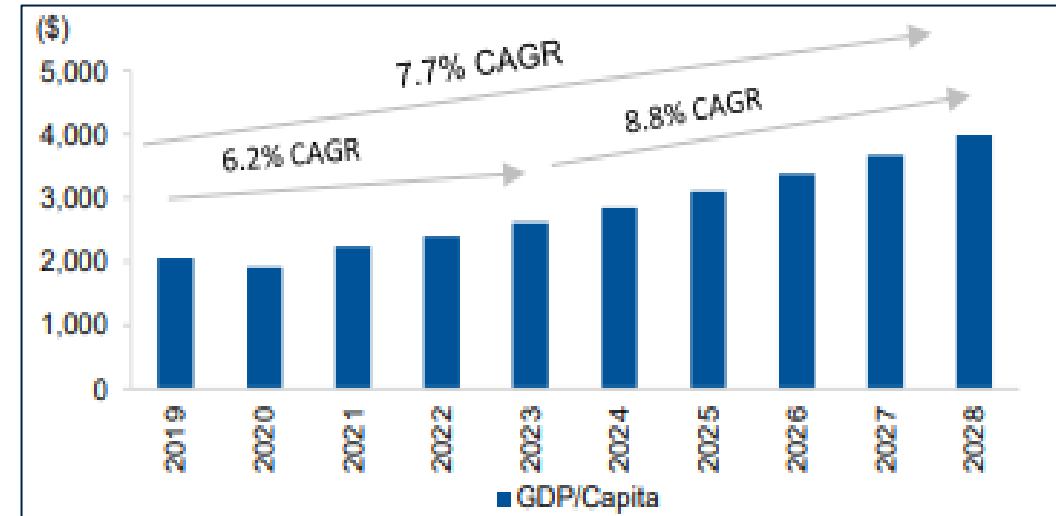
# WHY INVEST IN HEALTHCARE?

# Demand Drivers: Increasing GDP per Capita and Population Growth

India's population is expected to grow steadily at 0.9% over 2023-2028



India's GDP/Capita is expected to grow at 8.8% CAGR over 2024-2028



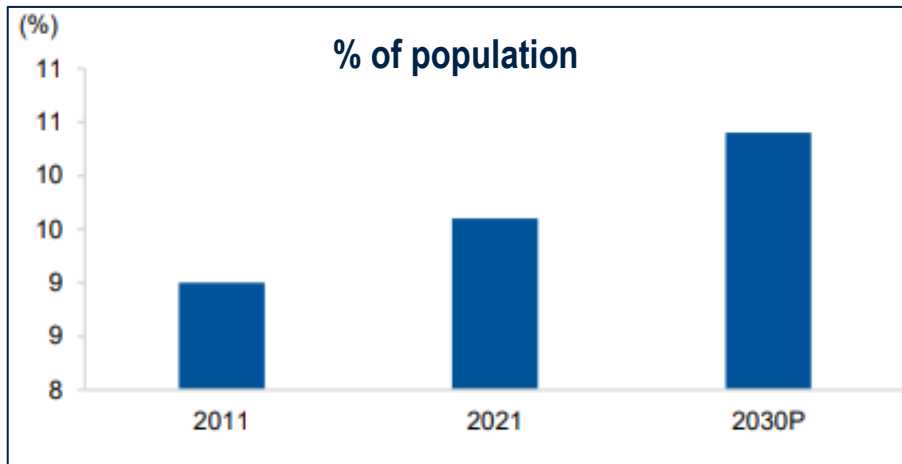
## Healthcare sector is propelled to become one of the largest segments of the economy

Its substantial growth is underpinned by several macroeconomic factors such as:

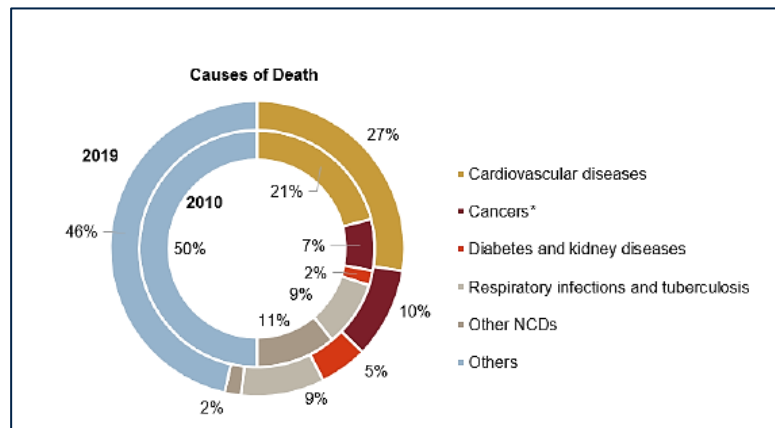
- Steady population growth of 0.9%,
- GDP growth of 6-6.5%, with nominal GDP expected to reach ~\$6 trillion by 2028 (~10% CAGR)
- GDP/Capita is expected to grow at ~8% CAGR as compared to 4.5% seen in the past decade

