

Healthcare

Hospital business steady; non-covid diagnostic ops surging

Surge in occupancy and ARPOB is likely to help hospitals under our coverage to report a revenue/EBITDA/PAT growth of 3%/7%/19% QoQ in Q1FY24E, respectively. The outlook remains steady for hospital chains as higher in-patient and surgery count is generating cashflow and the companies are diligently investing in expanding their network through M&A or brownfield capex. Base impact from covid-led test is largely behind for diagnostic companies and the coverage companies are likely to post a strong 9%/13%/20% rise in revenue/EBITDA/PAT in Q1FY24E, respectively. Non-covid volumes continue to witness steady 12-15% growth despite steep competitive pressure. Companies are now taking price increases in selective test portfolios as against their earlier focus on maintaining volume share. Our top picks in the space: KIMS, Fortis and Dr Lal.

- **Hospital business- preview synopsis:** Revenue for coverage universe is expected to grow a modest 3% QoQ (+16% YoY) to Rs71.7bn in Q1FY24E. EBITDA margin is expected to surge 60bps QoQ to 14.9% on better traction in hospital business and improvement in the performance of ancillary business. PAT is likely to grow 19% QoQ to Rs4.4bn.
- **Hospital – company-wise performance:** **Apollo Hospitals** is likely to register EBITDA growth of 11% QoQ driven by its hospital business and the management is trying to curtail down losses of operating online pharmacy business. **KIMS** is expected to witness a sequential dip of 134bps in EBITDA margin to ~27% (EBITDA dip of 2% QoQ) due to addition of doctors at some hospitals. It remains on track to restart operations at a hospital under Sunshine and a new hospital in Nashik. **Fortis** to report a nominal 7% sequential increase in EBITDA, primarily driven by its hospital business. It has recently renamed SRL to Agilus Diagnostics. **HCG** is expected to report 6% QoQ jump in EBITDA.
- **Diagnostics - synopsis:** Revenue for coverage universe is likely to surge ~9% YoY (+8% QoQ) as impact of covid base is largely behind and traction in non-covid test continues to be healthy. Covid-led test accounted for 4%/7%/3% for Dr Lal/Metropolis/Vijaya, respectively, in Q1FY23 as against 14%/17%/15% in Q4FY22. EBITDA margin is expected to surge 95bps YoY (up 15bps QoQ) largely on account of better pricing and network expansion. Q1FY24E EBITDA/ PAT growth for our coverage universe is expected at 13%/20% YoY, respectively.
- **Diagnostic – company-wise performance:** i) **Dr Lal** is expected to report 10% surge in revenue to Rs5.5bn in Q1FY24E. It is now expanding across tier-3 towns in North, South and Western regions. EBITDA margin to surge 93bps to 24% while absolute EBITDA to grow 15% YoY. PAT is expected to grow 23% YoY. ii) **Metropolis** is likely to report 6% YoY rise in revenue as contribution of covid-led test remains moderately high in the base. It plans to add 600-800 collection centres and 50 hi-tech centres in FY24. EBITDA margin may rise by 73bps to 25.2% while PAT may grow 7% YoY. iii) **Vijaya** is likely to post 12% YoY growth in revenue driven by its strong foothold in AP and Telangana regions. EBITDA margin may surge 137bps YoY (-99bps QoQ) to ~40% while PAT may grow 37% to Rs239mn owing to its smaller base.

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Q1FY24 result preview

Recommendations

Apollo Hospital (ADD)
Dr. Lal Pathlabs (BUY)
Fortis Healthcare (BUY)
HCG (ADD)
KIMS (BUY)
Metropolis (HOLD)
Vijaya Diagnostics (BUY)

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Table 1: Key financials – hospitals

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)
Apollo Hospitals	44,225	43,022	37,956	2.8	16.5	5,395	4,882	4,907	10.5	9.9	1,872	1,445	3,171	29.5	(41.0)
KIMS	5,920	5,759	4,955	2.8	19.5	1,598	1,632	1,372	(2.1)	16.5	851	933	700	(8.8)	21.6
Fortis Healthcare	17,025	16,427	14,879	3.6	14.4	2,911	2,709	2,511	7.5	15.9	1,512	1,220	1,223	24.0	23.7
HCG	4,548	4,417	4,081	3.0	11.5	810	763	722	6.1	12.2	154	84	60	83.6	154.0
Coverage Universe	71,719	69,625	61,870	3.0	15.9	10,715	9,986	9,512	7.3	12.6	4,389	3,682	5,154	19.2	(14.8)

