

14 April 2024

India | Equity Research | Q4FY24 preview

## Healthcare

### Set for strong volume driven growth

Healthcare services companies are likely to report a strong quarter. Hospitals under our coverage are likely to report Q4FY24E revenue/EBITDA/PAT growth at 14%/25%/47% YoY, Better inflow of patient volumes, rise in surgical revenue, M&A and bed expansion plans chalk out a steady growth path for most listed hospitals. Diagnostic companies are expected to be on a strong footing as competitive intensity is normalizing and companies are selectively increasing prices. Backed by volume growth of 9-10%, we expect diagnostic companies to report steady growth of 12%/25%/40% YoY in revenue/EBITDA/PAT in Q4FY24E. **Our top picks in healthcare services space are Apollo Hospitals, Dr. Lal and Thyrocare.**

### Hospitals - preview synopsis

Revenue for our coverage universe is likely to grow 14% YoY (+2% QoQ) to INR 60.1bn in Q4FY24E due to better in-patient volumes. EBITDA margin may surge 130bps YoY (+80bps QoQ) to 15% in a seasonally strong quarter. PAT is likely to grow 47% YoY (12% QoQ) to INR 3.6bn.

### Apollo to grow the fastest among the pack

**Apollo** is likely to register EBITDA growth of 35% YoY driven by its hospital business and a turnaround in its online pharmacy business. **KIMS** may witness a dip of 300bps YoY (+100bps QoQ) in EBITDA margin to ~25.3% (EBITDA growth of 2% YoY) due to the addition of medical staff and restarting of operations at a hospital under Sunshine. **HCG** is likely to report a nominal 10% YoY jump in EBITDA to INR 837mn.

### Diagnostics – preview synopsis

Revenue for our coverage universe is likely to surge ~12% YoY (-5% QoQ) as the pricing intensity is normalizing and companies are taking price hikes on specialized portfolio. Threat from online competitors is reducing as they have reduced discounts offered on their platforms to march towards improvement in profitability. Volume growth however continues to be in single digit due to reduction in sample sourcing from hospitals. EBITDA margins are likely to jump 290bps YoY (175bps QoQ) due to operating leverage and price increases. Q4FY24E EBITDA and PAT for coverage universe are likely to rise 25%/40% YoY, respectively.

### Better pricing, volumes improving dynamics for diagnostics

**i) Dr. Lal** is likely to report 11% YoY surge in revenue to INR 5.4bn in Q4FY24E. It is now expanding across tier-3 towns in North, South and Western regions. On a low base, EBITDA margin may expand 320bps YoY (60bps QoQ) to 26.7%, while absolute EBITDA may grow 26% YoY. PAT is likely to grow 46% YoY (2% QoQ). **ii) Metropolis** may report 10% YoY rise in revenue, its core biz though has grown 15% YoY. EBITDA margin may shoot up by ~50bps YoY to ~25.4% while PAT is expected to 24% YoY. **iii)** Aided by acquisition of **PH Vijaya** is likely to grow its revenue at a faster pace of 27% YoY. EBITDA margin may expand 100bps YoY (220bps QoQ) to ~41.6% while PAT may grow 17% YoY. **iv) Thyrocare** may have a moderate rise of 8% in revenue growth as it is realigning its business strategy. On a low base EBITDA and PAT are likely to grow at a faster pace of 50% and 101%, respectively, in Q4FY24E.

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**Exhibit 1: Key financials – hospitals**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)
Apollo	49,322	48,506	43,022	1.7	14.6	6,585	6,137	4,882	7.3	34.9	2,679	2,453	1,445	9.2	85.4
KIMS	6,550	6,058	5,759	8.1	13.7	1,657	1,471	1,632	12.6	1.5	842	718	933	17.1	(9.8)
HCG	4,808	4,699	4,417	2.3	8.9	837	808	763	3.5	9.6	104	64	84	63.5	24.7
<b>Coverage Universe</b>	<b>60,680</b>	<b>59,263</b>	<b>53,198</b>	<b>2.4</b>	<b>14.1</b>	<b>9,078</b>	<b>8,416</b>	<b>7,277</b>	<b>7.9</b>	<b>24.8</b>	<b>3,625</b>	<b>3,235</b>	<b>2,462</b>	<b>12.1</b>	<b>47.3</b>