# Demand Drivers: Increase in lifestyle diseases + changing demographics

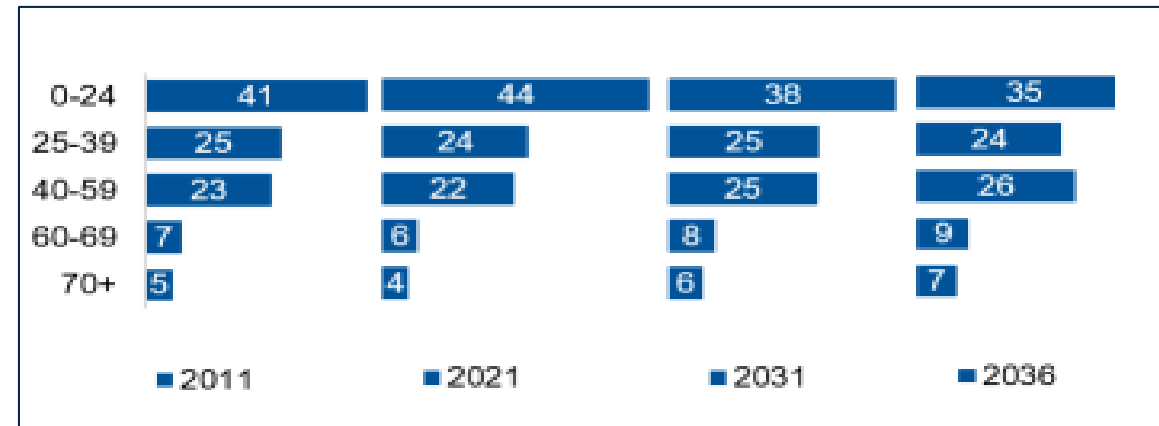
Growing prevalence of disease like diabetes in India



Chronic diseases are a leading causes of death now



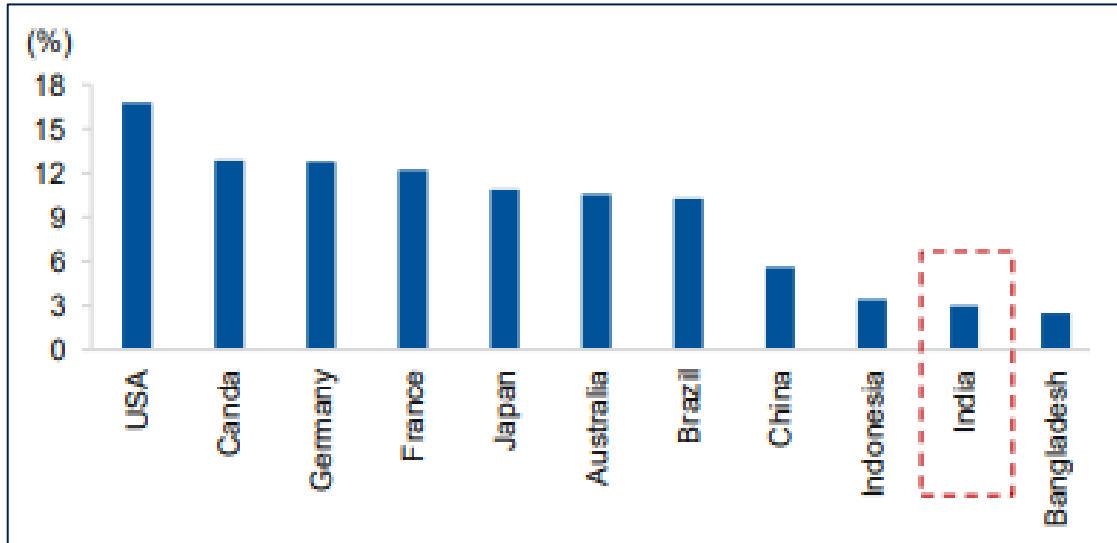
Increase in India's aging population may lead to higher chronic illnesses



- **Increase in lifestyle diseases:** Conditions such as high cholesterol, high blood pressure, obesity, diabetes, cancer and mental health issues come under this category. They account for ~66% of all deaths in India currently
- **Increasing share of diabetic population:** Currently, constitutes roughly 11.4% of the population. The share is projected to exceed 100 million by 2025 (WHO)
- **Shift in demographics:** As of 2021, India's population distribution was characterized by a significant proportion of young individuals, but this is expected to see a slight shift, with an increase in the old-age population, which may increase demand for medical treatment

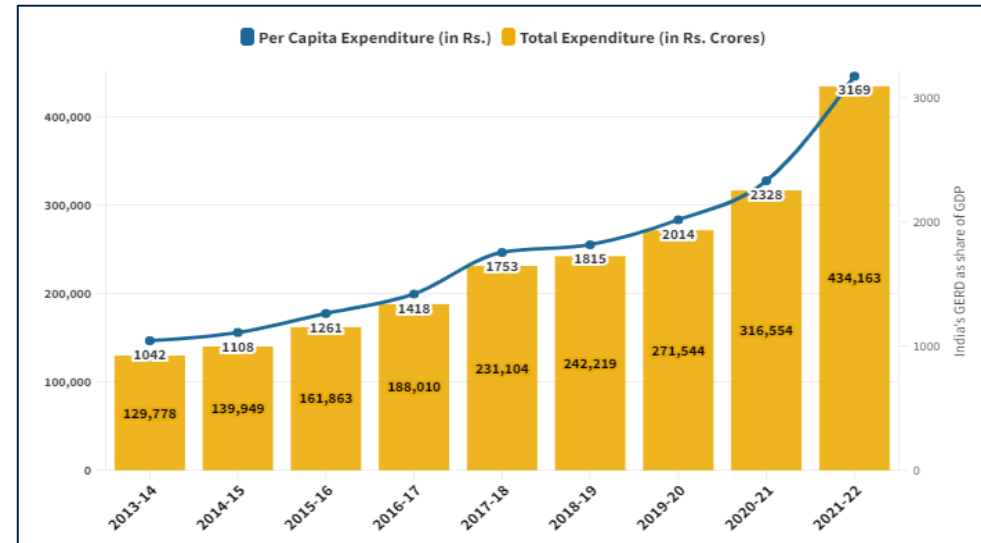
# Growth in healthcare expenditure over the years

