

24 August 2023

India | Equity research | Q1FY24 result review

## Healthcare

### Q1FY24 result review : Seasonality restrains momentum

Seasonality on account of extended summers and holiday season impacted the operating matrix of hospitals under our coverage in Q1FY24. While their business model is prone to such cyclicalities, companies were able to safeguard their ARPOB while occupancy took a slight hit. Reduction in count of surgeries due to holidays and delayed monsoon impacted overall performance. Hospitals remain on track to improve their occupancies and margins. Despite the slowdown in Q1, network expansion plans remain unchanged and hospital chains are diligent in adding further beds through M&As or brownfield capex. Surge in non-covid volumes for diagnostics took a pause due to seasonality. Competitive pressure in the diagnostics biz is easing out as most online competitors are now eyeing profitable growth while listed companies too are taking price increase (2-4%) in selective tests. Our top picks in the space are Fortis and Dr. Lal.

#### Hospital business – Synopsis

Revenue for our coverage universe grew ~3% QoQ (+15% YoY) in Q1FY24. All the covered companies saw ARPOB growth led by improvement in payor mix. ARPOB for the companies improved between 4-9%. Barring HCG, occupancies dipped across the board by 40-310bps QoQ due to seasonality. Absolute EBITDA of our coverage universe rose 1% QoQ (6% YoY) to INR 10.1bn. EBITDA margin though dipped by a slight 16bps QoQ (down 119bps YoY).

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#### Ancillary biz performance improves to some extent

Apollo HealthCo revenue grew 22% YoY (flat QoQ) to INR 18.1bn in Q1 with 24/7's GMV growing 5% QoQ. Its diagnostic biz grew 31.9% YoY. Discounts on 24/7 have dropped from 17-18% in Jan'23 to 13.7% in Q1. AHLL's margin contracted 270bps YoY (-100bps QoQ) to 7.3% on account of expansions. Agilus' (Fortis) revenue rose 2.7% YoY (+4% QoQ) to INR 3bn. Realisation per test was up 3% YoY (flat QoQ) at INR 344 while margin expanded 230bps YoY (490bps QoQ) to 21.9%.

#### Existing focussed cities a priority for bed additions

Healthy bed additions are on the cards for a majority of the hospitals in our coverage universe with Apollo intending to add 2,000 beds by FY27 (700 beds post FY24). Fortis plans to add 1,300-1,400 beds over the next five years and KIMS ~1,500 over the next three years. Priority of the hospitals has shifted towards capacity addition in their existing facilities and asset-light model, which should lead to faster breakeven periods and healthier return ratios.

#### Diagnostics – Synopsis

Revenue for our coverage universe grew ~6% YoY (+4% QoQ) aided by non-covid biz. Volume growth in non-covid biz was muted for Dr Lal, Metropolis and Thyrocare while that for Vijaya increased ~18%. EBITDA margin surged 138bps YoY (up 198bp QoQ) as covid test volumes are fading from the base of last year while companies have also taken price increase across selective tests. Q1 EBITDA rose ~12% YoY (+12% QoQ). Consequently, profit for our coverage universe grew 19% YoY (+19% QoQ).

## Steady network expansions a priority

**i) Dr.Lal** – Expanding towards tier-3 towns remains a priority for the company with 10-15 labs expected to be set up in the north, south and western regions. **ii) Metropolis** – aims to establish 90 labs and 1,800 centres by FY25. Thirty labs and 600-800 collection centres are planned to be added in FY24. Fifty hitech centers are expected to be added in FY24. **iii) Vijaya** – Apart from expansion in their traditional strongholds of Andhra Pradesh and Telangana, new centres are expected to commercialise in north Kolkata in the next couple of months.

