PRESS RELEASE

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Private hospital players expected to add over 30,000 beds in the next four to five years at an investment of ~Rs. 32,500 crore: ICRA

- ***Indian hospital industry's 3Cs – Consolidation, Capacity Expansion and Cost Optimisation***
- ***Operating profit margin (OPM) for ICRA's sample set[1] companies to remain healthy at over 22% in FY2024 supported by operating leverage and continued benefits from cost optimisation measures***

Rating agency ICRA maintains its Stable outlook on the Indian hospital industry, supported by expectations of strong operating metrics translating to healthy revenue growth and robust margins for ICRA's sample set companies.

ICRA expects the aggregate occupancy for its sample set companies to remain healthy at 64-65% in FY2024 (65.1% in FY2023) backed by sustained healthy demand for healthcare services, continued market share gains for organised players and revival in medical tourism post the pandemic. The average revenue per occupied bed (ARPOB) is expected to witness a healthy growth of 8-10% in FY2024 (following an expansion of 10% in FY2023). This will be aided by improving specialty and case mix, better payor mix (with higher contribution of cash and insurance patients) and annual price revisions by companies to offset cost inflation is supporting the ARPOB growth for the sample set. Overall, ICRA estimates revenue growth at 12-14% in FY2024."

Commenting on the profitability outlook for ICRA's sample set companies, **Ms. Mythri Macherla, Assistant Vice President & Sector Head, ICRA** said: "*To overcome the impact of inflation, hospitals have employed cost optimisation measures such as consolidation of suppliers and centralised procurement to enable rationalisation of consumables cost and capex, improvement in efficiencies through use of digital tools, energy consumption from renewable energy resources, and in-house management of onsite pharmacy operations, against outsourcing to third parties. Improving operating leverage coupled with aforementioned cost optimisation and digitisation measures are expected to support a healthy OPM of ~22-23% for these companies in FY2024*."

Led by continued demand for elective surgeries, higher preference for large hospital players aided by increasing insurance penetration, the rising incidence of non-communicable lifestyle diseases, and higher medical tourism volumes, industry players have been witnessing incremental demand.

"Given the strong operating metrics and demand outlook, industry players have announced sizeable capex plans for the next four-five years. Cumulatively, ICRA's sample set companies are expected to add ~3,900 beds over FY2024 and FY2025, translating to 15% of their existing bed capacity. Exhibiting similar trends, the broader industry has also announced significant bed additions. Overall, most private players (including ICRA's sample set companies) are expected to add over 30,000 beds in the next four to five years at an investment of ~Rs. 32,500 crore. Metros are expected to remain focal points for this capacity expansion. Cities such as Delhi NCR, Mumbai and Bangalore are expected to witness sizeable bed additions in the next few years." **Ms. Macherla** adds.

In addition to setting up new greenfield and brownfield facilities to enhance their capacities, hospital chains are also looking at inorganic opportunities, which has led to increasing consolidation in the industry in the last two years. Mergers

[1] ICRA's sample set includes hospital business of nine listed companies, Apollo Hospitals Enterprise Limited, Aster DM Healthcare Limited (India business only), Fortis Healthcare Limited, Healthcare Global Enterprises Limited, Krishna Institute of Medical Sciences Limited, Max Healthcare Institute Limited, Narayana Hrudayalaya Limited, Rainbow Children's Medicare Limited and Shalby Limited.

and acquisitions aid hospital chains in diversifying their geographic reach and/or speciality mix in addition to increasing their scale of operations.

Despite ongoing capex, which would be partly debt-funded, the net debt/OPBDITA for ICRA's sample set companies is expected to remain strong, ranging between 0.3-0.4x as of March 31, 2024. However, with significant bed additions planned for FY2025, net debt/OPBDITA is expected to moderate to 0.6-0.7x as on March 31, 2025. That said, debt metrics are expected to remain healthier than the long-term average, given the current low net debt levels and expected strong accruals. The long gestation period and capital-intensive nature of operations had constrained the RoCE of ICRA's sample set companies in the past. However, improvement in the performance of mature hospitals across players and turnaround of many of the new centres led to a sharp improvement in return on capital employed (ROCE) during FY2022 and FY2023. ICRA expects the ROCE to remain between 14-17% in FY2024 and FY2025, supported by incremental absolute OPBDITA despite new capacities coming onboard.

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