

## Healthcare

### Q4FY23 review: Operating matrix improving

Hospitals continue to maintain overall improvement in ARPOB and occupancy which had seen a surge post the outbreak of Covid-19. Most hospital chains are diligent in adding further beds to the network through M&A or brownfield capex. Non-covid revenues continue to witness steady 11-22% growth despite steep competitive pressure. The companies (under our coverage) are now raising prices in selective test portfolio as against their earlier focus on maintaining volume share. Our top picks in the space are KIMS, Fortis Healthcare and Dr. Lal.

- ▶ **Hospital business- synopsis:** Revenue for coverage universe grew ~2.2% QoQ (+23% YoY) in Q4FY23. Its EBITDA margin declined 50bps QoQ (down 90bp YoY). Q4FY23 EBITDA was down 1.4% QoQ (+15.9% YoY), while profits dipped 0.6% QoQ (+50.4% YoY). Growth in ARPOB was led by improvement in case and payor mix. While Fortis Healthcare and KIMS saw healthy improvement in occupancy levels in line with historical QoQ trend, Apollo Hospitals' occupancy declined to 64% (from 65%) on account of lower institutional patient intake.
- ▶ **Ancillary business continues to impact performance:** Consolidated margins of Apollo Hospitals and Fortis Healthcare were largely impacted by drag in ancillary businesses such as Apollo 24x7, AHLL and SRL. Apollo's margin is expected to improve hereon with improvement in Apollo 24x7's profitability and negligible base effect of covid and vaccination revenues on AHLL business in coming quarters.
- ▶ **Existing cities a priority for bed additions:** Healthy bed addition is on the cards for majority of hospitals under our coverage universe with Apollo Hospitals intending to add 2,000 beds by FY27 (700 beds post FY24), Fortis Healthcare to add 1,300-1,400 beds over the next five years and KIMS is likely to add ~1,500 beds over the next three years. Priority of hospitals has shifted towards capacity addition in existing facilities and asset-light model, which should lead to faster breakeven periods and healthier return ratios.
- ▶ **Diagnostics - synopsis:** Revenue for coverage universe declined ~1.4% YoY (+0.7% QoQ) on a higher covid base in Q4FY23. EBITDA margin declined 60bps YoY (up 60bp QoQ) largely on account of network expansion. Q4FY23 EBITDA declined 3.6% YoY (+3.2% QoQ). Consequently, profit for coverage universe was down 6% YoY (+12% QoQ). Non covid revenues grew ~11-22% for coverage universe, while Covid revenue contribution was negligible during the quarter. Non-covid tests volumes in patients/tests saw a steady growth, while realisation dropped across the board.
- ▶ **Steady network expansion is a priority:** i) **Dr. Lal** – expanding in tier-3 towns remains a priority for the company with 10-15 labs expected to be set up in North, South and Western regions. ii) **Metropolis** – aims to establish 90 labs and 1,800 centres by FY25. Nearly 30 labs, 600-800 collection centres and 50 hi-tech centres are planned to be added in FY24. iii) **Vijaya** – Apart from expansion in its traditional strongholds of AP and Telangana, new centres are expected to commercialise in North Kolkata in the next couple of months.
- ▶ **Price hikes on selective tests on cards:** Despite increased competition in their key geographies, Dr. Lal and Metropolis have taken price hikes, largely in specialised test segment in Q4FY23. While price hike benefits are likely to reflect in FY24, margin benefits may be offset by the proposed network expansion. Vijaya Diagnostics raised prices of 40-50 tests over a few geographies, but does not intend to take any further price hikes across the test menu.

#### Q4FY23 result review

#### Recommendations

Apollo Hospital (ADD)  
Dr. Lal Pathlabs (BUY)  
Fortis Healthcare (BUY)  
HCG (ADD)  
KIMS (BUY)  
Metropolis (HOLD)  
Vijaya Diagnostics (BUY)

