

13 June 2024

India | Equity research | Sector Update

## Healthcare

### Q4FY24 result review: Hospital capex to surge; diagnostics growth at an inflection

Better contribution from surgical revenue, higher ARPOB and stable occupancy have helped hospitals under our coverage report 3%/13% QoQ jump in revenue/EBITDA, respectively. ARPOB for our coverage companies grew 4-11% YoY. Hospitals under our coverage are likely to increase their bed capacities by ~23% (to add ~3,000 beds in FY25 and ~1,600 beds in FY26) which may be a margin dampener in the near term. Diagnostic chains reported 15%/24% YoY jump in revenue/EBITDA in Q4FY24. Strong operating leverage in the business drove a robust 192bps YoY (75bps QoQ) expansion in margin to 27.1%. Performance of diagnostic chains is likely to improve ahead as the impact of covid-led tests has faded and competitive pressure in the business is easing out. **Our top picks include: KIMS, Dr Lal, Metropolis and Thyrocare.**

#### Hospital business – synopsis

Revenue for our coverage universe grew ~3% QoQ (+13% YoY) in Q4FY24. ARPOB for Apollo/Fortis/KIMS grew 6%/4%/11% while it was flat for HCG. Occupancy for Fortis and HCG rose 300-410bps YoY to 67%/64%, respectively, while that for Apollo was down 100bps due to lower ALOS and for KIMS it stood at ~68% due to new bed additions. Absolute EBITDA of our coverage universe surged 13% QoQ (+27% YoY) to INR 12.7bn. EBITDA margin increased by 139bps QoQ (+185bps YoY).

#### HealthCo profitability improves, Agilus margin squeezes

HealthCo revenue grew 12.6% YoY (-1.1% QoQ) to INR 20.3bn. It has added ~500 offline pharmacies in FY24. Apollo 24/7 recorded GMV of INR 6.8bn, up 35% YoY. AHLL business grew 14.7% YoY (4.7% QoQ), driven by 15.0% YoY growth in non-covid diagnostics revenue in Q4FY24. Agilus' revenue rose 1.5% YoY (+2% QoQ) to INR 3bn. Margin contracted 70bps YoY (+480bps QoQ) to 16.2% due to rebranding cost and provisions. Agilus' parent entity Fortis may raise capital (equity or debt) to honour put option liability and give an exit to PE investors by Oct'24.

#### Focus remains on increasing bed capacity

Healthy bed additions are on the cards for majority of hospitals in our coverage universe – Apollo intends to add 2,860 beds by FY27 for a capex of ~INR 35bn to further cement its position in cities where it has strong presence. KIMS is looking to add ~1,500 beds over the next three years for a total capex of ~INR 12-14bn. Fortis will add ~2,200 beds over the next 4-5 years while HCG will also add 350-400 beds in the next couple of years to boost organic growth. Surge in ARPOB and better surgical mix due to higher footfalls have improved cashflow. Our coverage hospitals are likely to add ~4,600 beds in the next 2 years as the cycle has turned favourable for them.

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## Diagnostics – synopsis

Revenue for our coverage universe grew 15% YoY (+8.1% QoQ) as pricing intensity is normalising. For Dr Lal, patient volume surged 2% YoY to 6.5mn, while test volume was up 9.1% YoY to 19.1mn. For Metropolis, patient volume and test volume for core business grew at 7.3% YoY and 7.8% YoY (3.0mn and 6.1mn), respectively. For Vijaya, test volume rose 24.0% YoY to 3.36mn, while patient volume grew 22.0% YoY to 0.98m, partially aided by consolidation of PH. EBITDA margin surged 192bps YoY (+75bps QoQ). Q4FY24 EBITDA rose ~24% YoY (+11% QoQ). Consequently, profit for our coverage universe grew 32% YoY (~14% QoQ).

## Steady network expansions, high in the pecking order

(I) Dr. Lal: The company has laid out a clear roadmap to deepen its presence in tier-3/4 cities in north and east India through its hub-spoke model while it pursues inorganic opportunities to expand operations in south and west. (II) Metropolis: The company is on a rapid expansion spree. Metropolis is also actively scouting for an inorganic opportunity (M&A), which may help it scale and grow further. Impact of network expansion is in its last leg, it may add 25 labs in FY25 and 6–7 labs in FY26. (III) Vijaya: After PH Diagnostic acquisition in Pune in Q3FY24, the company has indicated that it is actively looking for inorganic growth in other geographies as well. Management aims to incur growth capex of INR 2–2.2bn in the next two years – adding five hubs in Pune and five more in other regions.