### Exhibit 1: Key financials – Hospitals

Hospitals Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)
Apollo Hospitals	44,178	43,022	37,956	2.7	16.4	5,090	4,882	4,907	4.3	3.7	1,666	1,445	3,171	15.3	(47.5)
KIMS	6,060	5,759	4,955	5.2	22.3	1,571	1,632	1,372	(3.8)	14.5	808	933	700	(13.4)	15.5
Fortis Healthcare	16,574	16,427	14,879	0.9	11.4	2,725	2,709	2,511	0.6	8.5	1,107	1,220	1,223	(9.3)	(9.5)
HealthCare Global Enterprises	4,607	4,417	4,081	4.3	12.9	743	763	722	(2.6)	3.0	66	84	60	(21.4)	8.8
<b>Coverage Universe</b>	<b>71,419</b>	<b>69,625</b>	<b>61,870</b>	<b>2.6</b>	<b>15.4</b>	<b>10,128</b>	<b>9,986</b>	<b>9,512</b>	<b>1.4</b>	<b>6.5</b>	<b>3,647</b>	<b>3,682</b>	<b>5,154</b>	<b>(0.9)</b>	<b>(29.2)</b>

Source: Company data, I-Sec research

### Exhibit 2: Key financials – Diagnostics

Diagnostics Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY(%)
Dr Lal	5,410	4,910	5,027	10.2	7.6	1,462	1,156	1,175	26.5	24.4	826	567	577	45.7	43.2
Metropolis	2,771	2,825	2,799	(1.9)	(1.0)	629	703	685	(10.5)	(8.1)	288	334	334	(13.7)	(13.8)
Vijaya	1,210	1,210	1,044	0.0	16.0	481	491	399	(2.0)	20.6	262	275	175	(4.7)	50.1
Thyrocare	1,349	1,359	1,278	(0.7)	5.6	347	247	359	40.6	(3.4)	174	125	217	39.3	(19.9)
<b>Coverage Universe</b>	<b>10,740</b>	<b>10,304</b>	<b>10,147</b>	<b>4.2</b>	<b>5.8</b>	<b>2,920</b>	<b>2,597</b>	<b>2,618</b>	<b>12.4</b>	<b>11.5</b>	<b>1,550</b>	<b>1,300</b>	<b>1,303</b>	<b>19.2</b>	<b>19.0</b>