India's healthcare spending lags comparable large nations as % GDP



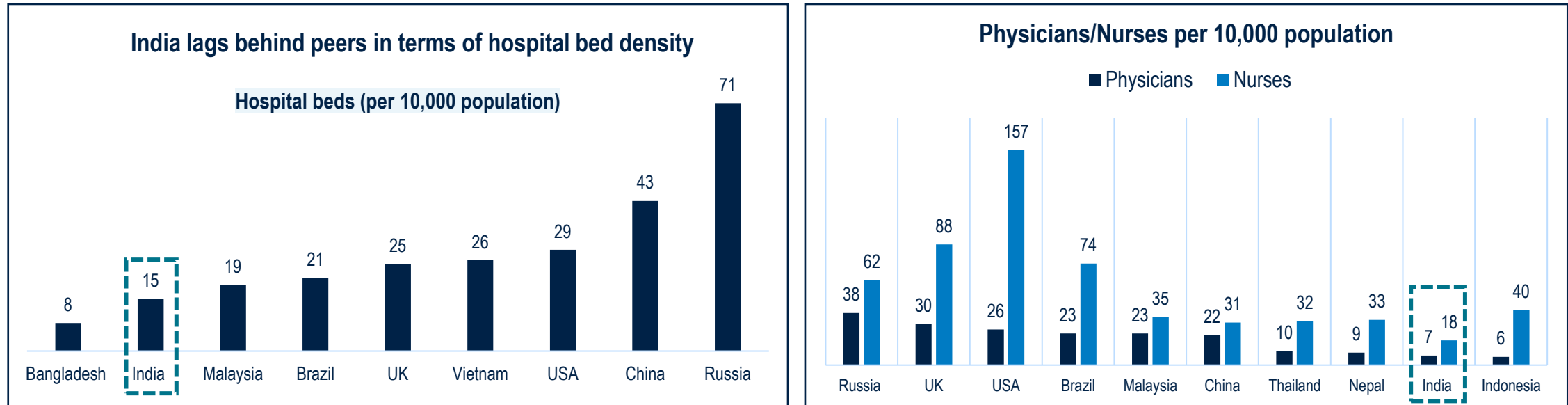
Data as of 2021

Signs of improvement in government healthcare expenditure in recent years



- India's healthcare expenditure/capita, adjusted for purchasing power parity, stood at a mere ~\$57 in CY21, markedly lower than that of its peer group nations
- However, the central government's healthcare spending, both per capita and in absolute terms, has been on a significant upswing

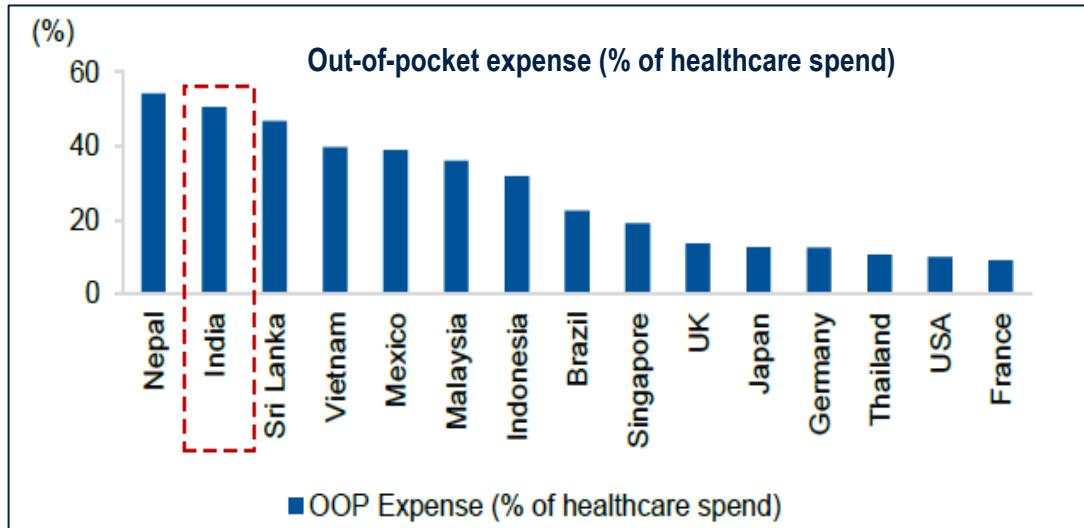
# An underpenetrated market with long growth runway



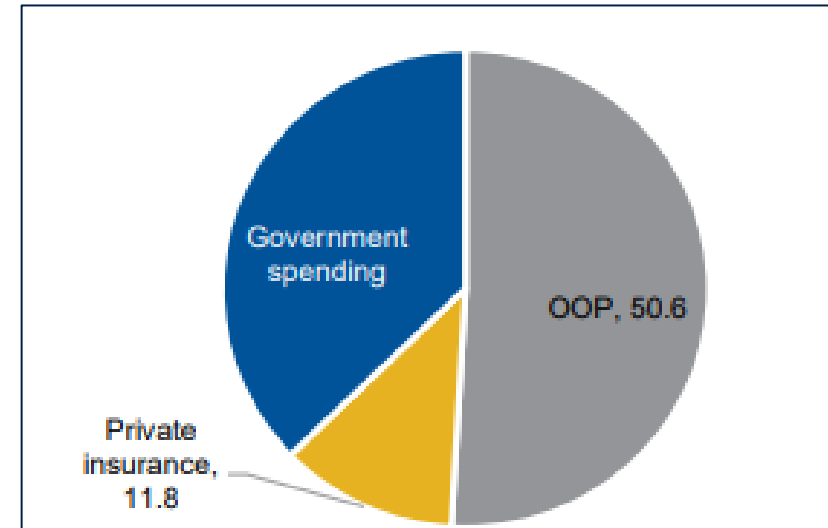
- Despite being the largest populated country in the world and accounting for almost 20% of world's population, India's bed density is only 15 (per 10,000 population). Even in terms of healthcare professionals per 10,000 population, India lags far behind exhibiting the extent of underserved healthcare infrastructure.
- With rising capex from private players, expansion of private multi-specialty hospitals in both tier 1/2 regions, growing medical colleges and various government initiatives like Ayushman Bharat increasing the healthcare centres in rural areas, there has been a push towards serving this large underserved market. The extent of under penetration of healthcare in India provides a long runway of growth for healthcare companies.