### Exhibit 1: Key financials – hospitals

Hospitals Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)
Apollo Hospitals	49,439	48,506	43,022	1.9	14.9	6,405	6,137	4,882	4.4	31.2	2,538	2,453	1,445	3.5	75.6
KIMS	6,338	6,058	5,759	4.6	10.0	1,590	1,471	1,632	8.1	(2.6)	655	718	933	(8.9)	(29.8)
Fortis Healthcare	17,859	16,797	16,427	6.3	8.7	3,810	2,840	2,709	34.2	40.7	1,764	1,290	1,220	36.7	44.6
HealthCare Global Enterprises	4,946	4,699	4,417	5.3	12.0	920	808	763	13.9	20.6	174	64	84	171.7	107.3
<b>Coverage Universe</b>	<b>78,582</b>	<b>76,060</b>	<b>69,625</b>	<b>3.3</b>	<b>12.9</b>	<b>12,725</b>	<b>11,256</b>	<b>9,986</b>	<b>13.1</b>	<b>27.4</b>	<b>5,130</b>	<b>4,525</b>	<b>3,682</b>	<b>13.4</b>	<b>39.3</b>

Source: Company data, I-Sec research

### Exhibit 2: Key financials – diagnostics

Diagnostics Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY(%)
Dr Lal	5,454	5,389	4,910	1.2	11.1	1,447	1,406	1,156	2.9	25.2	845	813	567	3.9	49.0
Metropolis	3,310	2,911	2,825	13.7	17.1	800	648	703	23.3	13.8	364	272	334	34.1	9.1
Vijaya	1,552	1,327	1,210	17.0	28.3	631	523	491	20.7	28.5	335	274	275	22.2	21.7
Thyrocare	1,543	1,347	1,359	14.5	13.5	338	316	247	7.0	36.9	173	153	125	13.7	38.9
<b>Coverage Universe</b>	<b>11,859</b>	<b>10,974</b>	<b>10,304</b>	<b>8.1</b>	<b>15.1</b>	<b>3,216</b>	<b>2,893</b>	<b>2,597</b>	<b>11.1</b>	<b>23.8</b>	<b>1,717</b>	<b>1,511</b>	<b>1,300</b>	<b>13.6</b>	<b>32.0</b>

Source: Company data, I-Sec research

### Exhibit 3: Valuation summary

Company	Mkt. Cap INR bn	Target Price INR	Rating	EPS (Rs)			ROCE (%)			P/E (x)			EV/ EBITDA (x)		
				FY24	FY25e	FY26e	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Apollo	888	6,100	Hold	61.8	88.4	116.9	9.4	11.6	13.6	94.5	66.0	50.0	37.4	29.2	23.7
KIMS	157	2,315	Buy	38.8	45.9	55.3	11.1	11.2	12.1	49.3	41.7	34.6	25.3	20.7	17.0
Fortis	348	500	Add	7.8	9.6	12.4	6.4	7.9	9.1	59.4	48.0	37.4	28.0	22.7	18.5
HCG	53	390	ADD	3.3	5.5	9.0	5.7	7.0	9.2	109.0	64.9	39.8	18.1	16.5	13.7
Dr Lal	229	2,660	Add	42.8	53.9	64.8	17.8	20.1	20.7	59.7	47.5	39.5	33.7	27.5	23.0
Metropolis	100	2,160	ADD	25.4	36.8	49.1	10.7	14.2	17.5	78.3	54.2	40.5	35.9	27.7	22.0
Vijaya	85	700	Hold	11.8	15.5	19.5	16.0	17.7	18.7	66.3	50.2	40.1	36.5	27.7	22.7
Thyrocare	35	750	Buy	13.4	16.7	21.1	13.7	16.4	19.1	48.4	38.7	30.6	24.0	19.8	15.9
Poly Medicure	179	1,860	Add	26.9	35.0	43.8	17.3	18.9	20.0	61.0	46.8	37.5	43.7	33.5	26.4
Tarsons	24	445	ADD	8.0	12.5	13.9	6.2	7.9	8.3	51.8	33.3	29.8	24.6	18.4	15.9