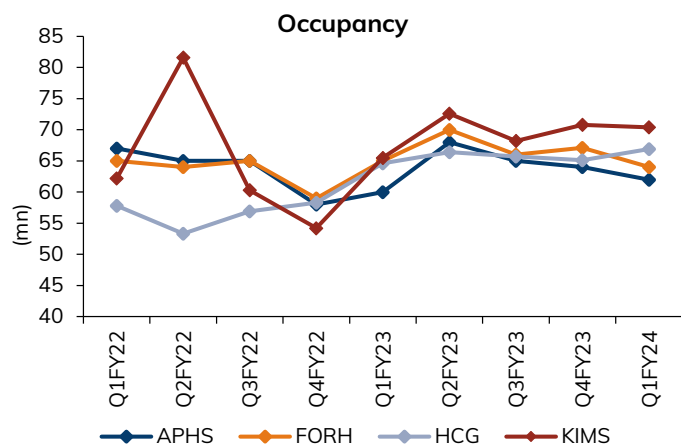
Source: Company data, I-Sec research

### Exhibit 3: Valuation summary

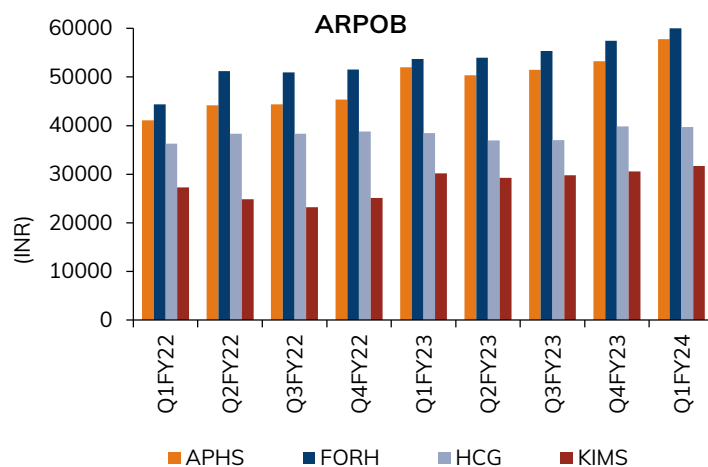
Company	Target Price (INR)	Rating	EPS (INR)			CAGR FY23-25E	RoCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY23	FY24E	FY25E		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hospitals															
Apollo	5,000	Hold	56.4	77.9	105.6	36.8	11.6	13.5	15.6	87.7	63.5	46.8	37.0	28.5	22.8
KIMS	1,950	Add	40.6	44.7	53.5	14.7	15.8	13.7	14.1	48.5	44.1	36.8	26.8	23.6	19.7
Fortis	390	Buy	7.0	10.3	12.7	34.1	5.8	7.4	8.3	45.9	31.5	25.5	22.7	17.5	14.4
HCG	360	Add	2.1	4.9	7.8	92.1	3.9	7.9	9.6	161.2	68.8	43.7	18.2	16.8	14.4
Diagnostics															
Dr Lal	2,635	Add	28.6	40.6	52.1	34.9	12.9	16.3	18.3	78.0	55.0	42.9	36.9	28.9	23.9
Metropolis	1,440	Hold	27.9	31.5	38.1	16.9	12.0	12.8	14.7	47.5	42.1	34.8	24.1	22.2	19.2
Vijaya	530	Add	8.3	11.7	14.6	32.8	13.7	15.8	16.7	58.9	41.9	33.4	27.3	21.5	17.3
Thyrocare	645	Add	11.9	15.9	18.5	23.6	12.7	16.0	18.3	45.6	34.9	29.8	23.3	19.1	16.5