#### Research Analysts:

**Abdulkader Puranwala**  
abdulkader.puranwala@icicisecurities.com  
+91 22 6807 7339

**Rohan John**  
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Table 1: Key financials – hospitals**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)
Apollo Hospitals	43,022	42,636	35,464	0.9	21.3	4,882	5,054	4,632	(3.4)	5.4	1,445	1,535	901	(5.8)	60.3
KIMS	5,759	5,622	3,723	2.4	54.7	1,632	1,512	1,136	8.0	43.7	933	760	807	22.8	15.6
Fortis Healthcare	16,427	15,599	13,781	5.3	19.2	2,709	2,764	2,212	(2.0)	22.4	1,220	1,296	680	(5.8)	79.5
HCG Enterprises	4,417	4,247	3,646	4.0	21.1	763	794	632	(3.9)	20.9	84	114	60	(26.8)	39.7
<b>Coverage Universe</b>	<b>69,625</b>	<b>68,103</b>	<b>56,615</b>	<b>2.2</b>	<b>23.0</b>	<b>9,986</b>	<b>10,124</b>	<b>8,612</b>	<b>(1.4)</b>	<b>15.9</b>	<b>3,682</b>	<b>3,704</b>	<b>2,448</b>	<b>(0.6)</b>	<b>50.4</b>

Source: Company data, I-Sec research

**Table 2: Key financials – diagnostics**

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)
Dr Lal	4,910	4,894	4,855	0.3	1.1	1,156	1,130	1,211	2.3	(4.5)	567	528	613	7.4	(7.5)
Metropolis	2,825	2,855	3,059	(1.0)	(7.6)	703	705	748	(0.3)	(6.1)	334	358	400	(6.8)	(16.6)
Vijaya	1,210	1,131	1,162	7.0	4.1	491	443	479	10.9	2.6	275	164	237	68.0	15.8
<b>Coverage Universe</b>	<b>8,945</b>	<b>8,880</b>	<b>9,076</b>	<b>0.7</b>	<b>(1.4)</b>	<b>2,350</b>	<b>2,278</b>	<b>2,438</b>	<b>3.2</b>	<b>(3.6)</b>	<b>1,175</b>	<b>1,050</b>	<b>1,250</b>	<b>12.0</b>	<b>(6.0)</b>

Source: Company data, I-Sec research

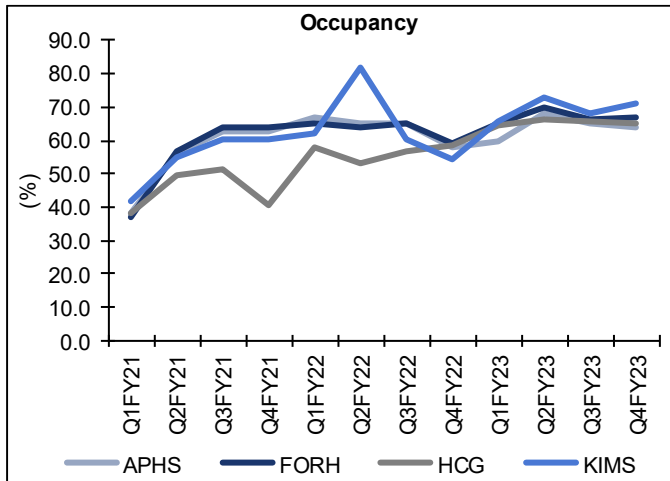
**Table 3: Valuation summary**

Company	Target Price (Rs)	Rating	EPS (Rs)			CAGR FY23-25E	ROCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY23	FY24E	FY25E		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
<b>Hospitals</b>															
Apollo	5,000	ADD	56.4	81.5	109.3	39.2	9.5	12.0	13.8	89.1	61.7	46.0	37.6	28.1	22.6
KIMS	1,795	BUY	40.6	46.1	51.4	12.5	15.8	14.1	13.6	39.3	34.7	31.1	21.9	18.9	16.5
Fortis Healthcare	360	BUY	7.0	9.9	11.6	28.4	5.8	7.2	7.7	39.9	28.4	24.2	19.8	15.5	13.3
HCG	330	ADD	2.1	5.8	8.6	102.4	3.9	8.5	10.2	150.8	54.5	36.8	17.2	15.0	12.9
<b>Diagnostics</b>															
Dr Lal	2,385	BUY	28.6	38.9	50.9	33.3	12.9	15.6	17.9	70.8	52.2	39.9	33.4	26.8	22.0
Metropolis	1,345	HOLD	27.9	31.9	38.6	17.6	12.0	13.3	15.8	47.0	41.1	34.0	23.8	21.4	18.7
Vijaya	455	BUY	8.3	10.7	13.5	27.8	13.7	14.8	15.8	47.4	36.6	29.0	22.0	18.3	14.7

