INDIAN HOSPITAL INDUSTRY

ICRA's channel check indicates mid-teens revenue growth and stable margins for the industry in FY2024

JUNE 2023

Highlights

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Market share gains for organised players as increasing insurance penetration, continued healthy demand for elective procedures and recovery in international patient footfalls support strong occupancy levels.

Most of the hospital companies are on expansion mode, resulting in phased supply additions over the near term, with FY2024 expected to witness addition of ~6% of their existing capacities.

- Despite supply additions expected across most respondent hospital companies, 67% of them hope to maintain higher than 60% occupancy in FY2024, driven by continued healthy demand for healthcare services.
- Recovery in medical tourism and better specialty and payor mix supported healthy average revenue per occupied bed (ARPOB) growth of over 10% for most of the respondent hospitals in FY2023. Given the high base, 80% of respondents expect ARPOB growth to remain lower than 10% in FY2024.
- Over 70% of the respondent hospital companies expect to record double-digit revenue growth in FY2024, aided by sustained healthy occupancy and moderate growth in ARPOB.
- During FY2024, operating profit margins (OPM) are likely to remain rangebound for 67% of the respondents, with improved scale of operations and continued benefit from cost optimisation measures supporting the same.
- Over 50% of the respondent hospital companies indicated likely investment of more than 10% of their revenues towards capex in FY2024.

Occupancy to remain strong in FY2024

Exhibit: Occupancy in FY2023

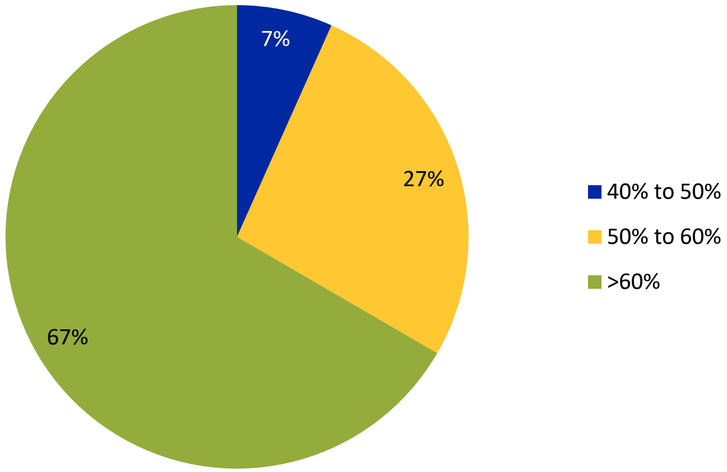
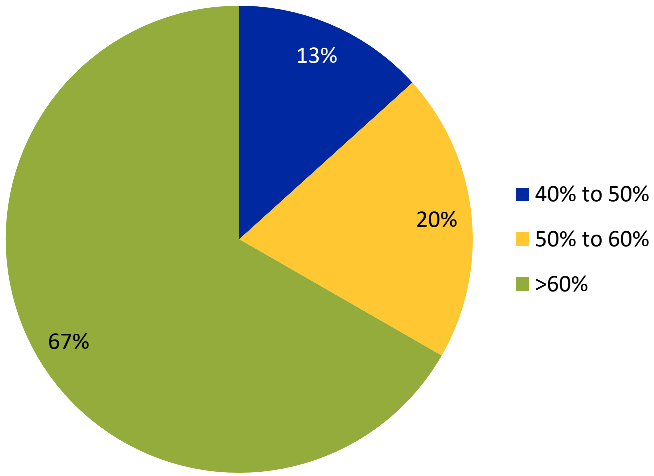