# Insurance penetration- A key driver of growth in this sector

Paying the price: Amongst the highest out of pocket expenses on healthcare

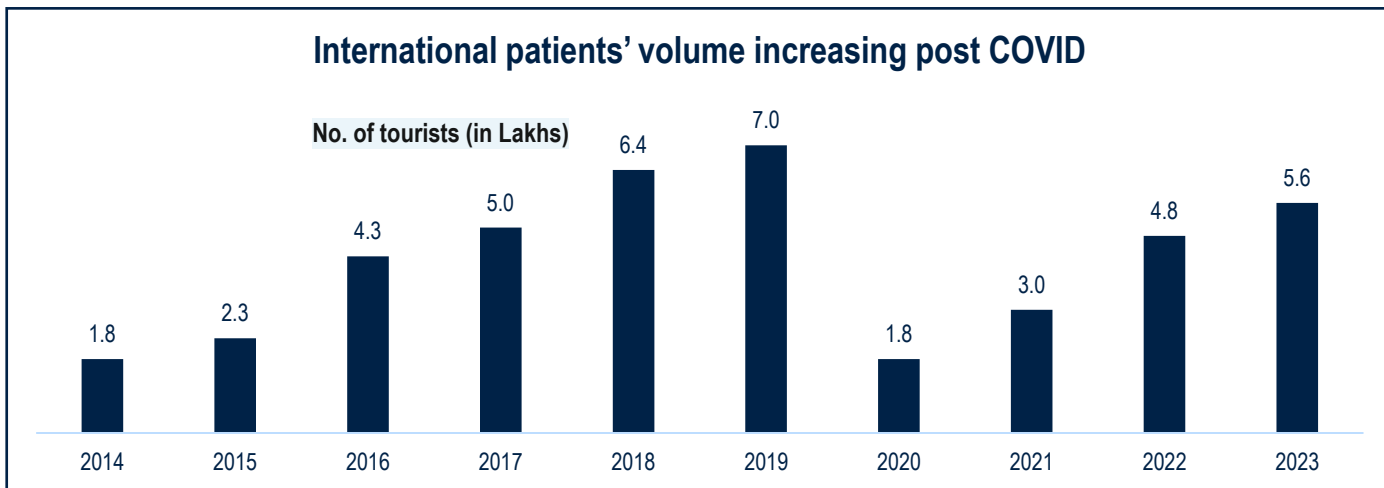


Over 50% of healthcare spending is out of pocket in the country



- India continues to be an underpenetrated country in terms of health insurance coverage. Higher OPE has made access to quality healthcare harder for a large segment of the population.
- ~50% of the medical expenses in India are shouldered by patients, while the government covers 37%, and the remaining portion is covered by private insurance.

# India is strengthening its position as a Medical Value Tourism hub



- The medical value tourism market in India was valued at ~USD 8 bn in 2024 and is expected to grow at 13% CAGR over 2024-30 reaching over USD 14 bn
- Medical value tourism has been gaining popularity in the healthcare industry globally over the years
- India's growth and improvement in the healthcare sector have made it one of the preferred destinations for MVT. Currently ranked 10<sup>th</sup> out of 46 countries in medical tourism\*\*
- Since COVID restrictions are now history, the share of international patients in hospital revenues is poised to grow and expected to contribute 10-12% of hospital revenue
- Key drivers for India in this segment are affordable high-quality services, well reputed doctors, increased connectivity and being the preferred hub for developing nations

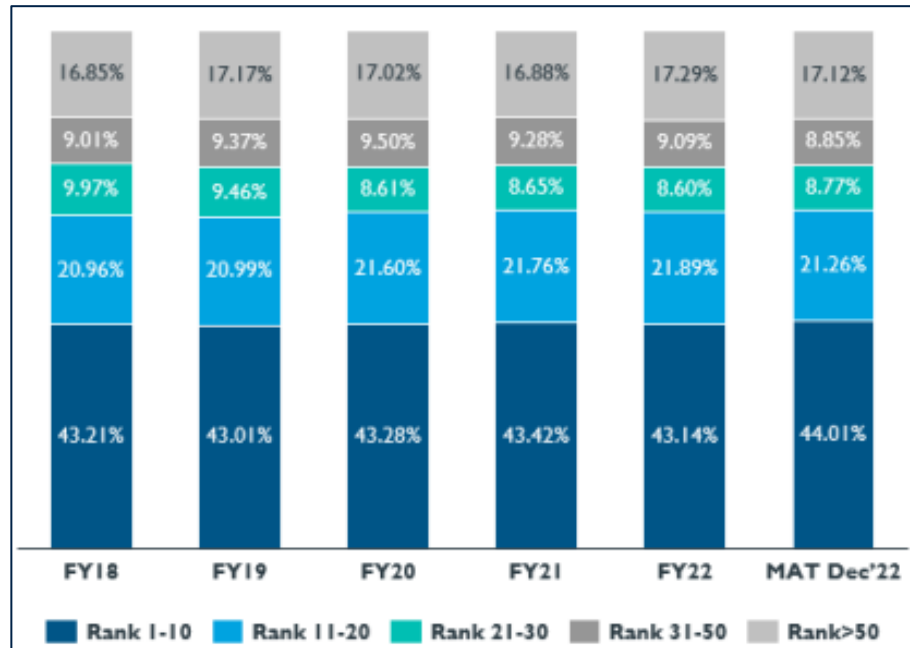
## Comparison of treatment costs (USD)