Source: Company data, I-Sec research

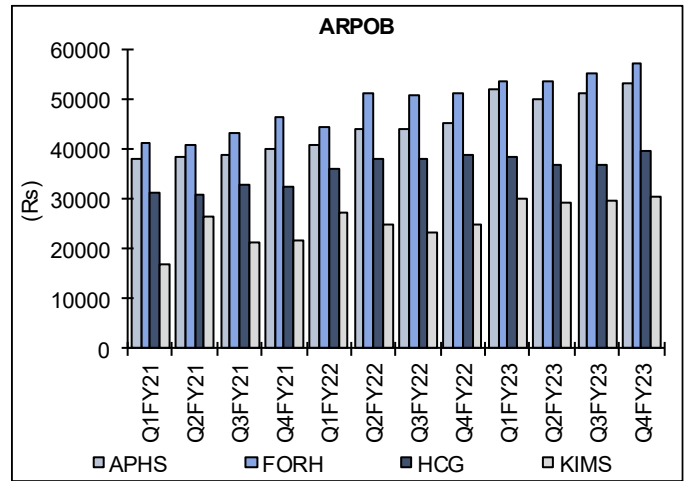
### Hospital – Story in charts

**Chart 1: Occupancies declined for Apollo and HCG**



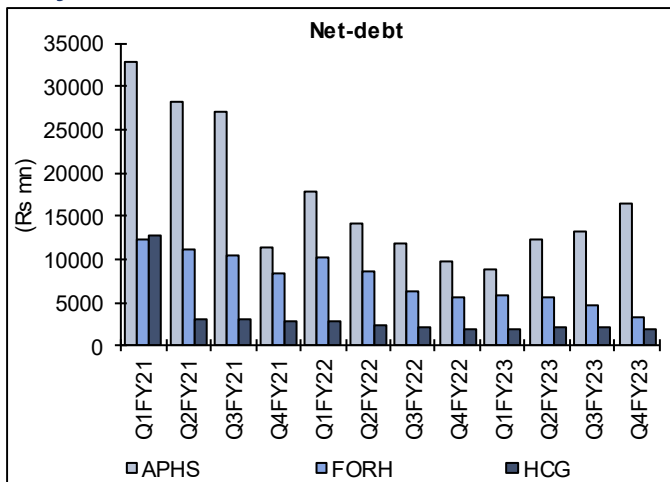
Source: Company data, I-Sec research

**Chart 2: Improved case and specialty mix led to ARPOB growth across the board**



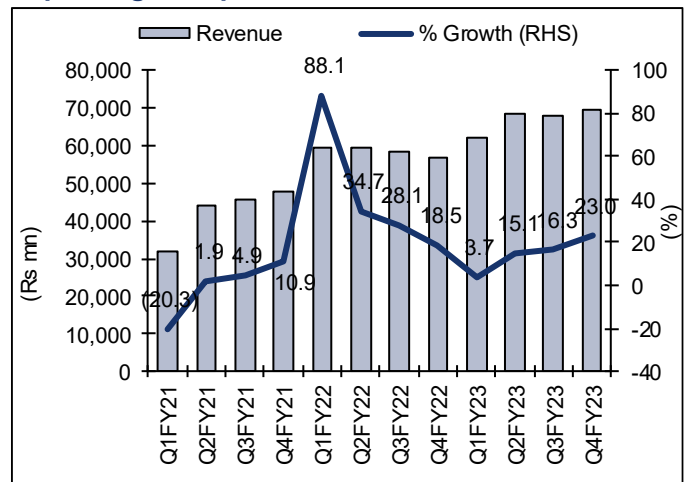
Source: Company data, I-Sec research

**Chart 3: Net debt has declined consistently across the years**



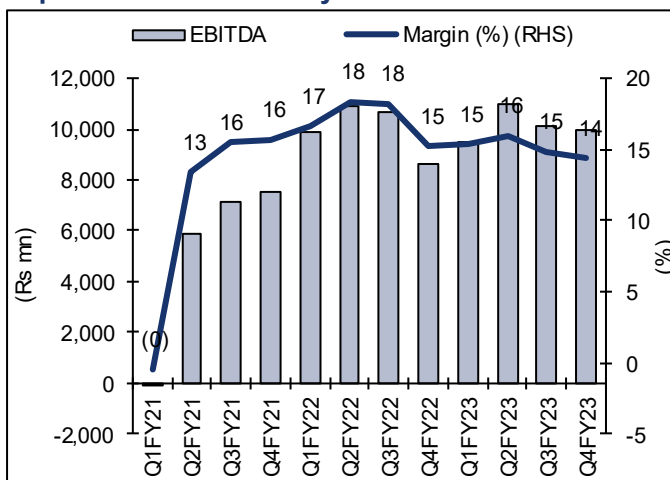