Exhibit: Expected occupancy in FY2024

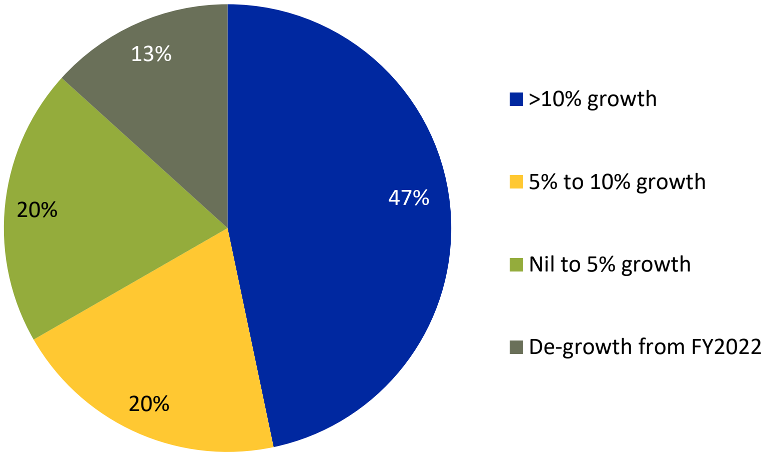


Source: ICRA Research; Survey responses from 15 hospital entities including single-specialty, multi-specialty, single and multi-location hospitals and trust hospital

- More than 65% of our respondent hospital companies reported occupancy levels of over 60% in FY2023 backed by improved surgery volumes, elective procedures and recovery in international patient footfalls.
- Further, a similar number of the respondents expect occupancy to remain higher than 60% in FY2024 as well, supported by continued healthy demand for elective procedures. This is despite the expected supply additions, supported by increase in absolute number of occupied beds.

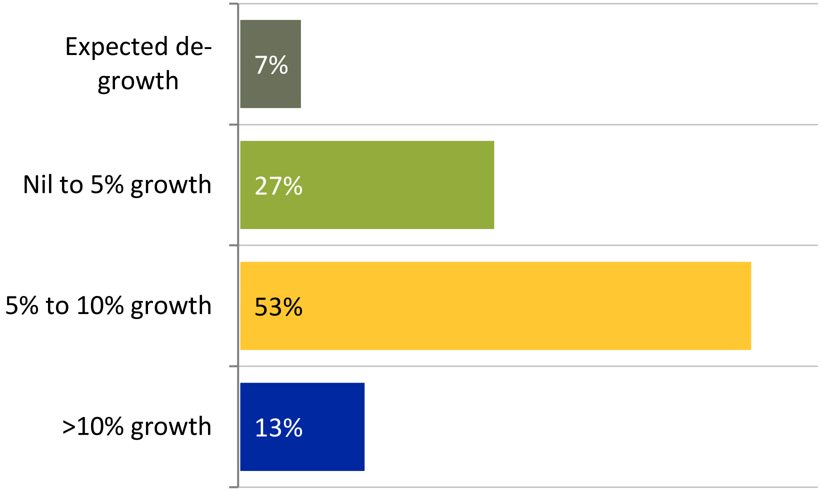
ARPOB growth to moderate in FY2024

Exhibit: ARPOB movement in FY2023 over FY2022



Source: ICRA Research; Survey responses from 15 hospital entities

Exhibit: Expected ARPOB movement in FY2024 over FY2023



- Supported by better specialty mix, payor mix optimisation with focus towards cash and insurance patients and revival in medical tourism, 47% of the respondents reported over 10% YoY growth in ARPOB during FY2023. Due to the absence of revenues from Covid-related treatments and commencement of new hospitals wherein ARPOB was lower than mature hospitals, two of the respondent hospitals reported contraction in ARPOB in FY2023.
- Given the high base of FY2023, 80% of the respondents have indicated ARPOB growth is likely to moderate to less than 10% in FY2024.

Growth drivers remain favourable

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Exhibit: Factors supporting occupancy

