

## Indian Diagnostics Industry: In the pink of health

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**Covid-19 induced testing and  
changing customer preference  
towards organised players to foster  
double-digit growth in FY2022**

**DECEMBER 2021**



*Consolidation of national players with regional chains to expand geographical reach and establish leadership position likely to continue.*

*National diagnostic chains are expected to gain market share in the near to medium term.*

*While discovery of the Omicron variant is expected to result in a spike in Covid test volumes in the near term, upside to the industry will depend on how the situation evolves from hereon.*



The revenues in H2 FY2022 are expected to slightly moderate due to festive season and relatively lower pent-up demand as opposed to sharp revenue growth in H1 FY2022. In line with sequential improvement expected in non-Covid revenues and consolidation of regional chains, revenue growth for ICRA sample set is estimated at ~8-10% in FY2023.

The operating margins is estimated to improve sharply in FY2022 aided by higher realisations in H1 FY2022 and improving share of bundled medical tests. ICRA expects the operating margins of the ICRA sample set to stabilize in the range of ~29-30% during FY2023 due to sector's focus on volume growth against the prevailing pricing pressures.

Prices of diagnostic tests are likely to be stable at current levels due to focus on volume growth and higher competitive intensity from un-organised players. That said, customer shift to organised market with preference for quality over cost shall contribute to growth trajectory.

Geographical diversification by way of acquisition of regional and smaller diagnostic chains shall result in consolidation and generate synergy benefits in the medium term. Expansion of lab and collection centers network via franchisee model to aid asset-light growth prospects.

In ICRA's view, cost increases associated with reagents and chemicals in FY2021 have stabilised and no near-term pressure is envisaged. However, talent retention and IT investments will play a key role to ensure quality test offerings to remain competitive in the medium term.

The credit profile of national chains to remain healthy with sizeable cash, moderate debt-funded capex plans and minimal reliance on working capital borrowings.



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