Source: Company data, I-Sec research

**Chart 4: Revenues are expected to grow with improving occupancies and new bed additions**



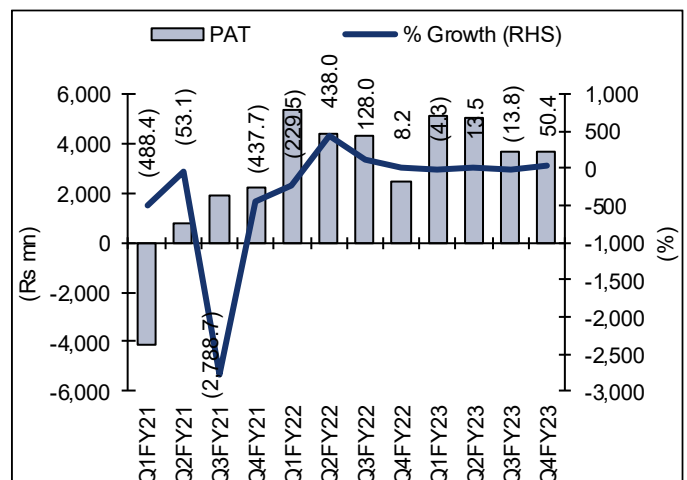
Source: Company data, I-Sec research

**Chart 5: Margins to improve led by better mix and improvement in ancillary business**



Source: Company data, I-Sec research

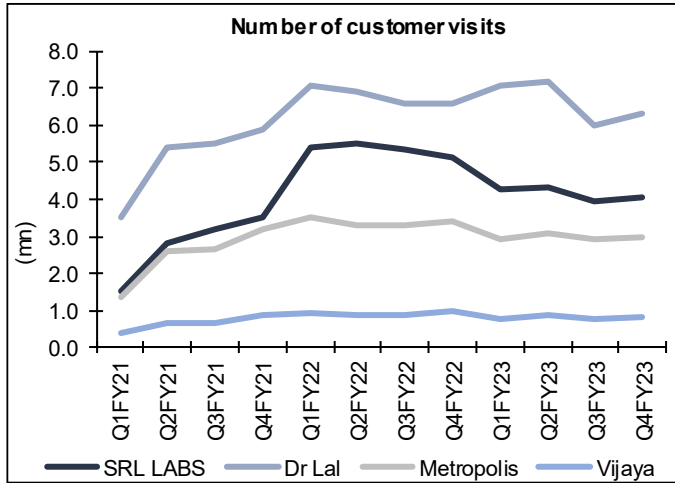
**Chart 6: Net profits for our hospital coverage universe**