Continued healthy demand for elective surgeries

Recovery in medical tourism

Market share gains for organised players given increasing insurance penetration

Exhibit: Factors supporting ARPOB

Healthy uptick in surgery volumes; better specialty mix

Revival in international patient footfalls

Price increases to mitigate impact of inflation

Optimisation of payor mix

Source: ICRA Research

Hospitals to witness healthy revenue growth in FY2024

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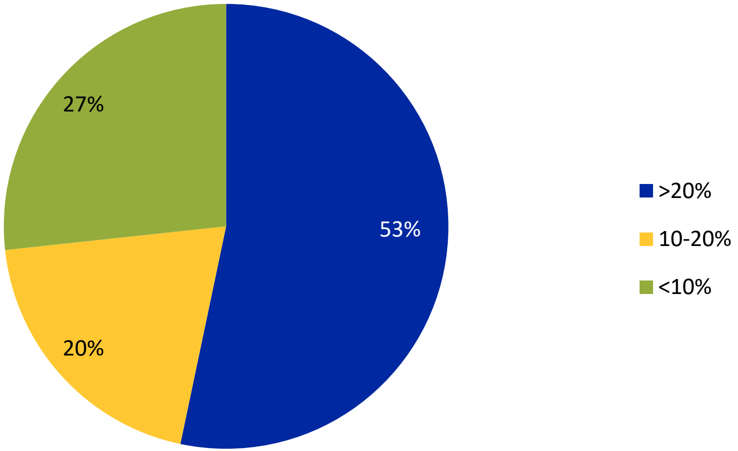
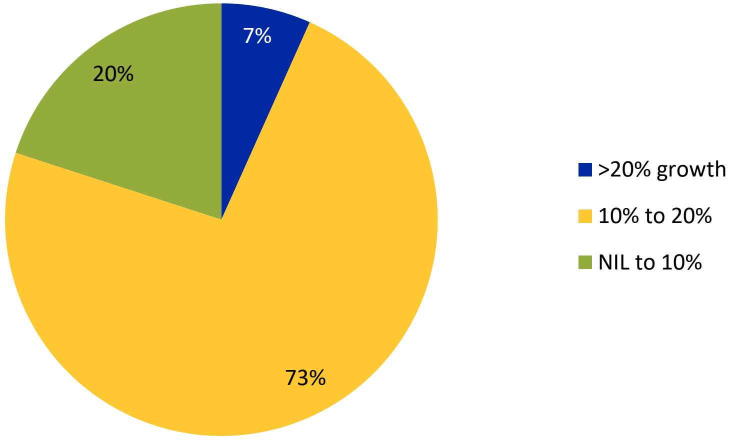
Exhibit: Revenue growth in FY2023



Source: ICRA Research; Survey responses from 15 hospital entities

Exhibit: Expected revenue growth in FY2024



- Revenues of 73% of respondent hospitals witnessed growth of more than 10% in FY2023, supported by strong occupancy and higher ARPOB levels. That said, 27% of the respondents reported revenue growth of less than 10%, given the high base, which included revenues from Covid treatment and vaccination drives in FY2022.
- More than 70% respondents expect revenue growth to range between 10-20% in FY2024 supported by sustained healthy occupancy levels and moderate improvement in ARPOB.

OPM to remain rangebound for most hospitals in FY2024

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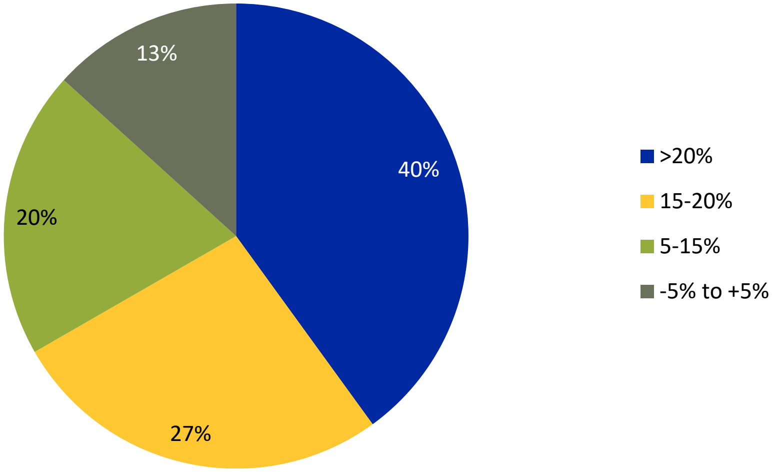
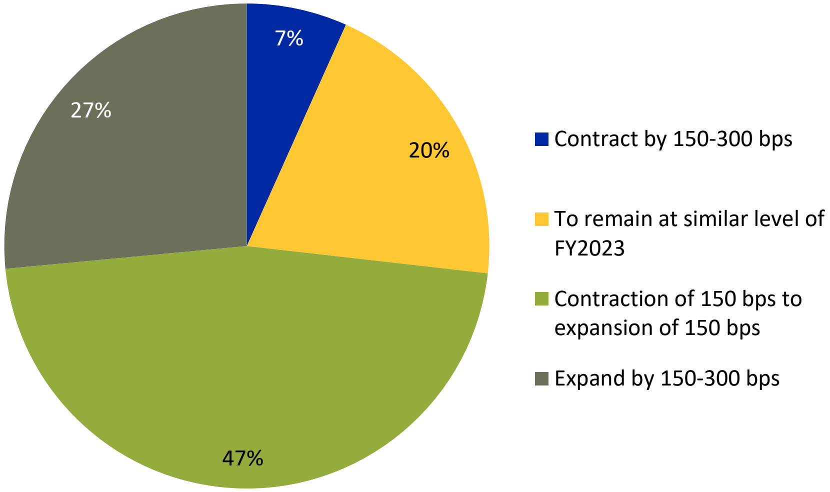
Exhibit: OPM in FY2023