Source: Company data, I-Sec research

**Exhibit 2: Key financials – diagnostics**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)
Dr Lal	5,448	5,389	4,910	1.1	11.0	1,455	1,406	1,156	3.5	25.8	827	813	567	1.7	45.8
Metropolis	3,111	2,911	2,825	6.9	10.1	790	648	703	21.9	12.4	414	272	334	52.3	24.0
Vijaya	1,534	1,327	1,210	15.6	26.8	638	523	491	22.0	30.0	322	274	275	17.7	17.2
Thyrocare	1,473	1,347	1,359	9.3	8.4	370	316	247	17.3	50.1	251	153	125	64.2	100.6
<b>Coverage Universe</b>	<b>11,567</b>	<b>10,974</b>	<b>10,304</b>	<b>5.4</b>	<b>12.3</b>	<b>3,254</b>	<b>2,893</b>	<b>2,597</b>	<b>12.5</b>	<b>25.3</b>	<b>1,813</b>	<b>1,511</b>	<b>1,300</b>	<b>20.0</b>	<b>39.5</b>

Source: Company data, I-Sec research

**Exhibit 3: Key financials – medical devices**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY(%)
Polymedicure	3,644	3,396	3,069	7.3	18.8	1,001	902	832	10.9	20.3	662	650	588	1.9	12.6
Tarsons	966	618	821	56.3	17.7	394	229	393	72.1	0.4	195	99	228	96.4	(14.6)

Source: Company data, I-Sec research

**Exhibit 4: Valuation summary**

Company	Target Price (INR)	Rating	EPS (INR)			ROCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Apollo	6,800	ADD	62.7	92.3	122.8	10.3	13.8	15.4	102.1	69.4	52.2	39.7	31.5	25.3
KIMS	2,315	ADD	41.9	50.8	59.9	12.5	13.5	14.1	47.3	39.1	33.1	24.7	20.1	17.4
HCG	390	ADD	2.4	6.1	9.1	5.2	8.6	10.6	160.3	63.5	42.2	18.7	16.9	14.2
Dr Lal	2,660	ADD	43.1	53.7	64.4	17.3	18.7	19.4	55.0	44.1	36.8	30.8	25.2	21.1
Metropolis	1,770	ADD	26.8	38.5	48.0	11.4	15.2	17.5	68.7	47.8	38.4	33.2	25.8	21.5
Vijaya	605	HOLD	12.0	15.7	19.5	16.4	17.9	18.7	57.1	43.6	35.0	31.7	23.9	19.4
Thyrocare	725	BUY	14.1	17.1	21.4	14.1	16.0	18.6	44.2	36.4	29.2	22.4	19.0	15.5
Poly Medicure	1,655	ADD	27.2	34.9	43.7	18.2	20.4	21.9	57.0	44.6	35.6	40.5	31.9	25.4
Tarsons	625	BUY	9.4	15.6	19.7	7.3	10.5	11.8	48.2	28.9	22.9	23.2	14.9	12.3