Source: Company data, I-Sec research

Table 2: Key financials – diagnostics

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)
Dr Lal	5,544	4,910	5,027	12.9	10.3	1,347	1,156	1,175	16.5	14.7	710	567	577	25.2	23.0
Metropolis	2,968	2,825	2,799	5.1	6.1	748	703	685	6.4	9.2	357	334	334	7.1	7.0
Vijaya	1,169	1,210	1,044	(3.4)	12.0	463	491	399	(5.7)	16.0	239	275	175	(13.0)	37.0
Coverage Universe	9,682	8,945	8,869	8.2	9.2	2,558	2,350	2,259	8.9	13.3	1,306	1,175	1,085	11.1	20.3

Source: Company data, I-Sec research

Table 3: Valuation summary

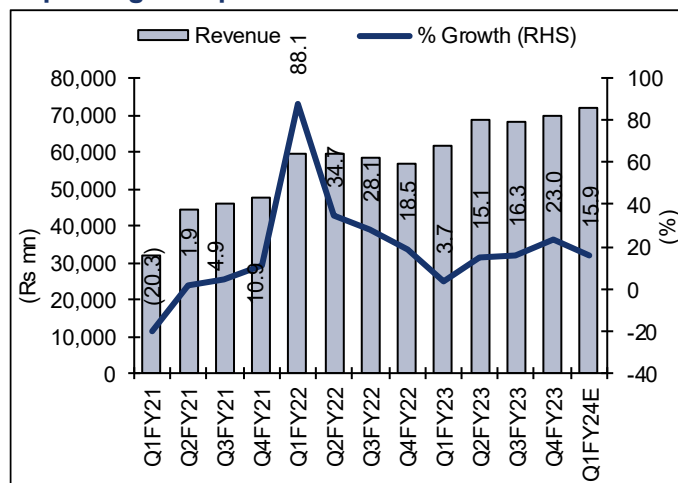
Company	Target Price (Rs)	Rating	EPS (Rs)			CAGR	ROCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY23	FY24E	FY25E	FY23-25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hospitals															
Apollo	5,000	ADD	56.4	81.5	109.3	39.2	11.0	9.5	12.0	87.3	90.6	62.7	35.5	38.2	28.6
KIMS	1,795	BUY	40.6	46.1	51.4	12.5	15.8	14.1	13.6	43.1	37.9	34.0	23.9	20.6	18.0
Fortis	360	BUY	7.0	9.9	11.6	28.4	5.8	7.2	7.7	44.6	31.8	27.1	22.1	17.4	15.0
HCG	330	ADD	2.1	5.8	8.6	102.4	3.9	8.5	10.2	152.2	55.1	37.2	17.3	15.1	13.0
Diagnostics															
Dr Lal	2,385	BUY	28.6	38.9	50.9	33.3	12.9	15.6	17.9	78.1	57.6	44.0	36.9	29.8	24.5
Metropolis	1,345	HOLD	27.9	31.9	38.6	17.6	12.0	13.3	15.8	56.1	49.1	40.5	28.3	25.6	22.4
Vijaya	455	BUY	8.3	10.7	13.5	27.8	13.7	14.8	15.8	56.8	43.9	34.8	26.4	22.0	17.8