Source: ICRA Research; Survey responses from 15 hospital entities

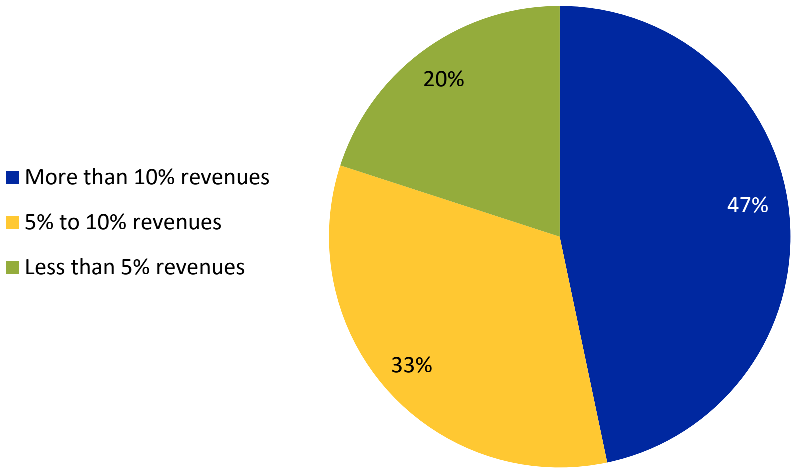
Exhibit: Expected OPM movement in FY2024 over FY2023



- Favourable specialty mix supporting ARPOB and continued benefit from cost optimisation measures aided 67% of the respondent hospital companies to report over 15% OPM in FY2023. Around 33% of the respondents reported less than 15% OPM primarily due to moderate scale of operations.
- While 27% of the respondents expect OPM to expand by 150-300 bps in FY2024, the 67% who witnessed OPM of over 15% in FY2023, expect it to remain rangebound.

Hospitals on expansion mode in the current fiscal

Exhibit: Capex spend as % of expected FY2024 revenues



Source: ICRA Research; Survey responses from 15 hospital entities

Translating to over 2,000 beds across 15 hospital companies i.e., ~6% of their existing capacities

- Several players have been undertaking expansion plans spread over the next few years.
- For FY2024, 47% of our respondents have indicated that they will spend over 10% of revenues towards capex, including refurbishment of existing facilities. Further, 33% of the respondents expect to incur capex of 5-10% of their revenues.
- This largely translates to over 2,000 bed additions across 15 hospital companies i.e., 6% of the existing capacities of these companies.

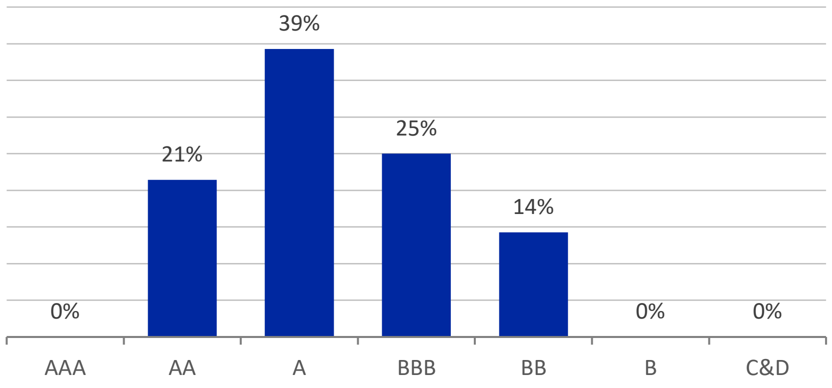
Outlook commentary by few leading hospital companies