Procedures	US	Cost Rica	Korea	Mexico	Thailand	Malaysia	India
Heart Valve Replacement	1,70,000	30,000	43,500	18,000	21,212	10,580	5,500
Heart Bypass	1,44,000	25,000	28,900	27,000	15,121	11,430	5,200
Spinal Fusion	1,00,000	11,5s00	15,400	12,000	9,091	6,000	6,500
Angioplasty	57,000	13,000	15,200	12,500	3,788	5,430	3,300
Hip Replacement	50,000	12,500	14,120	13,000	7,879	7,500	7,000
Hip Resurfacing	50,000	12,500	15,600	15,000	15,152	12,350	7,000
Knee Replacement	50,000	11,500	19,800	12,000	12,297	7,000	6,200
Face Lift	15,000	6,000	15,300	4,900	3,697	3,440	4,000
Hysterectomy	15,000	5,700	11,000	5,800	2,727	5,250	2,500
Rhinoplasty	8,000	4,500	5,000	3,500	3,901	1,293	4,000
Lasik (both eyes)	4,400	1,800	6,000	1,995	1,818	477	500
Dental Implant	2,800	900	4,200	1,800	3,636	345	1,000

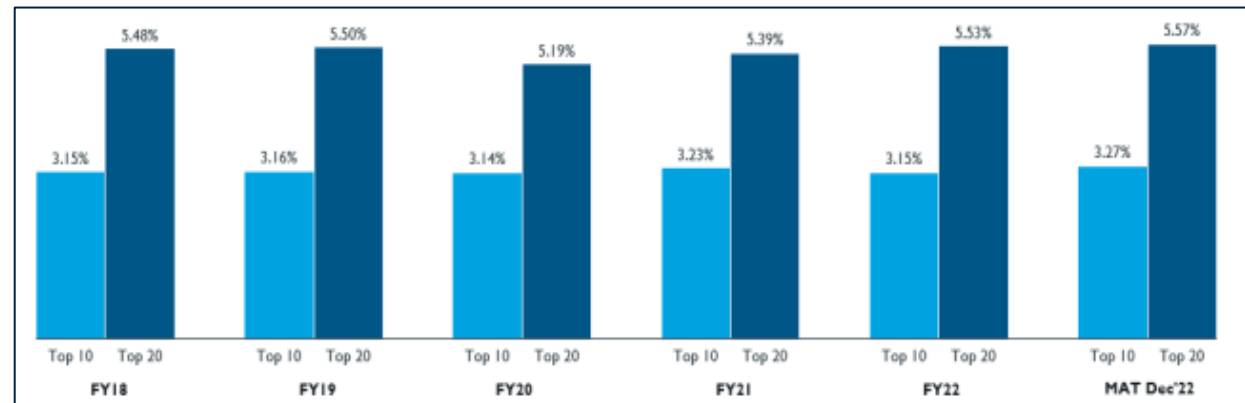
Source: medicalindiatourism.com, AMSEC research; Avg. global cost is ex-India. FICCI\*, Medical Tourism Index 2020-21 \*\*

# Key players in Indian Pharmaceutical Market

Market share by range of ranking in IPM (%)



Contribution of top 10 and top 20 brands in IPM (FY 2018- MAT December 2022)

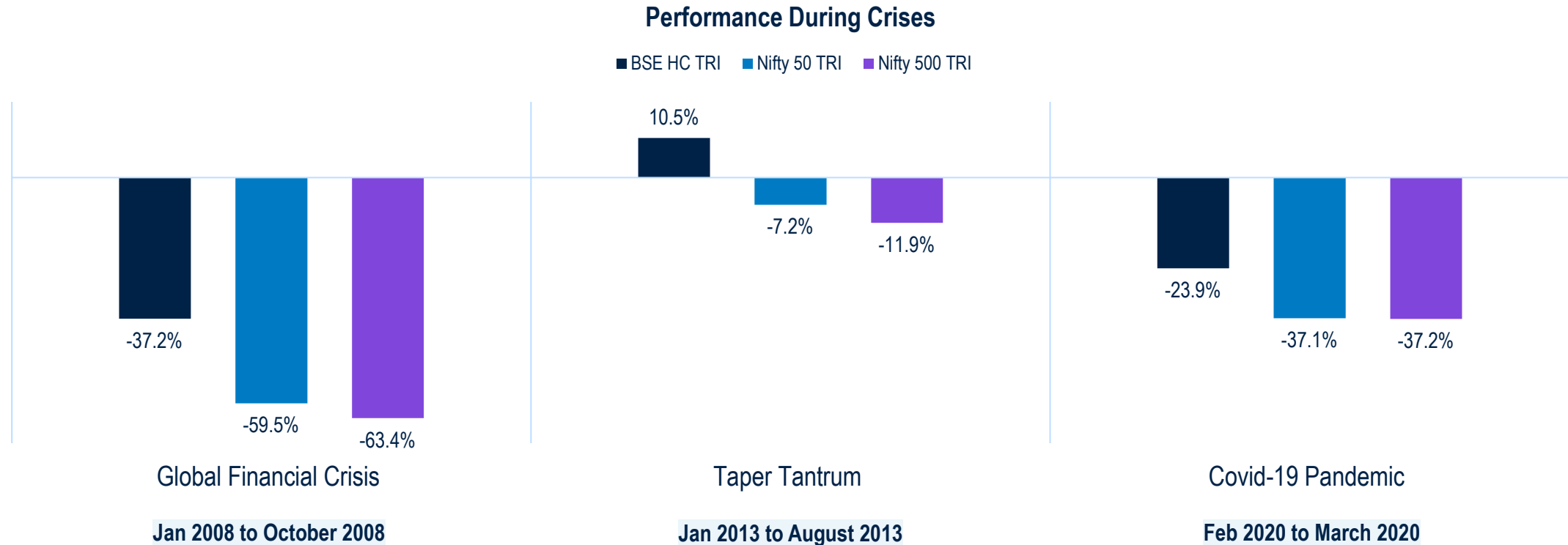


The relative contribution of top 10 and top 20 brands (i.e., individual brand extensions) in IPM has remained range-bound, with top 20 brands accounting for approximately 5-6% of the IPM over Financial Years 2018- MAT Dec'22.