Source: Company data, I-Sec research

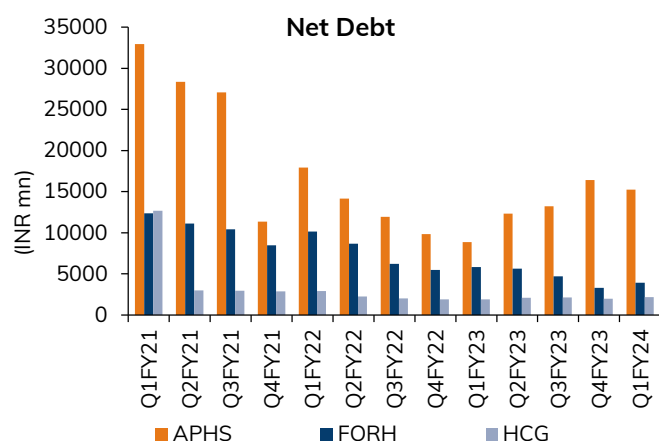
## Hospital – Story in charts

**Exhibit 4: Barring HCG, seasonality hits occupancies**


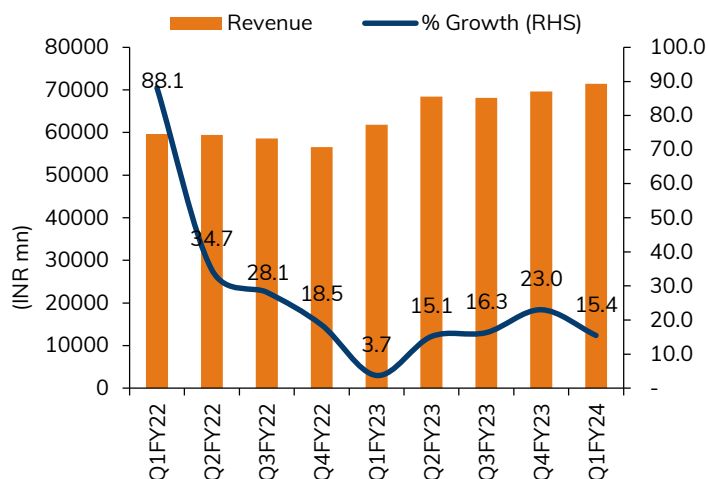
Source: Company data, I-Sec research

**Exhibit 5: Improvement in payor mix aids ARPOBs**


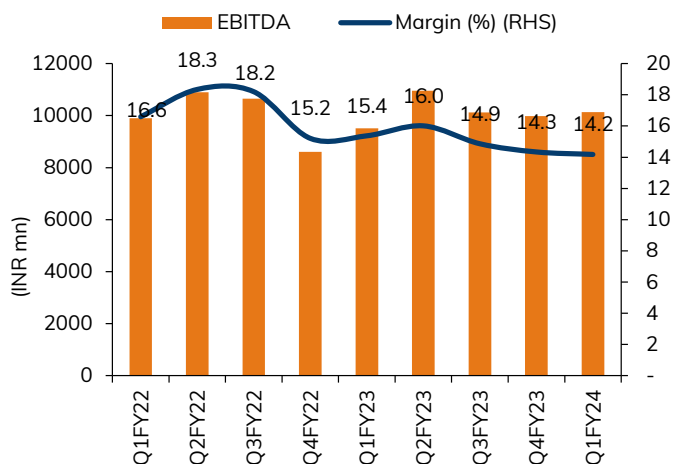
Source: Company data, I-Sec research

**Exhibit 6: Net debt on the decline over past few years**


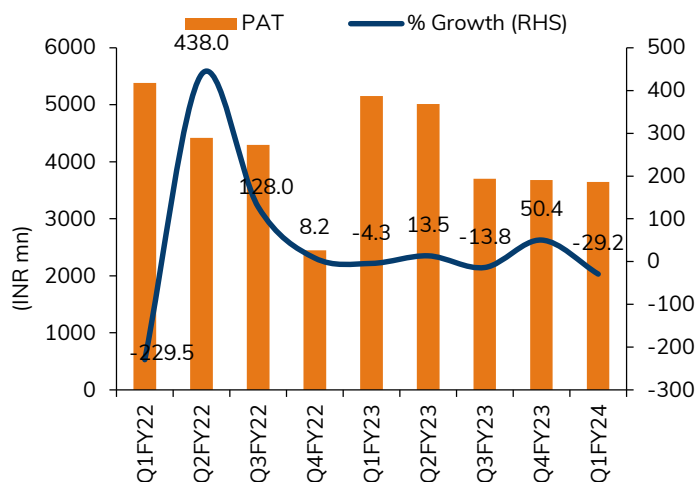
Source: Company data, I-Sec research

**Exhibit 7: Revenues expected to grow with improving occupancies and new bed additions**


Source: Company data, I-Sec research

**Exhibit 8: Margins of our coverage universe dipped 16bps QoQ**


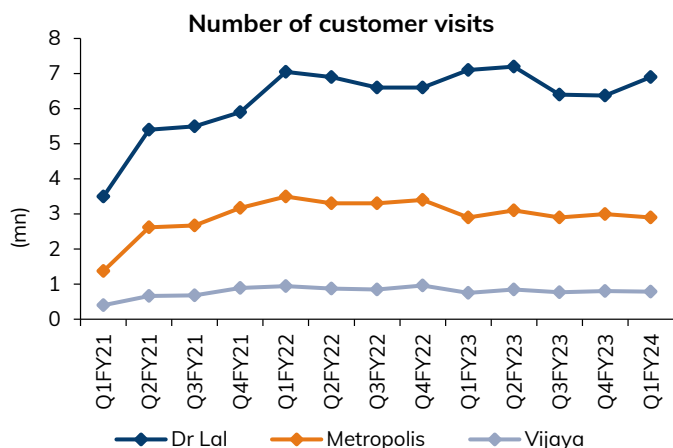