Company	Commentary
Apollo Hospital Enterprises Limited	▪ "Healthcare Services, we are looking at 15% growth coming from higher occupancy and, therefore, better EBITDA. This quarter, we showed an increase in EBITDA margin by 249 basis points. We believe that we can improve this by another 100 basis points. And this will come from occupancy covering fixed costs and making sure that higher occupancy is better EBITDA and, therefore, higher profitability." ▪ "On track to add 2000 beds with over Rs.3000 cr in the next four years in key metros."
Fortis Healthcare Limited	▪ "Our aim is to quickly move to the 20% margin. It is now a question of whether we will be able to achieve it this year or next year. So, there will be different levers for a margin improvement, one is obviously the improvement in the payer mix and specialty mix. We are working constantly to reduce the cost structure and optimise the cost structure and that should also help us in improving the margin, so all three levers will add." ▪ "Our plans to expand and add beds to our key facilities like FMRI, Shalimar Bagh, Mulund and Mohali to over 500 beds each in the next few years remain on track with a cumulative incremental addition of close to 1,400 beds."
Shalby Limited	▪ "With all the key strategies in place, Shalby is well poised to deliver double digit growth in the hospital business with sustainable profitability and deepen and increase our footprints by adding orthopaedic units under SOCE franchise vertical." ▪ "For hospital business, we do believe it will grow at 15 to 20% and there will be a margin expansion because operating leverage will come into play."
Krishna Institute of Medical Sciences Limited	▪ "We continue to focus on identifying experienced clinical talents across specialties and geographies and adding new therapies, which will help us drive growth in the coming quarters." ▪ "We will continue on the same growth trajectory and strive to reap up even greater results in the current year. The road ahead is optimistic, we are critically evaluating new opportunities for expansion and further growth that will result in sound value addition."
Healthcare Global Enterprises Limited	▪ "As the occupancy keeps going up, we'll start optimising our payer mix and our procedure mix, business mix and, therefore, the ARPOB will continue to grow going forward. Also, we were expecting our margin to go up in the range of 150 basis points." ▪ "In addition to driving higher utilisation of existing capacity, we would continue to invest in superior clinical expertise, capacity creation and brand building, to fuel future growth and further fortify our leadership in the industry."

Source: ICRA Research

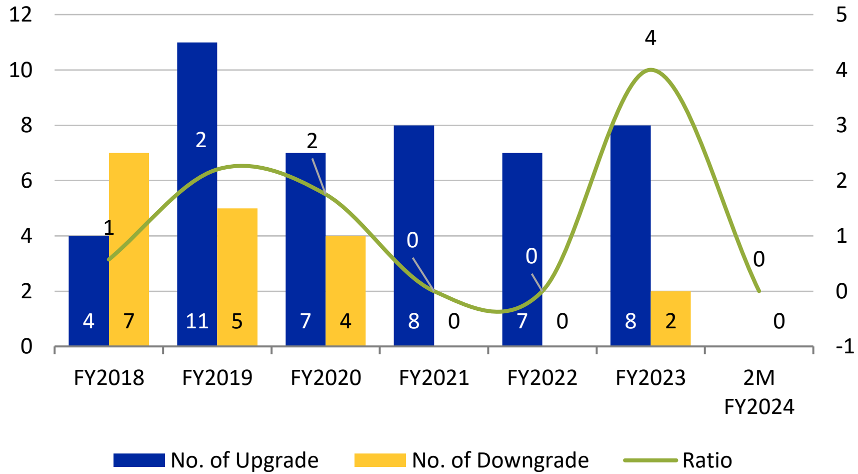
Upgrades continue to exceed downgrades over the years

Exhibit: Rating distribution across categories as of June 21, 2023



Source: ICRA research; group companies (three groups) clubbed as one each for presentation

Exhibit: Count of upgrades and downgrades (ICRA rated universe)



- Majority of the ICRA-rated hospitals are in the investment-grade.
- During the last fiscal, upgrades continued to exceed downgrades on the back of expectations of continued improvement in operating metrics and healthy financial profile.
- There have been no upgrades or downgrades in the current fiscal till May 2023.

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Thank You!