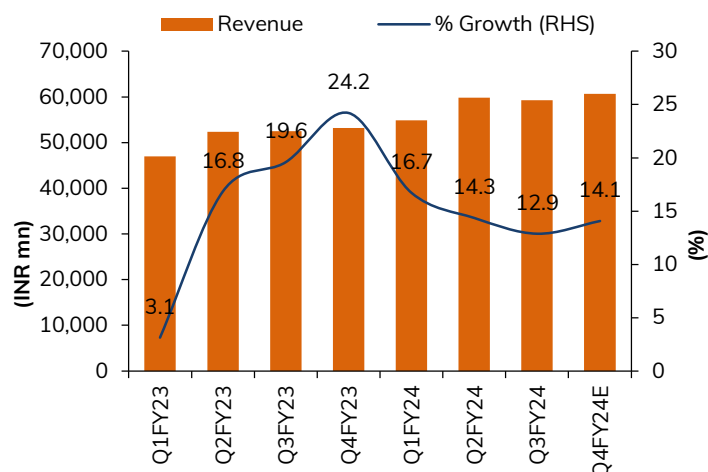
Source: Company data, I-Sec research

### Exhibit 5: Key developments in Q3FY24

Company	Key developments
KIMS	KIMS entered into definitive agreements for taking land on a 99-year lease and purchase of a building for the setting up of a new Hospital at Thane. It would be a multi-specialty hospital with state-of-the-art tertiary and quaternary care facilities having a land area of approximately 2.59 Acres and a total built-up area of 2.72 Lakh sq. ft. The proposed hospital will have a bed capacity of 300 beds and the investment in the project is expected to be ~INR 5bn.
HCG	HCG has acquired remaining 49.5% stake in Hcg Eko Oncology LLP from Eko-diagnostic Pvt Ltd for INR 200mn on March 8, 2024. In FY23 Hcg Eko Oncology LLP reported revenue of INR 400.3mn.
Apollo Hospitals	Management aims to invest INR 30bn for adding 2,000 beds in 3 years. Madhu Sasidhar appointed as president & CEO of Apollo's hospital division in Mar'24.
Thyrocare	The company appointed Mr. Nitin Chugh as Chief Commercial Officer, effective from February 22, 2024.
Dr. Lal	CEO Bharath Uppilliappan has resigned from the company effective 3 March 2024. The board further appointed Shankha Banerjee as CEO effective 21st May 2024.