Source: Company data, I-Sec research

**Exhibit 9: Net profits for our hospital coverage universe**


Source: Company data, I-Sec research

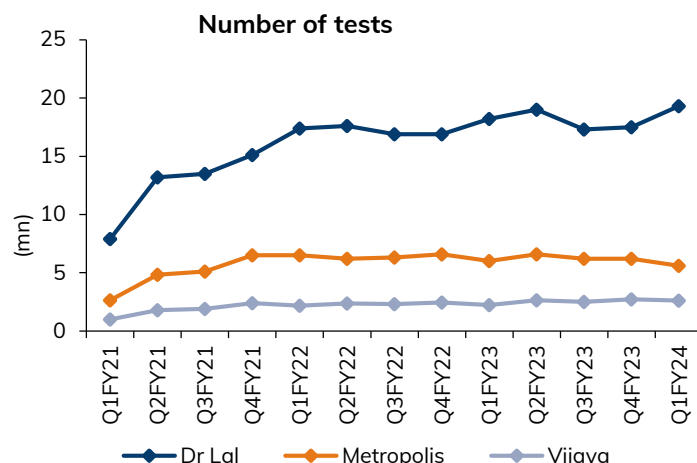
## Diagnostic – Story in charts

Exhibit 10: Rise in non-covid patients driving volumes



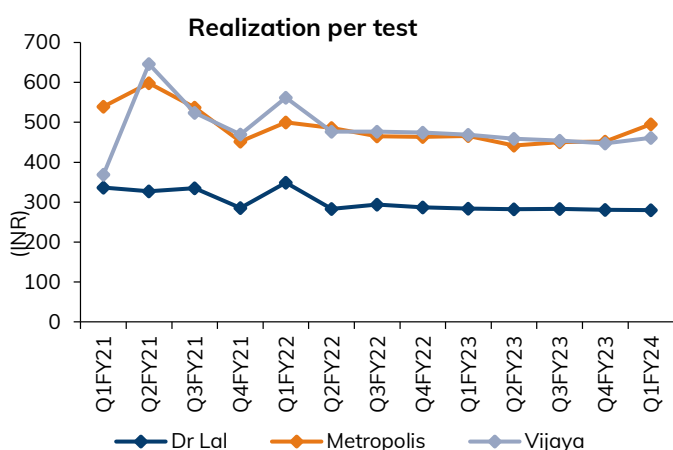
Source: Company data, I-Sec research

Exhibit 11: Non-covid tests are growing steadily



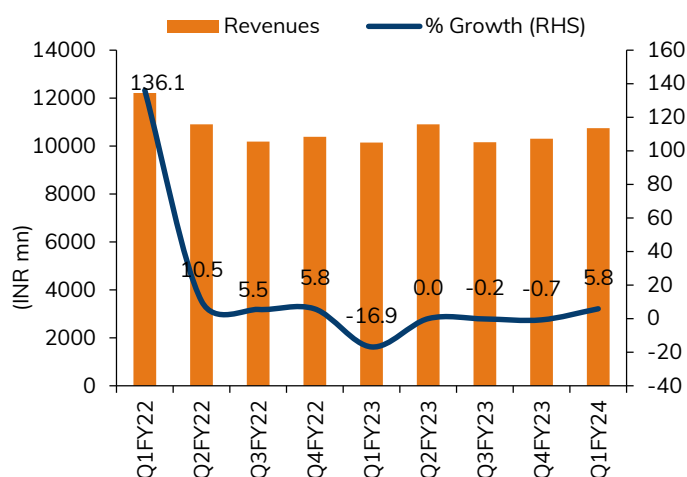
Source: Company data, I-Sec research

Exhibit 12: Realisation per test has remained stable



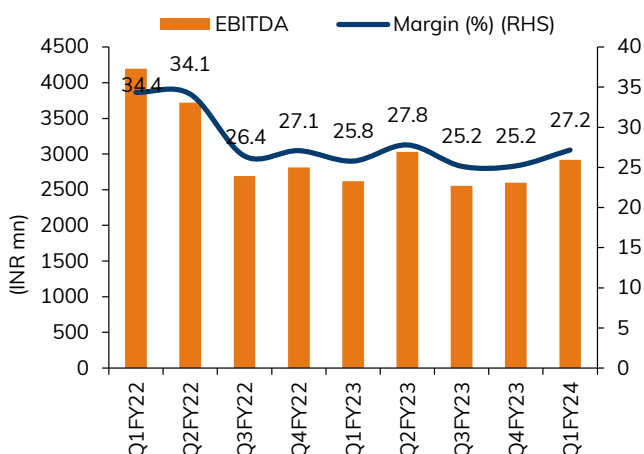
Source: Company data, I-Sec research

Exhibit 13: Non-covid biz supports revenue growth as covid revenues fade from base



