

13 July 2024

India | Equity Research | Quarterly Preview

## Healthcare

### Q1FY25 preview: FY25 to start on a positive note

Healthcare services companies under our coverage are likely to report strong Q1FY25E earnings. Heatwave in parts of the country in early half of Q1FY25, followed by pick up in monsoons may have driven better volumes for diagnostic tests and occupancies for hospitals in Q1FY25. Hospitals are likely to report revenue/EBITDA/PAT growth of 13%/29%/45% YoY in Q1FY25E. Backed by volume growth of ~10%, we expect diagnostic companies to report steady growth of 14%/17%/20% YoY in revenue/EBITDA/PAT, respectively. **Our top picks in healthcare services space are KIMS, Dr. Lal and Metropolis.**

### Hospitals - preview synopsis

Revenue for our coverage universe is likely to grow 13% YoY (+3% QoQ) to INR 80.8bn in Q1FY25E led by better in-patient volumes. EBITDA margin may surge 202bps YoY (+1bps QoQ) to 16.2% on better surgical and payor mix. PAT is likely to grow 45% YoY (2% QoQ) to INR 5.3bn.

### Fortis' EBITDA to grow the fastest in the pack

Improvement in hospital margins is likely to drive robust 38.2% YoY EBITDA growth for **Fortis'**. **Apollo** is likely to register EBITDA growth of 32.4% YoY driven by hospital business and improvement in profitability of HealthCo. **KIMS'** margin may be under pressure due to the addition of Sunshine Hospital; we expect a decline of 72bps YoY (+12bps QoQ) in EBITDA margin to ~25.2% (EBITDA growth of 10% YoY). **HCG** is likely to report 18% YoY jump in EBITDA to INR 874mn due to better traction across its network.

### Diagnostics – preview synopsis

Diagnostics chains are poised for a strong Q1FY25 backed by better volumes and improvement in realisations. Revenue for our coverage universe is likely to surge ~14% YoY (+3% QoQ); EBITDA margin may increase 62bps YoY (69bps QoQ) due to operating leverage and price increases. Q1FY25E EBITDA and PAT for coverage universe may rise 17%/20% YoY, respectively.

### Better pricing, volumes improving dynamics for diagnostics

**i) Dr. Lal** is likely to report 13.3% YoY surge in revenue to INR 6.1bn in Q1FY25E. The company is trying to deepen its presence in North and East India by opening more labs and spokes in tier 3-4 cities. EBITDA margin may increase 38bps YoY (87bps QoQ) to 27.4%, while absolute EBITDA may grow 15% YoY. PAT is likely to grow 24% YoY (21% QoQ). **ii) Metropolis** may report 13% YoY rise in revenue, driven by test/patient volume growth of 9.5%/7%, respectively. EBITDA margin may surge ~98bps YoY to ~23.7% while PAT is will grow at 16% YoY. **iii) Vijaya** is likely to grow its revenue at a pace of 19% YoY, supported by the acquisition of PH. EBITDA margin may expand 45bps YoY (-46bps QoQ) to ~40.2% while PAT may grow 10% YoY. **iv) Thyrocare's revenue** may rise 15% YoY led by revision of incentives for franchisee partners. EBITDA and PAT are likely to grow at a faster pace of 17% and 25%, respectively, in Q1FY25E.

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**Exhibit 1: Key financials – hospitals**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)
Apollo	50,658	49,439	44,178	2.5	14.7	6,738	6,405	5,090	5.2	32.4	2,485	2,538	1,666	(2.1)	49.2
KIMS	6,858	6,338	6,060	8.2	13.2	1,728	1,590	1,571	8.7	10.0	780	655	808	19.2	(3.4)
Fortis	18,174	17,859	16,574	1.8	9.7	3,762	3,810	2,725	(1.3)	38.1	1,830	1,764	1,107	3.8	65.3
HCG	5,171	4,946	4,607	4.5	12.2	874	920	743	(5.0)	17.6	158	174	54	(9.2)	194.3
<b>Coverage Universe</b>	<b>80,861</b>	<b>78,582</b>	<b>71,419</b>	<b>2.9</b>	<b>13.2</b>	<b>13,102</b>	<b>12,725</b>	<b>10,128</b>	<b>3.0</b>	<b>29.4</b>	<b>5,253</b>	<b>5,130</b>	<b>3,635</b>	<b>2.4</b>	<b>44.5</b>