Source: Company data, I-Sec research

**Exhibit 4: Key takeaways from Hospital's commentary in Q4FY24**

Company	Occupancy & ARPOB	Bed addition	Guidance
Apollo	<ul style="list-style-type: none"> <li>Occupancy stood at 65% in Q4FY24 vs 66% in Q3FY24 (64% in Q4FY23)</li> <li>ARPOB improved 5.6% QoQ (+11.8% YoY) to INR 59,523.</li> </ul>	<ul style="list-style-type: none"> <li>By the end of Q4FY25, it plans to commercialise 1,170 beds across four hospitals in Bangalore, Kolkata, Hyderabad and Pune.</li> <li>Occupancy is likely to rise to 68-70% in FY25.</li> <li>Addition of 2,860 bed additions over the next 3-4 years</li> </ul>	<ul style="list-style-type: none"> <li>Healthcare services may grow above 15% in FY25, mainly driven by volumes. Surge in international patients, bed addition and addition of doctors at Centre of Excellences will aid volume growth.</li> <li>Cost optimisation measure to aid 150bps expansion in healthcare services margins in FY25.</li> <li>24/7 platform GMV is likely to grow 50% (Q2FY25 onwards) over INR 27bn GMV in FY24. It will further add 500-550 stores in FY25 which will boost 20-25% YoY growth in offline pharmacy business.</li> <li>Diagnostic business is on track to achieve INR 10bn revenue in the next couple of years. The company is lining up investments to meet this target. Management aims for mid-teen margin in this business in FY25.</li> <li>Share of B2B patients in diagnostics segment is likely to surge to 33% from 25-30% currently.</li> </ul>
Fortis	<ul style="list-style-type: none"> <li>Occupancy stood at 67% in Q4FY24 vs 64% in Q3FY24 (67% in Q4FY23)</li> <li>ARPOB rose 3.8% QoQ to INR 63,442.</li> </ul>	<ul style="list-style-type: none"> <li>In FY25, it will operationalise 300 beds.</li> <li>Focus on brownfield expansion, aiming to add another 1,500 beds by FY28.</li> </ul>	<ul style="list-style-type: none"> <li>Management expects an upward revision in CGHS (4% of hospital revenue) rate in the near term.</li> <li>ARPOB in FY25 is likely to improve by 5-6%, aided by 3% from price increase and 2-3% from case and payor mix.</li> <li>Hospital business revenue will grow between 13-16% in FY25.</li> <li>Occupancy likely to touch 70% on existing beds in Q1FY25.</li> <li>It plans to add ~2,200 beds by FY28 and will incur capex of INR 12-13bn.</li> <li>Hospital margin is likely to increase 200bps to 20-21% in FY25. Guidance factors negative margin for new Manesar facility. In next 2-3 years, management aspires to achieve ~25% margin.</li> <li>Management may pursue inorganic opportunities in existing five clusters of hospital business.</li> <li>Management is working with private equity for revival of Agilus IPO and other options pertaining to put option liability (to be exercised by Oct'24).</li> <li>The company may have to honour the liability and will fund it by raising equity or debt in parent entity. Further clarity to emerge by Aug'24.</li> </ul>
KIMS	<ul style="list-style-type: none"> <li>Occupancy declined 330bps QoQ to 68.9%.</li> </ul>	<ul style="list-style-type: none"> <li>Addition of 500-550 beds in FY25 in Kondapur.</li> <li>It will also add 50-100 beds in existing hospitals in FY25-26.</li> <li>200 bed additions in Secunderabad over the next 3 years.</li> <li>FY26: (Nashik: 300 beds, Thane: 290 beds, Bangalore: 416 beds).</li> </ul>	<ul style="list-style-type: none"> <li>It takes 10-12% price hike on private insurance every 2 years. For GIPSA, it had last taken a price hike 4-5 years ago. A 20-30% price hike in GIPSA is now due.</li> <li>The company does not aim to cross debt/equity of 0.6x.</li> <li>Capex for FY25 will be around INR 6bn.</li> </ul>
HCG	<ul style="list-style-type: none"> <li>Average occupancy inched up 410bps QoQ to 63.9% in Q4FY24 as against 59.8% in Q3FY24 (65.1% in Q4FY23) Overall ARPOB was flat QoQ at INR 42,741 but grew 8% YoY.</li> </ul>	<ul style="list-style-type: none"> <li>On track to add 225 beds across Ahmedabad and Bengaluru over FY25-26 (plans to shift operations from its current 100 bed hospital in Ahmedabad to a bigger 200 bed facility in Q2FY25 and will also add 123 beds in two hospitals in Bengaluru over the next 12-15 months).</li> </ul>	<ul style="list-style-type: none"> <li>Management aims to add 350-400 more beds in existing hospitals which will boost organic growth over the next 3-4 years.</li> </ul>