- IPM is primarily a branded generics-driven market, dominated by Indian generic players which account for approximately 80-85% of the overall market. Multinational companies (MNCs) have approximately 15-20% share of the IPM; MNCs play a dominant role as innovators in IPM.
- The top 10 players have consistently held 43% to 44% market share.

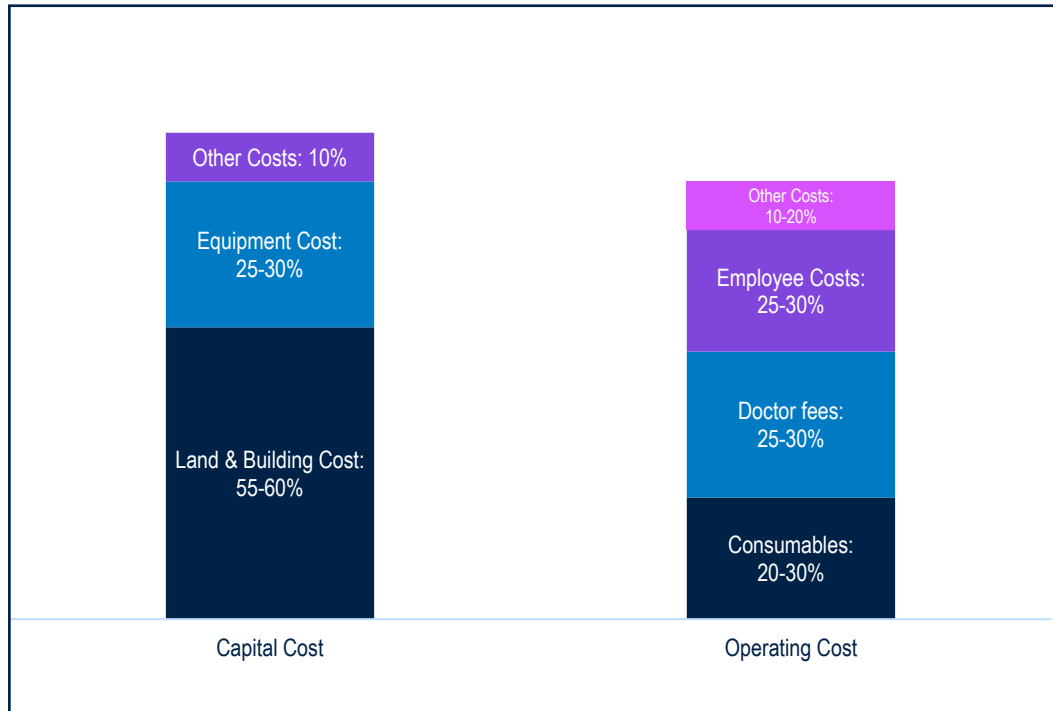


# Lower downside capture during crises



BSE Healthcare TRI has performed better during periods of crises compared to broader market indices such as Nifty 500 TRI

# Cost structure of hospitals + Modes to expand



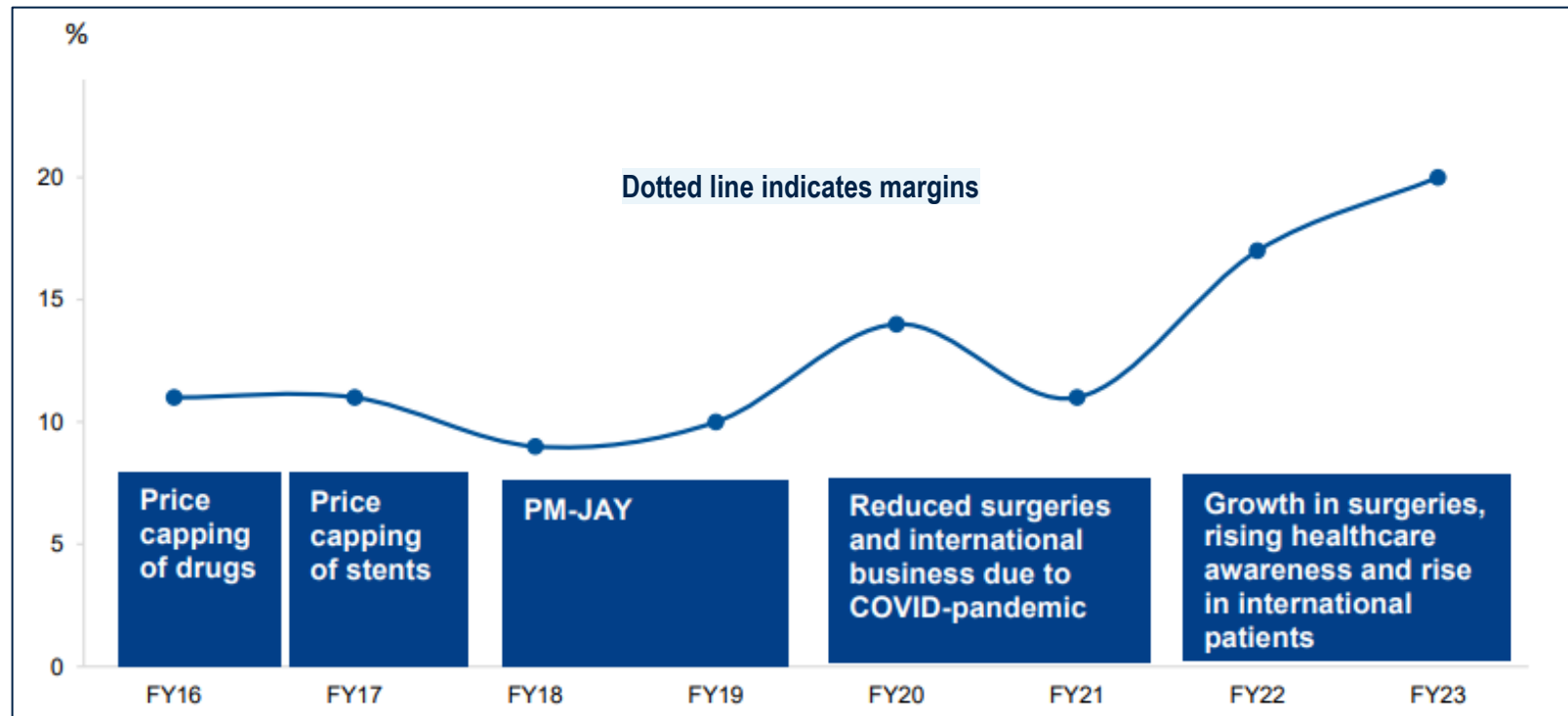
Capex/ bed for tertiary/quaternary care is higher