Source: Company data, I-Sec research

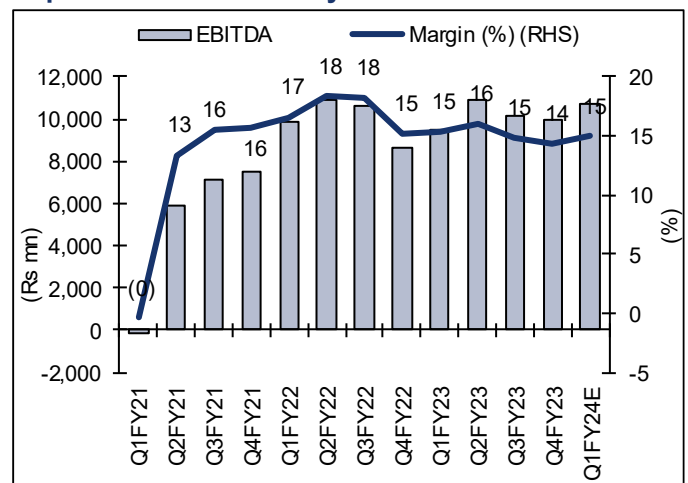
Table 4: Key developments in Q1FY24

Company	Key developments
Apollo Hospital	Apollo opened a genomic institute in Chennai
Fortis	The company has renamed its diagnostic arm SRL to Agilus Diagnostics
	In Jun'23, Fortis entered into a business transfer agreement with Sri Kauvery Medical Care (India) pursuant to which Fortis has sold its hospital located at Arcot Road, Vadapalani, Chennai for Rs1.52bn
	Agilus Diagnostics acquired Lifeline Labs based in NCR in Apr'23
	Company acquired Medeor Hospital in Manesar, Gurugram (Jun'23) for a consideration of Rs2.25bn. The hospital has potential bed capacity of 350 beds and can be operationalised in a phased manner in approximately 9 months

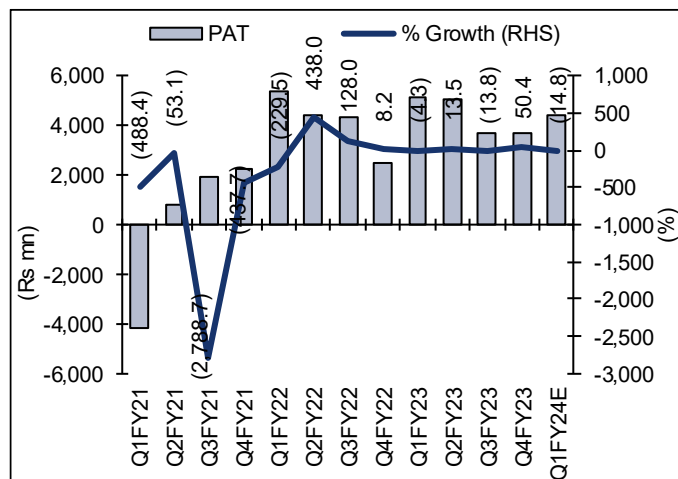
Source: Company data, I-Sec research

Chart 1: Revenue is expected to grow with improving occupancies and new bed additions

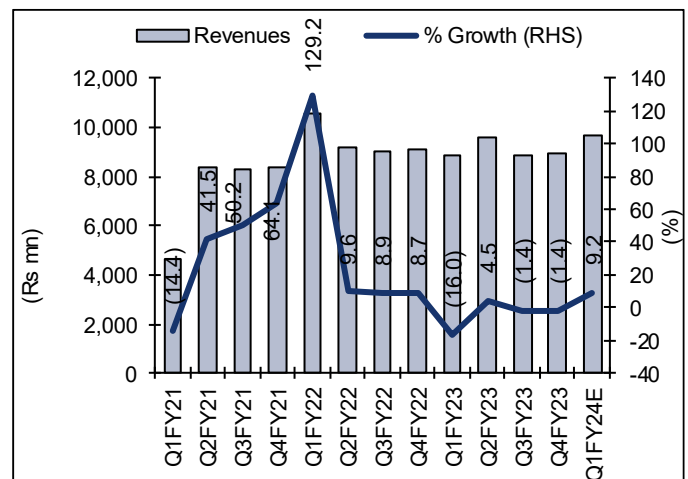
Source: Company data, I-Sec research

Chart 2: Margin may improve led by better mix and improvement in ancillary business