Source: Company data, I-Sec research

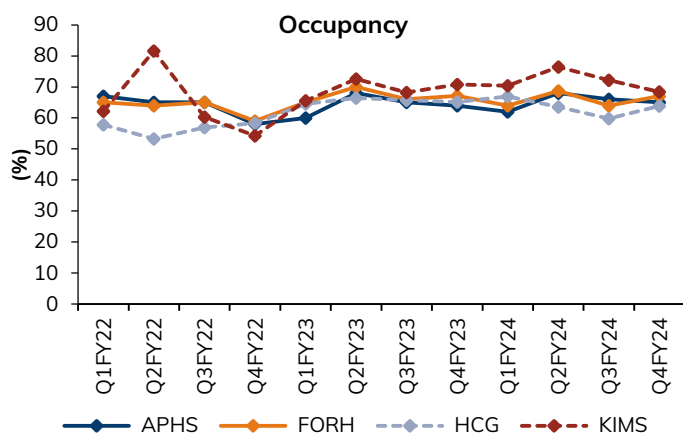
**Exhibit 5: Key takeaways from commentary of diagnostic companies in Q4FY24**

Company	Industry growth outlook	Quarterly highlights	Guidance
Dr Lal	<ul style="list-style-type: none"> <li>Competition in diagnostics industry is normalising with volume growth likely to pick up in coming quarters. Some players have already taken price hike so deep discounting does not prevail in the market. Industry will see better growth in FY25.</li> </ul>	<ul style="list-style-type: none"> <li>Focusing towards improving its market share and it may refrain from taking price hikes in FY25.</li> <li>Introducing new bundle testing packages to improve test volume.</li> </ul>	<ul style="list-style-type: none"> <li>Management expects double digit revenue growth, mainly driven by volumes in FY25 with gross margin between 78-80% while scope to improve EBITDA margin persists.</li> </ul>
Metropolis	<ul style="list-style-type: none"> <li>The diagnostic sector is expected to grow at ~ 10% CAGR over the next five years.</li> <li>Organised segment of the industry is estimated to grow at a faster pace, marked by a transition from unorganised entities to larger organised players.</li> </ul>	<ul style="list-style-type: none"> <li>Q4FY24 results benefitted from a change in accounting year of its overseas subsidiary.</li> <li>The company took ~4% price hike in Jan'24; volume growth (7% in Q4FY24) has remained steady.</li> </ul>	<ul style="list-style-type: none"> <li>Management targets 13–15% revenue growth in FY25, with EBITDA margin between 25.5–26%.</li> <li>Network expansion is in its last leg, it may add 25 labs in FY25 and 6–7 labs in FY26. Beyond which, it will focus on driving operating leverage by shifting focus towards boosting volume growth. Management is actively pursuing an M&amp;A opportunity.</li> </ul>
Vijaya		<ul style="list-style-type: none"> <li>The PH Diagnostics (PH)</li> <li>Acquisition in Dec'23 is integrating well and lifted Vijaya's Q4FY24 revenue growth.</li> </ul>	<ul style="list-style-type: none"> <li>Existing network is expected to grow 13–15% YoY (of which better realisation will aid 1–2% and 12–13% from volumes) with margin likely to be stable at 40%. In the next two years, Vijaya will open 10–11 hubs, of which five will be in Pune, two in eastern India and the rest in existing regions.</li> </ul>