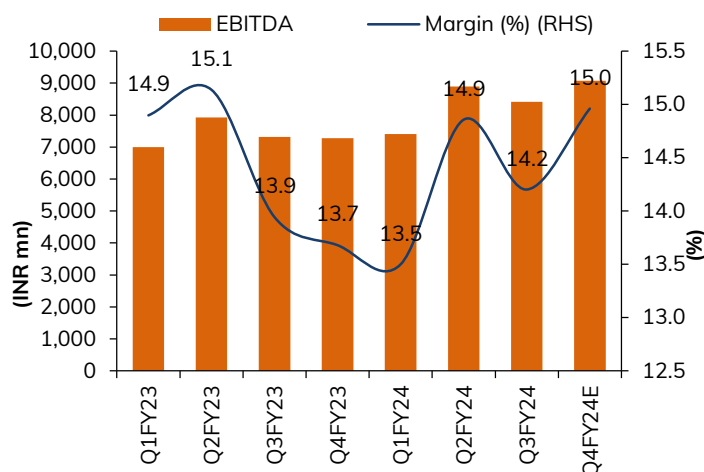
Source: Company data, I-Sec research

### Exhibit 6: Exhibit 6: Surge in ARPOB and occupancies to drive growth on elevated base



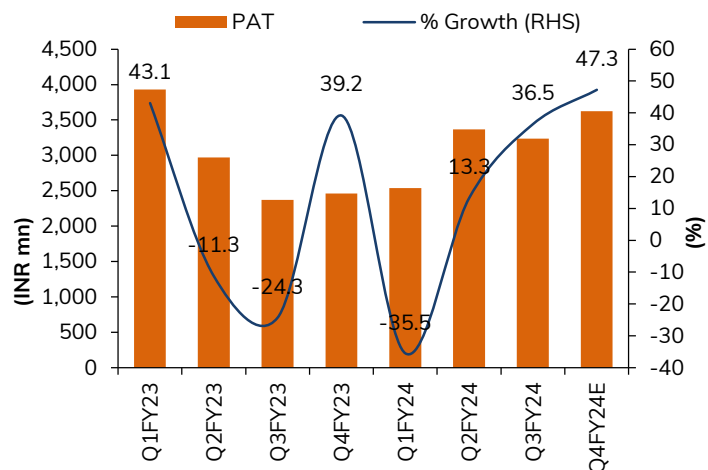
Source: Company data, I-Sec research

### Exhibit 7: Exhibit 7: EBITDA margins of coverage universe is expected to remain elevated



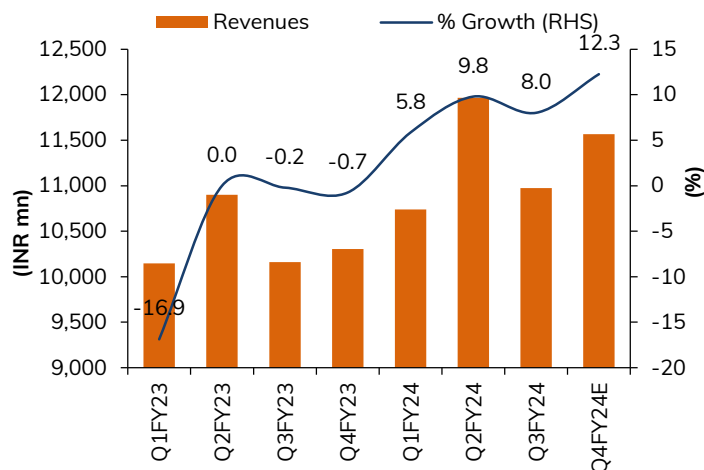
Source: Company data, I-Sec research

### Exhibit 8: Exhibit 8: Net profit for our hospital coverage universe to surge 47% YoY

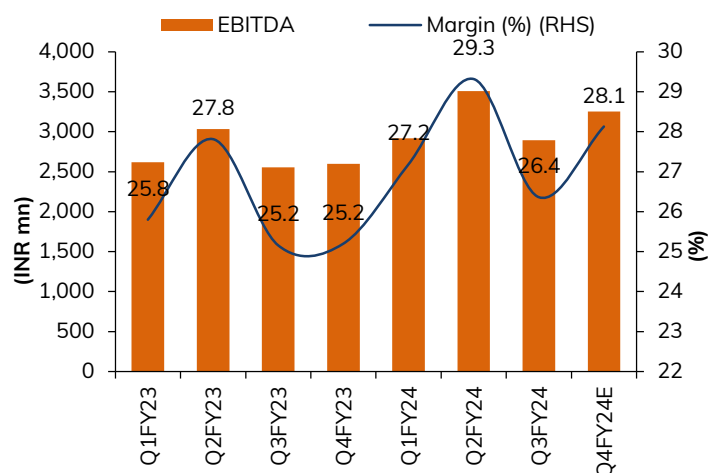


Source: Company data, I-Sec research

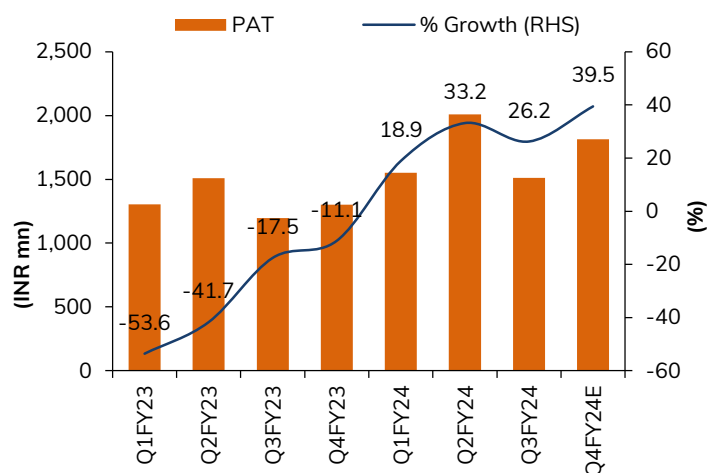
### Exhibit 9: Exhibit 9: Revenue of diagnostic companies set to grow in double digits