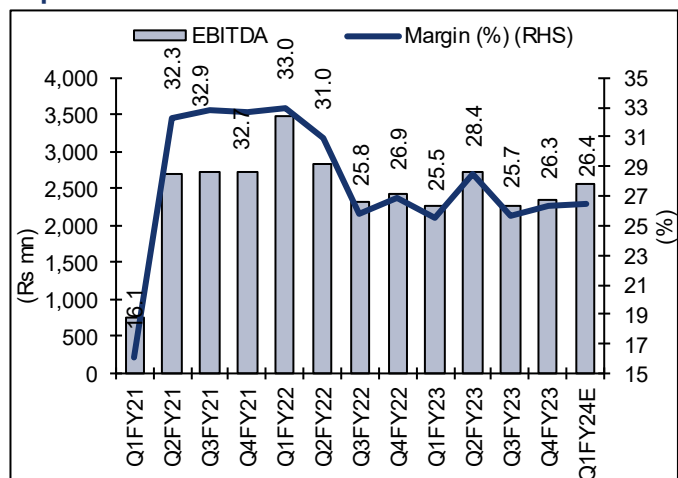
Source: Company data, I-Sec research

Chart 3: Net profit for our hospital coverage universe

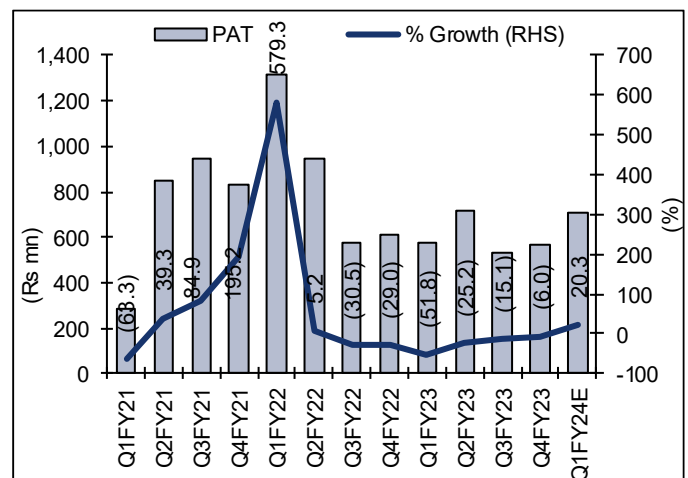
Source: Company data, I-Sec research

Chart 4: Healthy traction in non-covid volumes to boost Q1FY24E revenue

Source: Company data, I-Sec research

Chart 5: Improvement in pricing to aid margin expansion

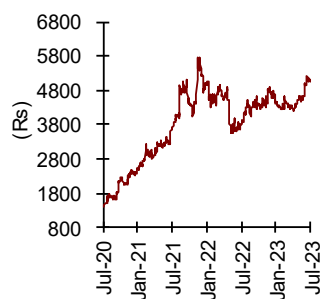
Source: Company data, I-Sec research

Chart 6: Net profit for our diagnostic portfolio

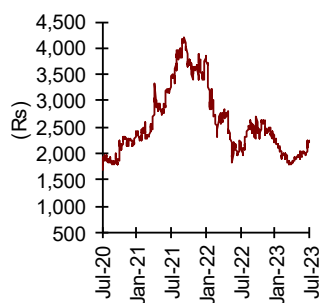
Source: Company data, I-Sec research

Price charts

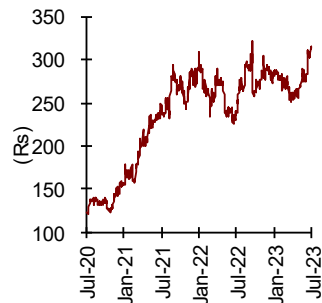
Apollo Hospitals



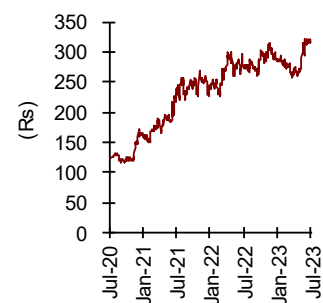
Dr. Lal PathLabs



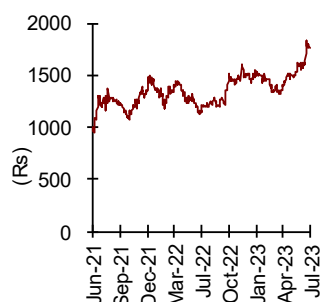
Fortis Healthcare



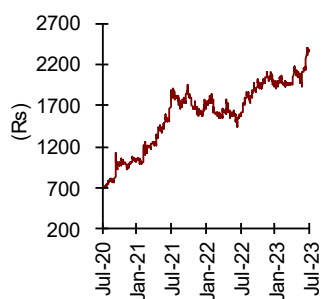
HCG



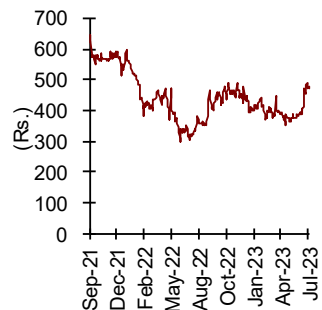
KIMS



Metropolis



Vijaya



Source: Bloomberg

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