Capex /bed (ex- land cost)	Secondary care	Tertiary/Quaternary Care
Tier-1	Rs5-8mn	Rs10mn+
Tier-2	Rs2.5-5mn	Rs5-8mn
Tier-3	Rs1-2.5mn	Rs2.5-5mn

Companies can expand their presence through the following routes:

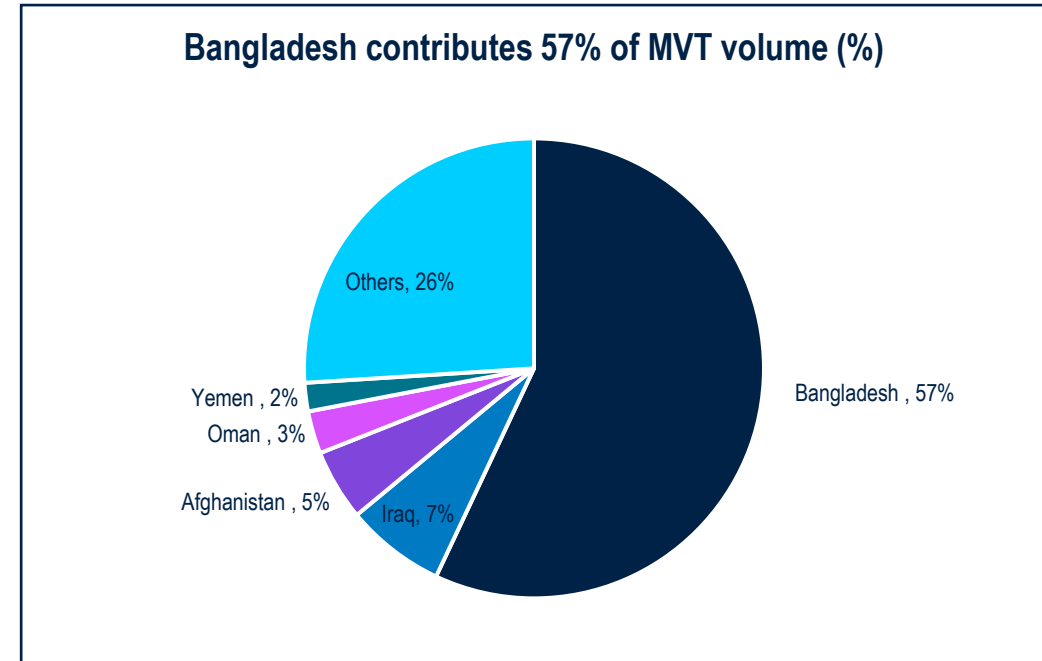
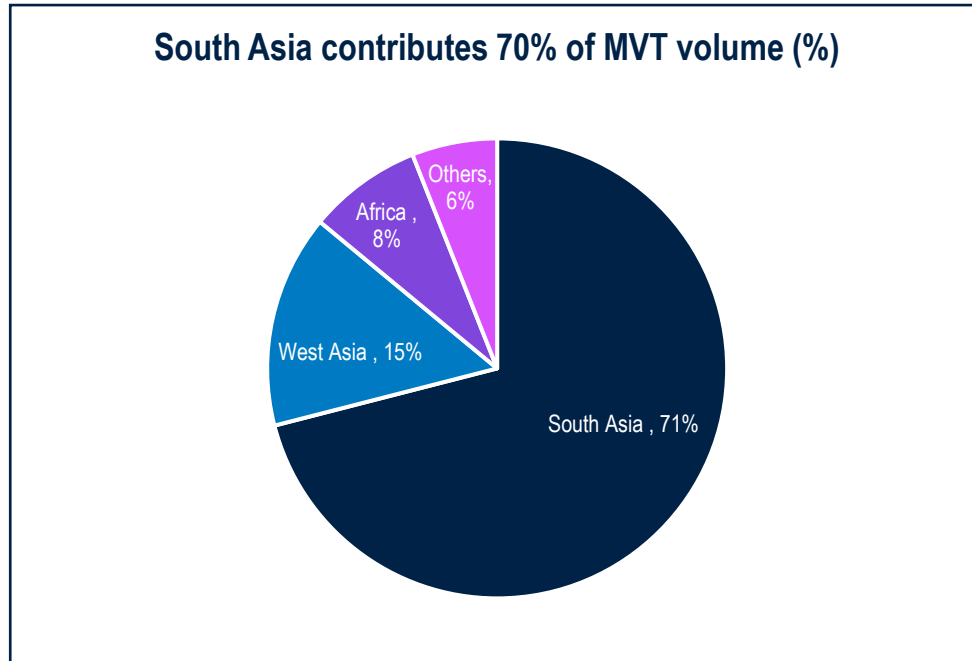
- **Greenfield:** This involves the company putting up a fresh new hospital. Greenfield capex requires more capital and time to execute.
- **Brownfield:** This involves the company expanding the bed capacity of an existing hospital. This is an efficient way of expansion as it entails lower costs, less time to execute & commission and faster breakeven time.
- **O&M contracts:** Many companies have entered O&M contracts with existing hospitals in which they don't own the hospital but operate and manage the operations.
- **M&A:** Companies also opt for M&A routes to expand their operations, either for geographical advantage or operational efficiency or both.