Source: Company data, I-Sec research

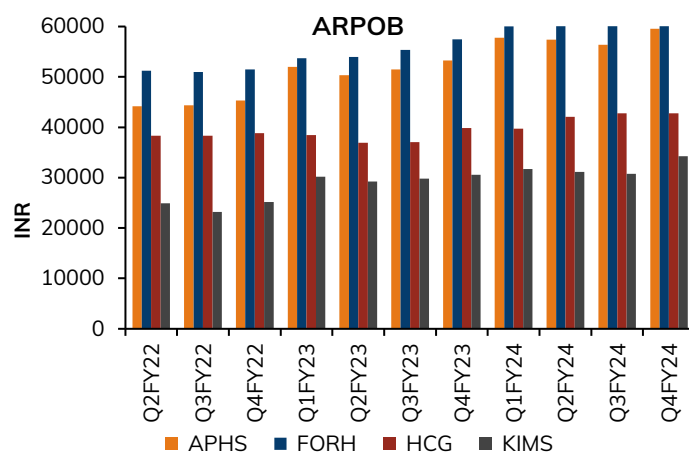
## Hospital – Story in charts

**Exhibit 6: Barring KIMS, bed occupancies surged in Q4FY24**



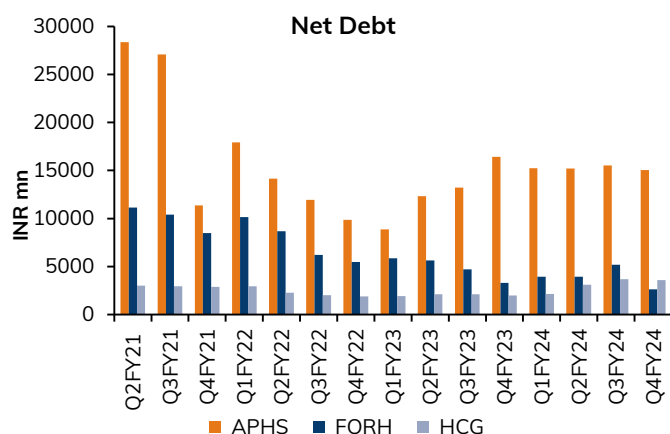
Source: Company data, I-Sec research

**Exhibit 7: ARPOB saw a sequential improvement vs Q3**



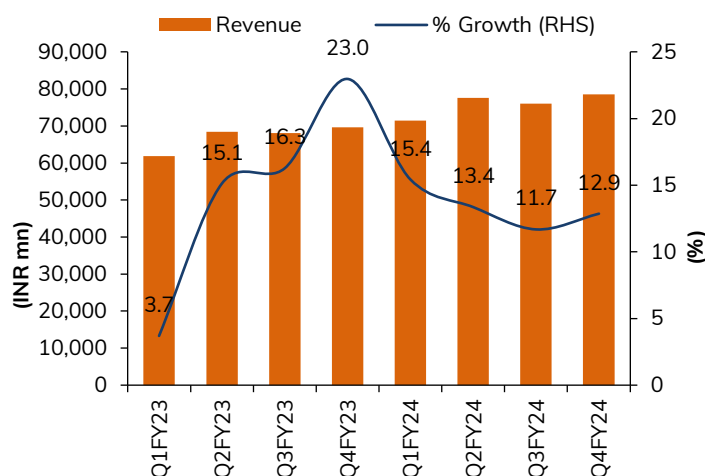
Source: Company data, I-Sec research

**Exhibit 8: Net debt continues to remain at comfortable level**



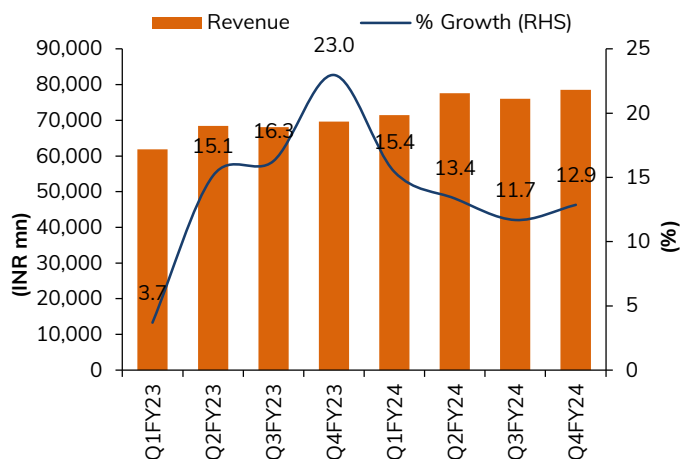
Source: Company data, I-Sec research