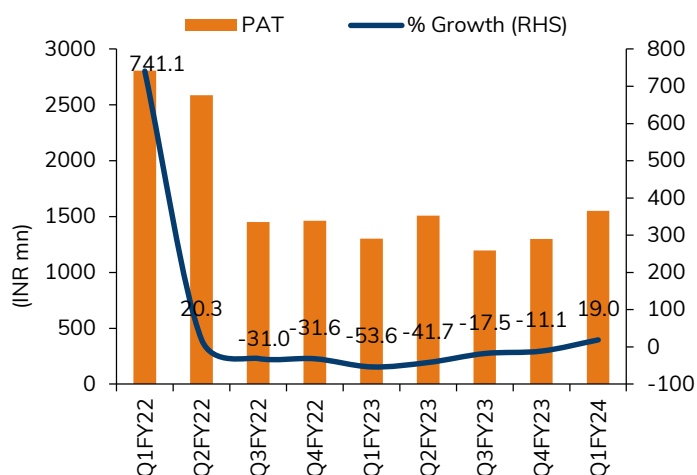
Source: Company data, I-Sec research

Exhibit 14: Network expansion by our coverage companies likely to curb margins



Source: Company data, I-Sec research

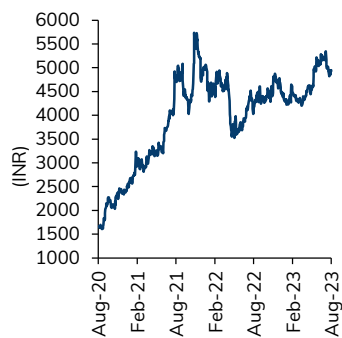
Exhibit 15: Net profit for our diagnostic portfolio



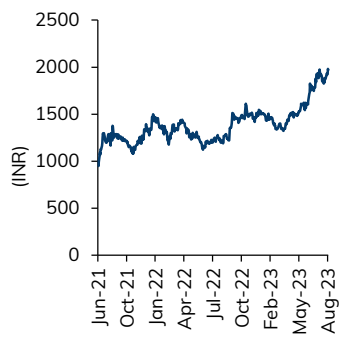
Source: Company data, I-Sec research

## Price charts

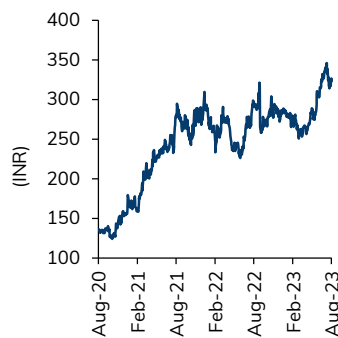
Apollo Hospitals



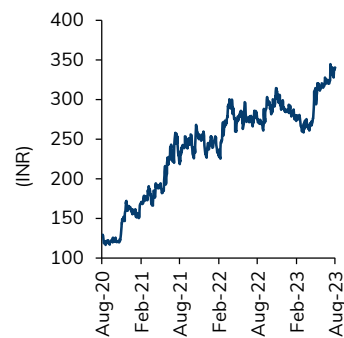
KIMS



Fortis Healthcare



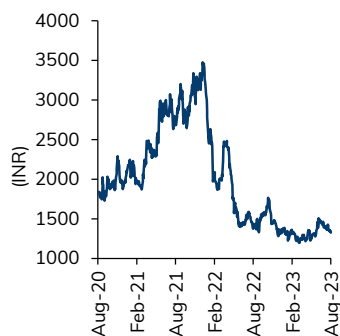
HealthCare Global Enterprises



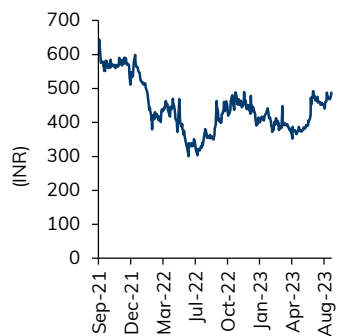
Dr Lal



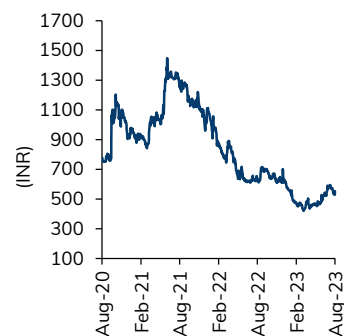
Metropolis



Vijaya



Thyrocare



Source: Bloomberg

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