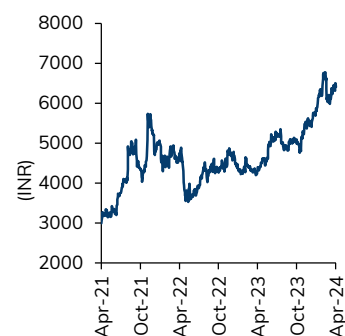
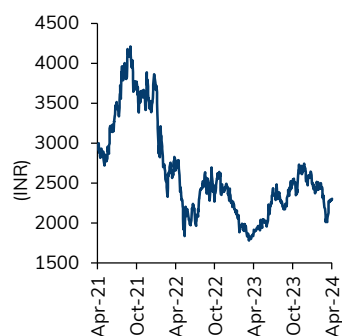
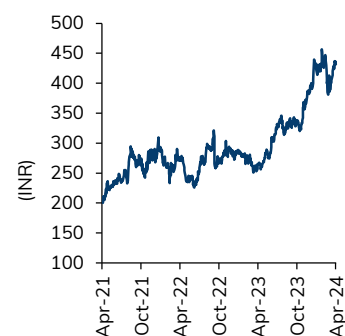
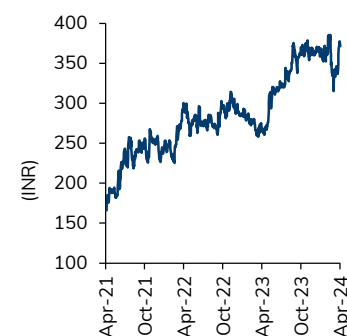
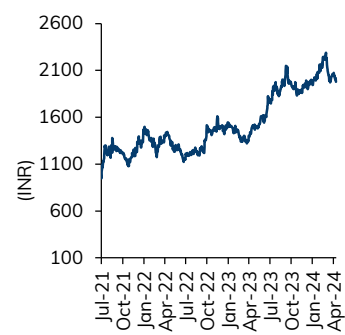
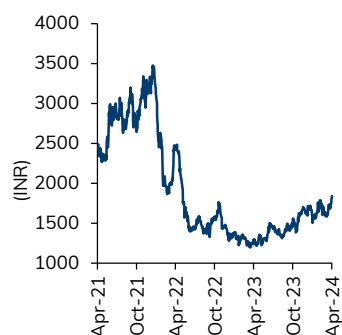
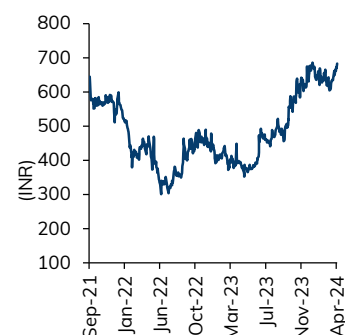
Source: Company data, I-Sec research

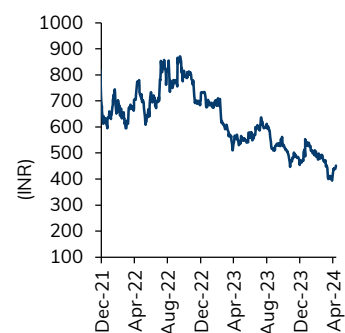
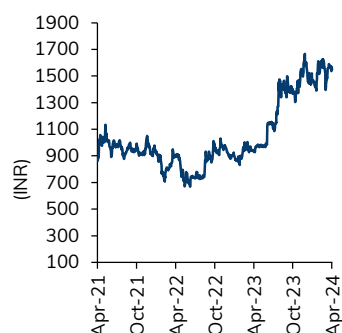
**Exhibit 10: Operating leverage and price hikes to boost margins**


Source: Company data, I-Sec research

**Exhibit 11: Net profit of diagnostic universe to surge 40% YoY**


Source: Company data, I-Sec research

**Price charts**
**Apollo Hospitals**

**Dr. Lal PathLabs**

**Fortis Healthcare**

**HCG**

**KIMS**

**Metropolis**

**Vijaya**

**Thyrocare**

**Tarsons**

**Polymedure**


Source: Bloomberg

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