**Exhibit 9: Better occupancy and higher ARPOB is boosting revenue growth**



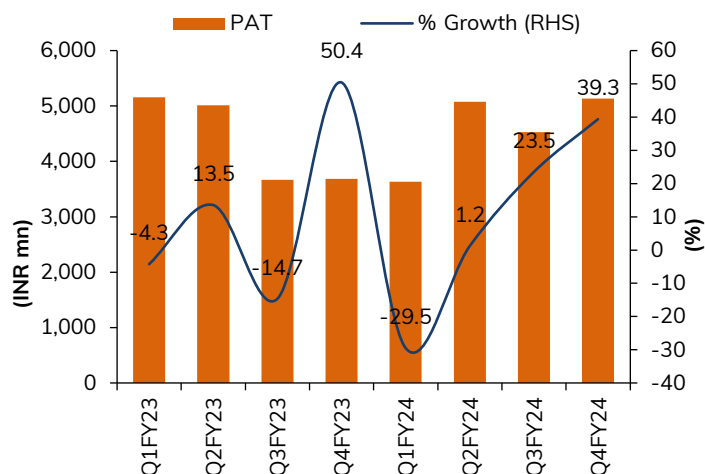
Source: Company data, I-Sec research

**Exhibit 10: Margin of our coverage universe grew by 139bps QoQ**



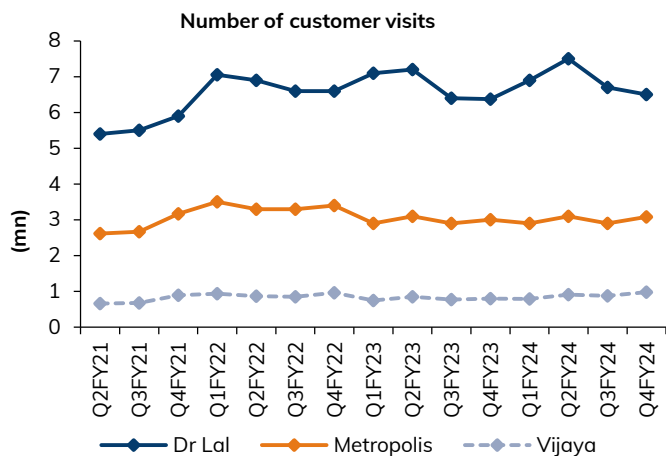
Source: Company data, I-Sec research

**Exhibit 11: Net profit for our hospital coverage universe**

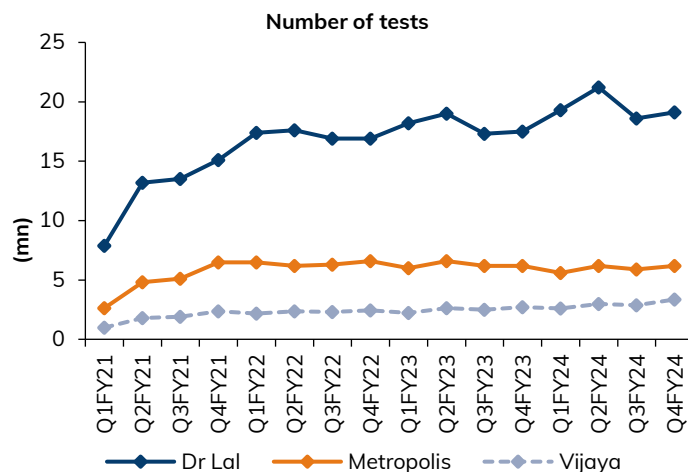


Source: Company data, I-Sec research

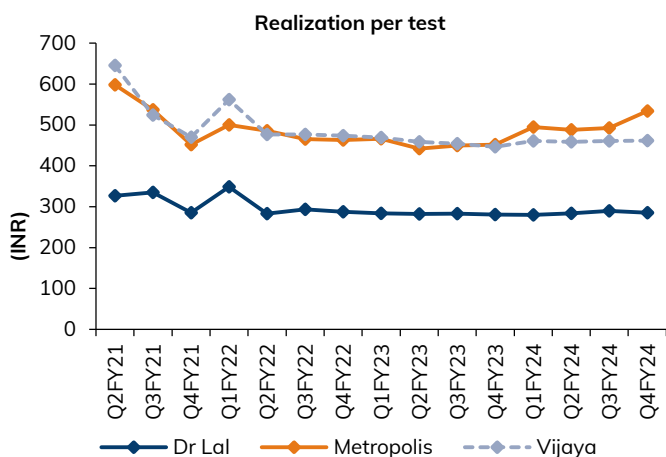
## Diagnostic – Story in charts

**Exhibit 12: Network expansion driving better patient flow**

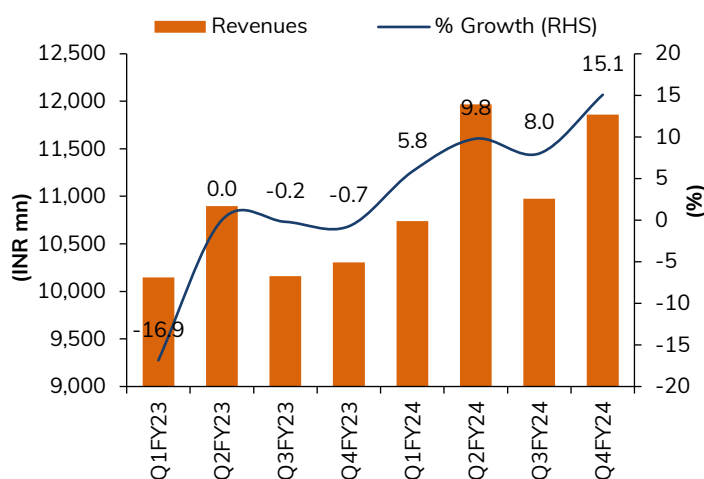
Source: Company data, I-Sec research