Source: Company data, I-Sec research

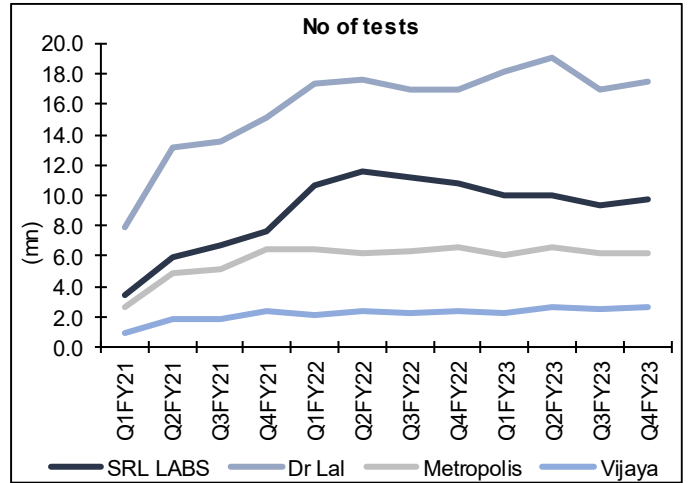
**Diagnostics – Story in charts**

**Chart 7: Rise in non-covid patients drives volumes**



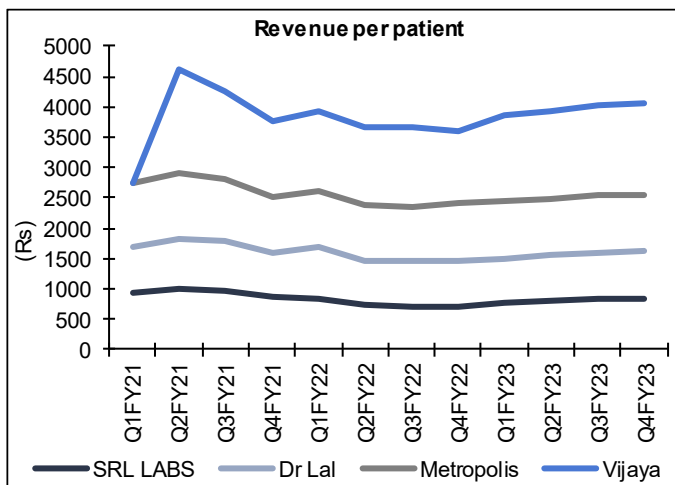
Source: Company data, I-Sec research

**Chart 8: Non-covid tests are growing steadily**



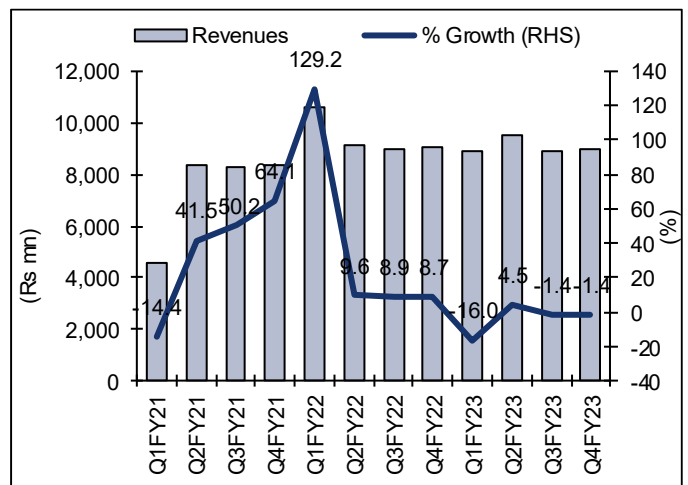
Source: Company data, I-Sec research

**Chart 9: Realisation per test declined YoY across the board**



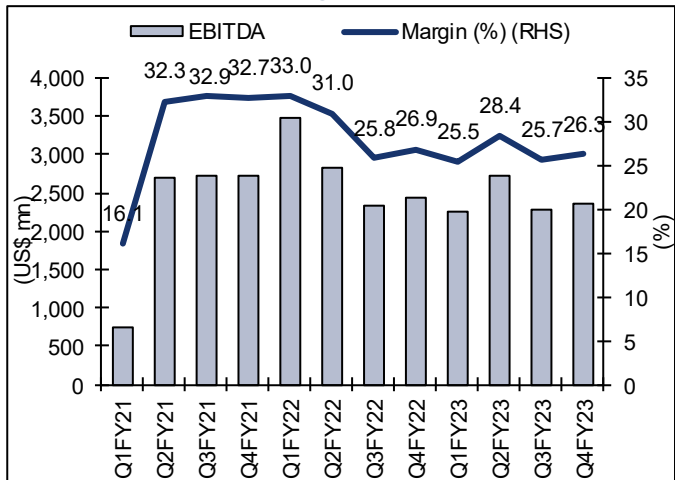
Source: Company data, I-Sec research

**Chart 10: High covid base affected revenue growth**



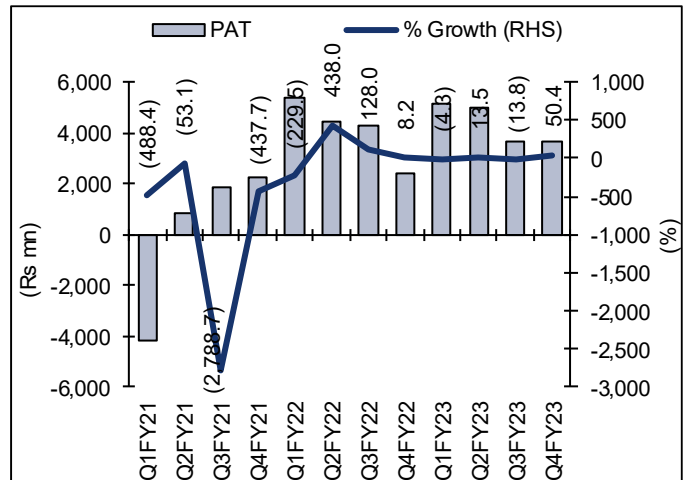
Source: Company data, I-Sec research

**Chart 11: Network expansion by our coverage companies to curb margins**



Source: Company data, I-Sec research

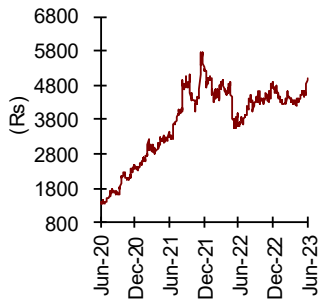
**Chart 12: Net profit for our diagnostic portfolio**



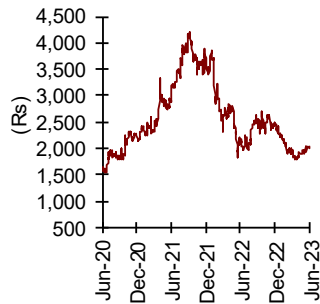