# Listed Hospitals Have Experienced a Profitability Boost Since FY16



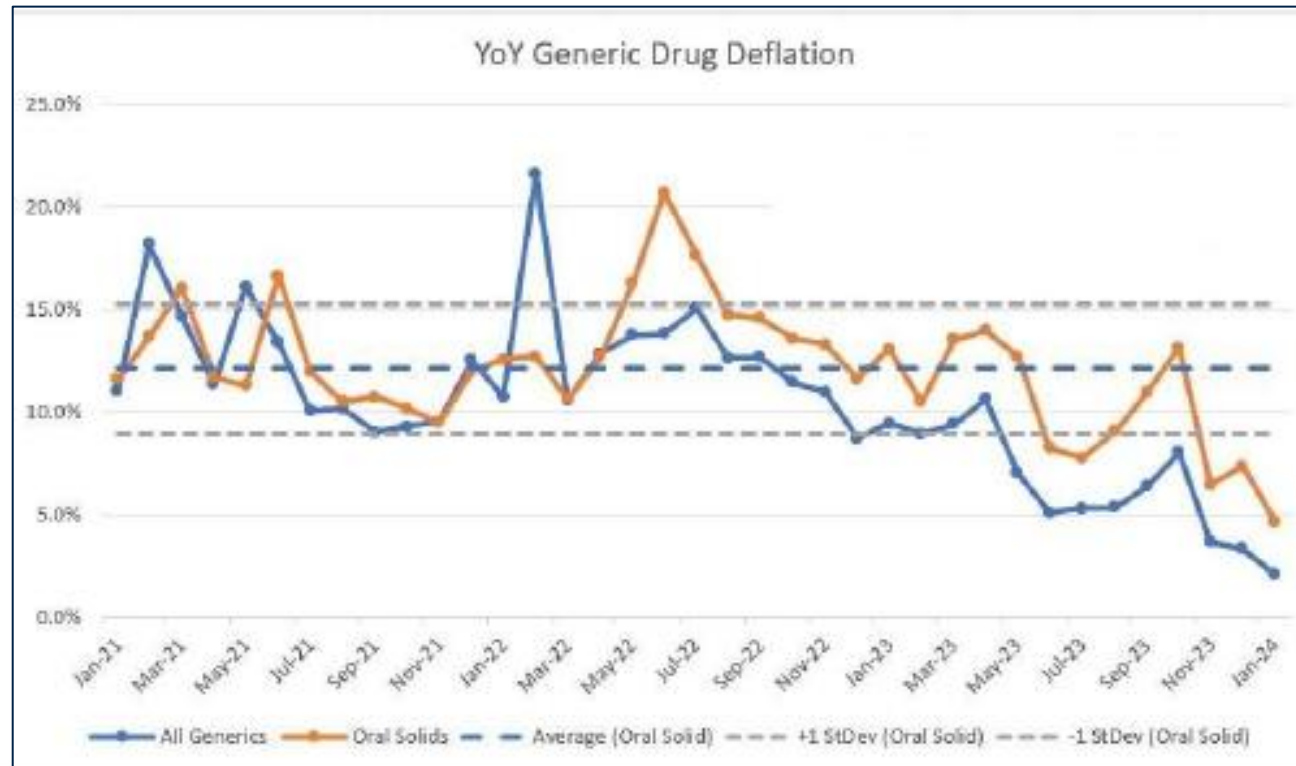
- The profitability of listed hospital businesses was range-bound at lower levels before FY20, attributed to higher consumable costs, new supplies, and regulatory challenges. However, notable improvements have been observed, driven by increased efficiency, higher occupancies, lower ALOS, better pricing and case mix, and industry consolidation.
- Hospitals went from muted margins to a >20% margin environment, which is now considered a potential new normal for the industry. Sustained discipline in bed additions and ongoing consolidation efforts are expected to contribute help sustain margins.

# Medical Value Tourism (MVT)- India is strengthening its position as an MVT hub



- The number of medical tourists visiting India have grown at a pace of 31% CAGR over 2014- 19 (Pre-COVID) reaching 700,000 in 2019.
- In 2019, around 94% of the medical tourists who visited India were from countries in West and South Asia and African continent. Country-wise, more than half of international patients were from Bangladesh.
- Given that Delhi houses embassies of other countries, has better connectivity being the capital of the country and presence of top-quality multi-specialty hospitals, it is a key region in India to cater to MVT patients. Higher share of international patients in the payor mix also improves the ARPOB as the prices for international patients are generally 15-20% higher than domestic cash paying patients.

# US Generics Headwinds Abate: Tactical Opportunity Amid Slower Price Erosion



Indian companies operating in the US generics space are seeing a cyclical uptick led by lower price erosion, new product launches, and increasing drug shortages

**THANK YOU**