Source: Company data, I-Sec research

**Exhibit 2: Key financials – diagnostics**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)
Dr Lal	6,128	5,454	5,410	12.4	13.3	1,679	1,447	1,462	16.0	14.9	1,023	845	826	21.1	23.9
Metropolis	3,132	3,310	2,771	(5.4)	13.0	742	800	629	(7.2)	17.9	334	364	288	(8.2)	16.0
Vijaya	1,442	1,552	1,210	(7.1)	19.1	580	631	481	(8.1)	20.5	289	335	262	(13.7)	10.1
Thyrocare	1,553	1,543	1,349	0.7	15.1	407	338	347	20.3	17.2	217	173	174	25.3	24.7
<b>Coverage Universe</b>	<b>12,255</b>	<b>11,859</b>	<b>10,740</b>	<b>3.3</b>	<b>14.1</b>	<b>3,408</b>	<b>3,216</b>	<b>2,920</b>	<b>6.0</b>	<b>16.7</b>	<b>1,863</b>	<b>1,717</b>	<b>1,550</b>	<b>8.5</b>	<b>20.2</b>

Source: Company data, I-Sec research

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

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY(%)
Polymedicure	3,937	3,781	3,208	4.1	22.7	1,055	966	872	9.3	21.1	760	684	627	11.2	21.3
Tarsons	845	1,907	626	(55.7)	35.0	267	339	241	(21.4)	10.7	102	103	96	(1.3)	6.1

Source: Company data, I-Sec research

**Exhibit 4: Valuation summary**

Company	Target Price (INR)	Rating	EPS (INR)			ROCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Apollo	6,100	HOLD	61.8	88.4	116.9	9.4	11.6	13.6	102.8	71.8	54.3	40.5	31.6	25.8
KIMS	2,315	BUY	38.8	45.9	55.3	11.1	11.2	12.1	55.3	46.7	38.7	28.2	23.0	18.9
Fortis	500	ADD	7.8	9.6	12.4	6.4	7.9	9.1	61.8	49.8	38.8	29.0	23.6	19.2
HCG	410	ADD	3.3	5.3	8.8	5.7	6.9	8.7	109.8	21.7	41.0	18.2	16.2	12.6
Dr Lal	2,660	ADD	42.8	53.9	64.8	17.8	20.1	20.7	69.1	54.9	45.7	39.3	32.1	26.9
Metropolis	2,160	ADD	25.4	36.8	49.1	10.7	14.2	17.5	81.0	56.0	41.9	37.2	28.7	22.8
Vijaya	700	HOLD	11.8	15.5	19.5	16.0	17.7	18.7	66.7	49.7	39.7	36.7	27.4	22.5
Thyrocare	750	BUY	13.3	16.7	21.1	13.7	16.4	19.1	48.0	38.4	30.3	23.7	19.6	15.7
Poly Medicure	1,860	ADD	26.9	35.0	43.8	17.3	18.9	20.0	79.0	46.8	37.5	56.6	33.5	26.4
Tarsons	445	ADD	8.0	12.5	13.9	6.2	7.9	8.3	62.5	40.2	36.0	29.2	21.8	18.9