**Exhibit 13: Number of tests has surged across the board**

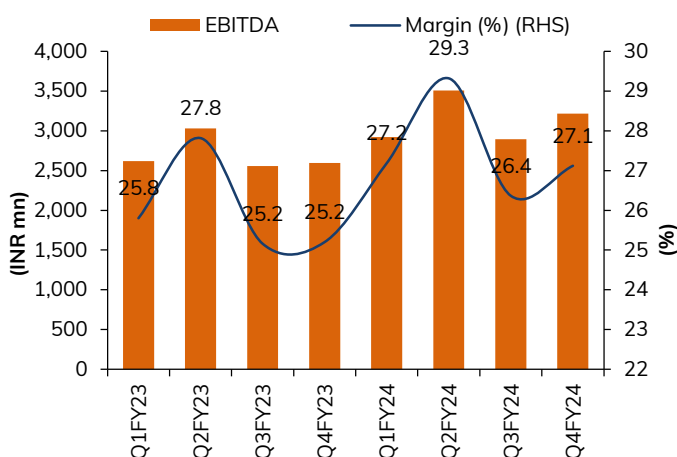
Source: Company data, I-Sec research

**Exhibit 14: Realisation per test has improved for Metropolis**

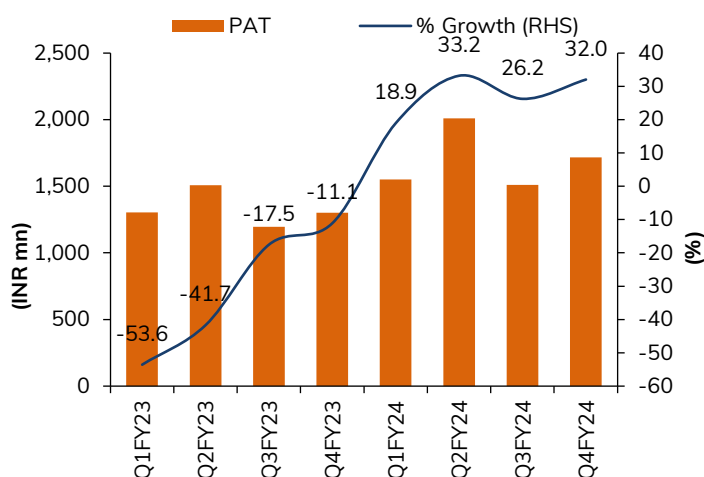
Source: Company data, I-Sec research

**Exhibit 15: Revenue growth driven by uptick in volumes and better realizations**

Source: Company data, I-Sec research

**Exhibit 16: Operating leverage keeps margins elevated**

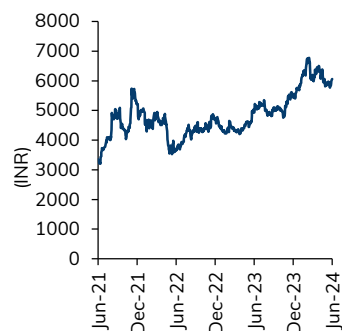
Source: Company data, I-Sec research