Source: Company data, I-Sec research

**Price charts**

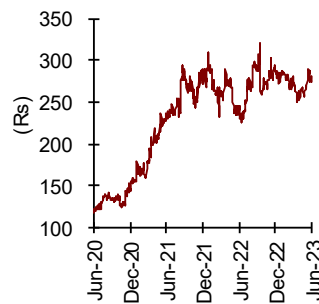
**Apollo Hospitals**



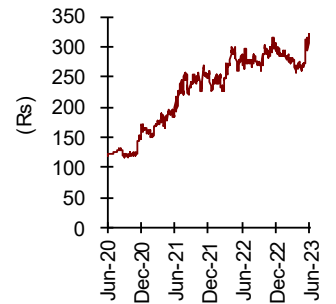
**Dr. Lal Pathlabs**



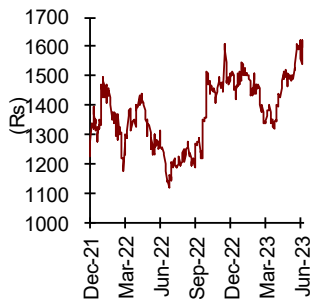
**Fortis Healthcare**



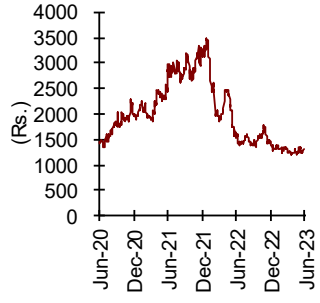
**HCG**



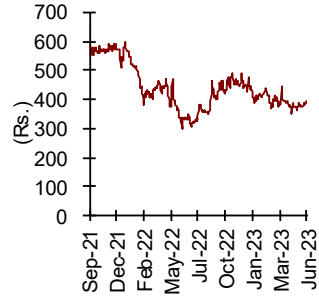
**KIMS**



**Metropolis**



**Vijaya**



Source: Bloomberg

*In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."*

*This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.*

*"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."*

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

#### ANALYST CERTIFICATION

I/We, **Abdulkader Puranwala MBA (Finance); Rohan John; MBA**; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100.

ICICI Securities is SEBI registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---