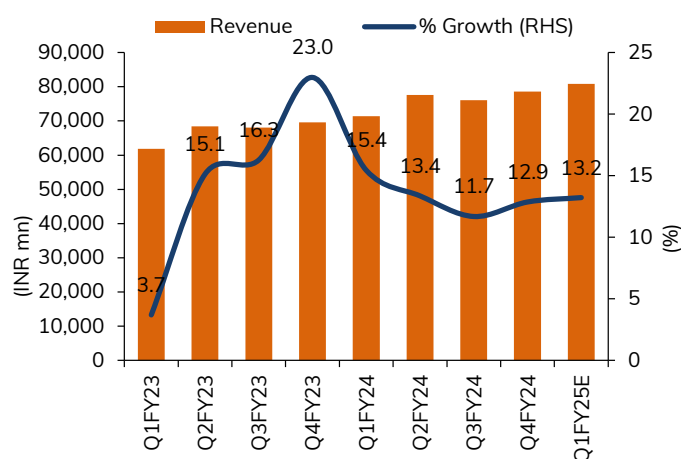
Source: Company data, I-Sec research

## Exhibit 5: Key developments in Q1FY25

Company	Key Highlights
Apollo Hospitals	Mrs. Kavitha Dutt has been appointed as an Independent Director on the Board of Apollo Healthco Limited after cessation of Mr. Vinayak Chatterjee In a two-step deal, which includes merger and stake investment, AHL, the omni-channel pharmacy arm of AHIL, has announced plans to raise Rs 2,475 crore in equity capital from PE firm Advent International for a 12.1 per cent stake. The deal also takes into account merger of promoters-owned Keimed Private Limited, India's leading wholesale pharmaceutical distributor, over the next two years.
KIMS	KIMS Hospital Bengaluru Private Ltd, a subsidiary, has signed 25-year lease to open a 350-bed superspecialty hospital at the Peoples Education Society (PES) campus in Bengaluru's Electronic City. Company announced on June 28, 2024 that it will split one of its equity share of face value INR 10, into five equity shares with a face value of INR 2 each.
Fortis	Dr. Ritu Garg- Chief Growth & Innovation Officer, Mr. Bidesh Chandra Paul- Group Head Supply Chain Management have been designated as Senior Management Personnel. Further Mr. Rajeev Kumar Dua (erstwhile Head Business Development & Supply Chain Management) has been entrusted with a new role and is now designated as Vice President - M&A Designated Dr. Prem Kumar Nair (a Non- Executive Director) as the Vice-Chairman of the Board of the Company. Recommended re-appointment of Dr. Ashutosh Raghuvanshi as Managing Director (designated as Managing Director & Chief Executive Officer) for a further period of two years effective from March 19, 2025, not liable to retire by rotation
HCG	The company acquired 51 per cent stake in 196-bedded Vizag Hospital with remaining 49 per cent equity to be acquired later in two tranches.
Vijaya Diagnostics	Vijaya acquired 29.16% stake in the loss-making listed diagnostics firm Medinova Diagnostic Services and announced open offer to buy 26.14% from the shareholders of the latter.
Metropolis	NCLT Chennai bench approved the dissolution of Dr. Ganesan's Hitech Diagnostic Centre Private Limited (a wholly owned subsidiary of the Company)
Dr Lal	Mr. Bharath U, Chief Executive Officer (Key Managerial Personnel) of the Company has resigned and requested to relieve him from the services of the Company, on or before May 20, 2024.
Polymedure	The Board has approved raising of funds to the tune of amount not exceeding INR 10bn by way Qualified Institutional Placement (QIP)