**Exhibit 17: Net profit continues to surge at a faster pace**

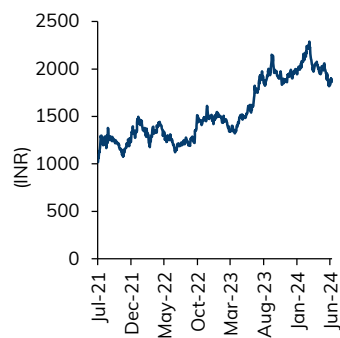
Source: Company data, I-Sec research

## Price charts

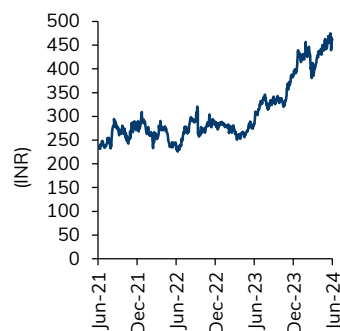
Apollo Hospitals



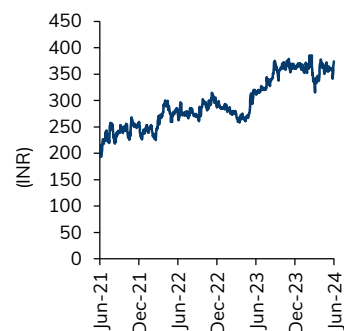
KIMS



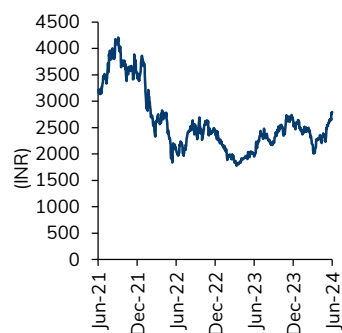
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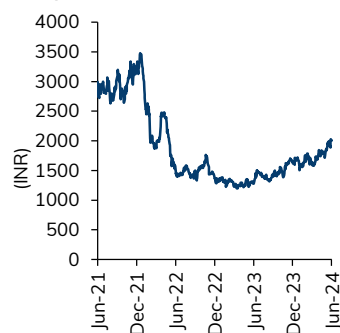
HealthCare Global Enterprises



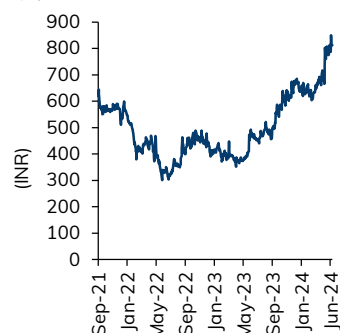
Dr Lal



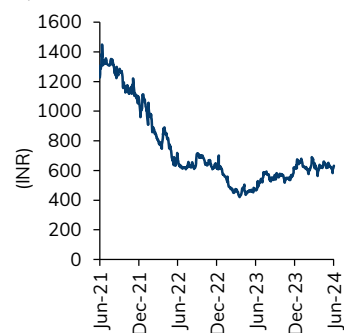
Metropolis



Vijaya



Thyrocare



Source: Bloomberg



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