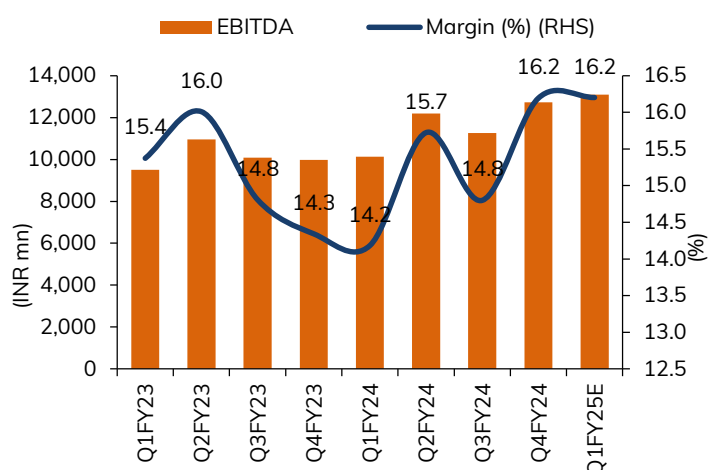
Source: I-Sec research, Company data

## Exhibit 6: Better in-patient volumes to drive growth

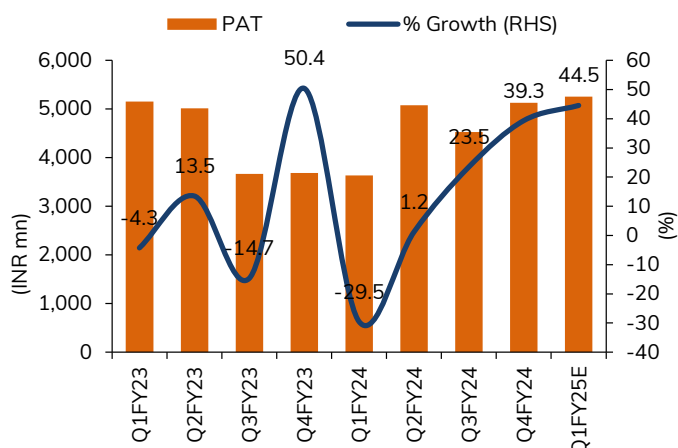


Source: Company data, I-Sec research

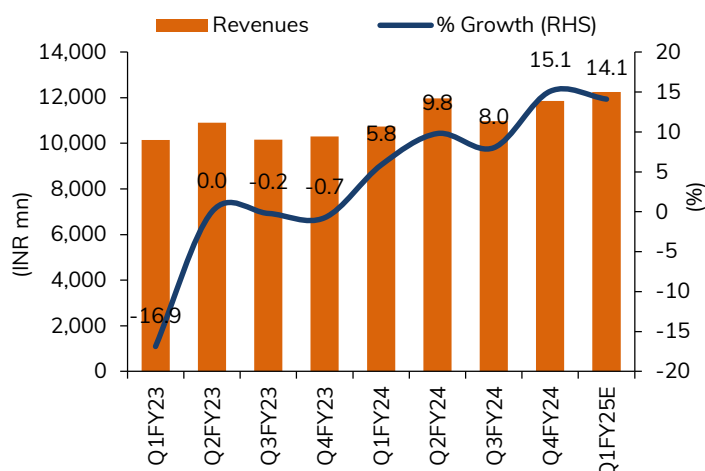
## Exhibit 7: EBITDA margins of coverage universe is likely to remain stable



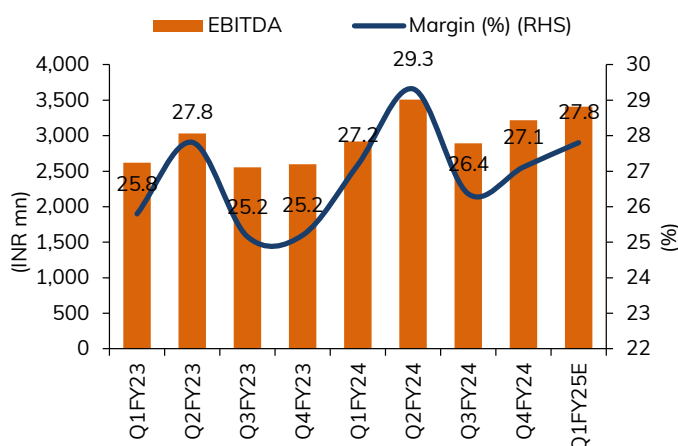
Source: Company data, I-Sec research

**Exhibit 8: Net profit for our hospital coverage universe to surge 45% YoY**


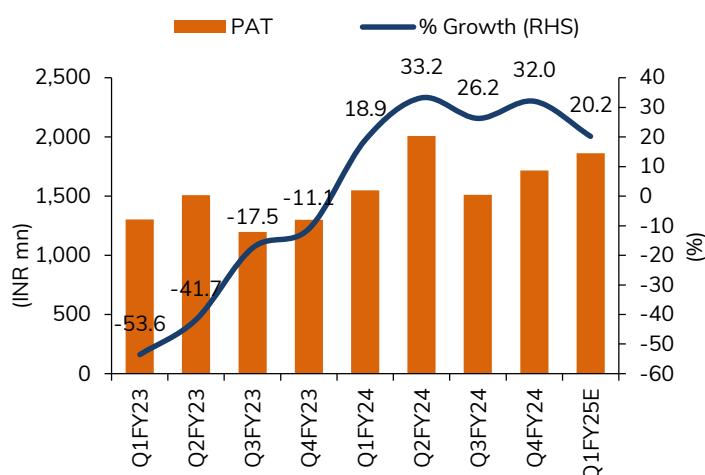
Source: Company data, I-Sec research

**Exhibit 9: Revenue of diagnostic companies continues to grow in double digits**


Source: Company data, I-Sec research

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


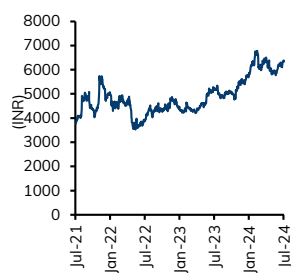
Source: Company data, I-Sec research

**Exhibit 11: Net profit of diagnostic universe to grow 20% YoY**


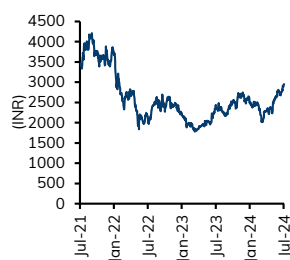
Source: Company data, I-Sec research

## Price charts

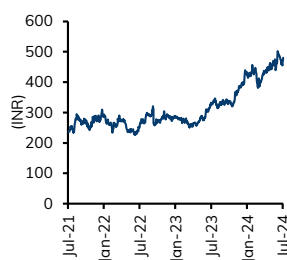
**Apollo Hospitals**



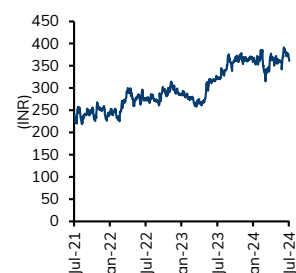
**Dr. Lal PathLabs**



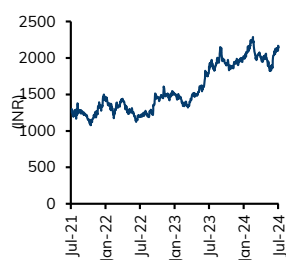
**Fortis Healthcare**



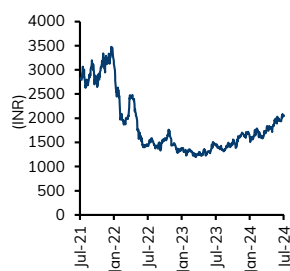
**HCG**



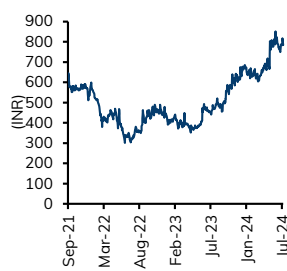
**KIMS**



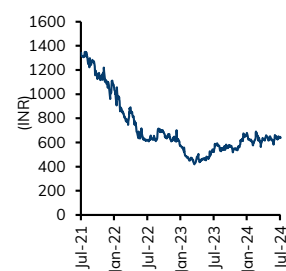
**Metropolis**



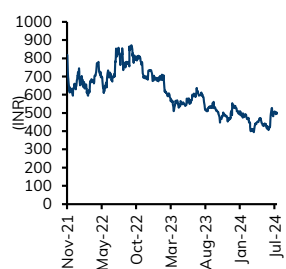
**Vijaya**



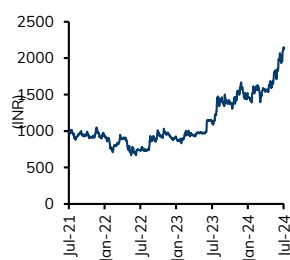
**Thyrocare**



**Tarsons**



**Polymedicure**



Source: Bloomberg

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