Indian Healthcare Industry to Surpass USD 130 billion by FY24

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Overview

The Indian healthcare sector has exhibited a strong compounded annual growth rate (CAGR) of 14% to 15% during FY16-FY22, led by growing demand augmented by affordability, policy support by the government and aggressive greenfield and brownfield expansion by hospital chains. Comfortable liquidity position, favourable interest rates and capital structures have aided the industry. The bed capacity of leading hospital chains is also expected to increase by 30% by FY25. With hospital chains foraying into retail pharmacies, diagnostics, clinics and specialty clinic chains, the sector is witnessing integration and retailisation across. National Digital Health Ecosystem (NDHE) will push digitisation and increase the health tech role in universal health access and informed policymaking. Rapid insurance penetration, increasing non-communicable diseases, shifting demographic mix, and public spending on healthcare are some of the other factors that are expected to drive the growth.

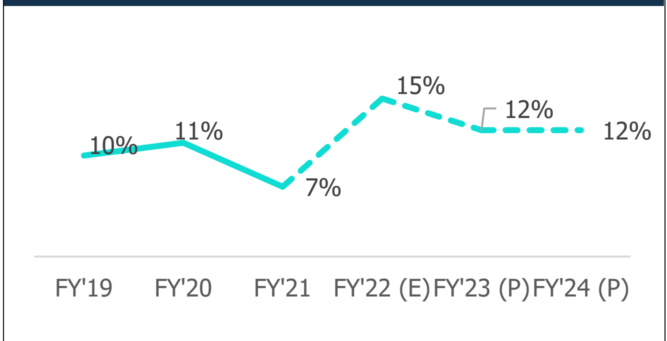
The Indian healthcare industry for FY22 is estimated at USD 110 billion (excluding Indian pharma exports), of which hospitals carve out the majority share, i.e., about 60% to 70%, contributing about USD 70 billion. This is followed by domestic pharmaceuticals contributing about 18% to 20% i.e. USD 22 billion and the remaining 20% to 22% is shared by diagnostics, medical equipment and insurance.

As the sector is majorly driven by the hospital segment, CareEdge, in the current article, has funnelled its focus primarily towards performance and trends of the hospital pie.

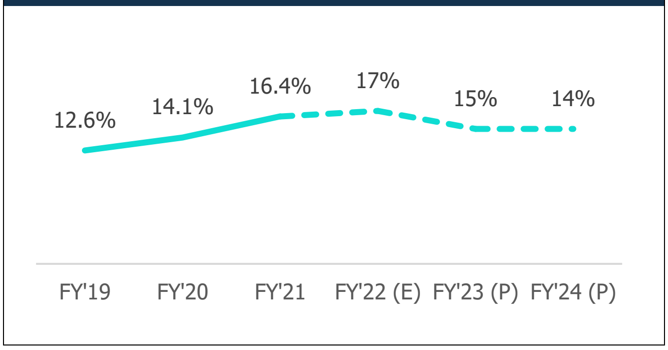
How hospitals have fared

In FY21, the hospitals reported subdued revenue growth of 7%, primarily due to the imposition of lockdowns, which affected patient mobility and deferral of non-Covid surgeries. However, the revenue growth is estimated to reach 15% for FY22 due to higher occupancy, better patient mobility on account of 'living with Covid-19' policies and resumption of non-Covid surgeries. In FY21, the operating margins have improved by over 200 bps reaching about 16% due to complex Covid-related cases even though non-Covid surgeries were delayed. The operating margins during FY22 are further expected to improve to about 17% due to improvement in the occupancy rates, deferral release of high-margin non-Covid surgeries and rationalisation of operational costs by about 15% to 20%. With better absorption of fixed costs, while deriving the benefits from economies of scale, the hospital segment has reported healthy operating margins.

Trend in Revenue Growth Rate*



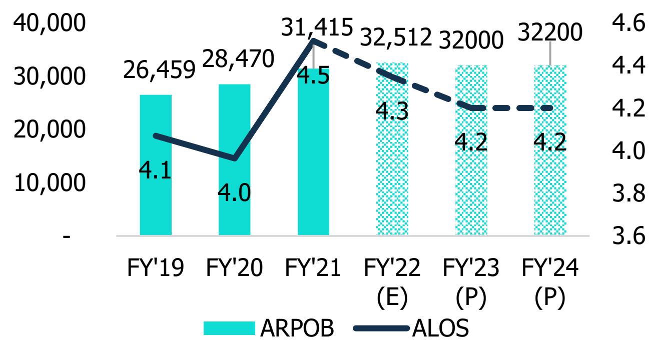
Trend in Operating Margins*



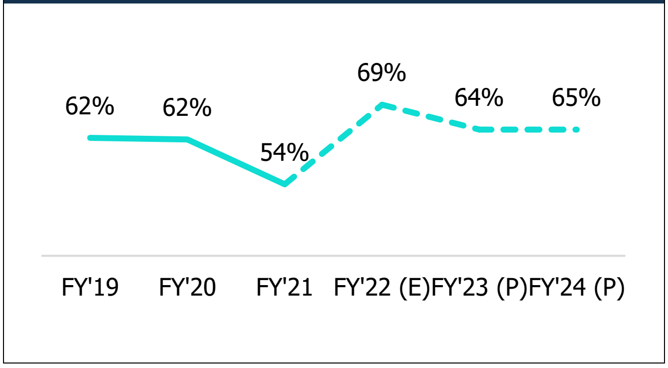
* Pertains to hospital entities rated by CareEdge portfolio

For CareEdge-rated entities, the Average Revenue Per Occupied Bed (ARPOB) has increased to Rs.31,415 per day, which is about 20% higher compared with FY19, and the Average Length of Stay (ALOS) also increased to 4.5 days in FY21 as compared to about 4 days in the past years due to complex Covid cases. In FY22, ARPOB is expected to improve further to Rs.32,512 per day due to higher-margin non-Covid surgeries. The occupancy rate has improved significantly in FY22 due to selective and precautionary lockdown, lesser impacted patient mobility and resumption of non-Covid surgeries. The occupancy levels are expected to normalise to pre-Covid levels at 64% for FY23 and FY24.

Trend in ARPOB and ALOS*



Trend in Occupancy Rates*



* Pertains to hospital entities rated by CareEdge portfolio

The lower quartile is the value under which 25% of the data points are found when the parameters such as Occupancy rate, ARPOB and ALOS values of CareEdge-rated entities are arranged in increasing order. Similarly, the upper quartile is the value under which 75% of the data points are found when the same above-mentioned parameters are arranged in increasing order. The table 1 below reflects the trend in key parameters concerning small to mid-sized hospitals and the table 2 reflects the trend in relatively large-sized corporate hospitals. Further, it can be inferred that both the categories of hospitals have shown an increasing trend in occupancy rates, ARPOB and ALOS. Nevertheless, relatively large-sized corporate hospitals have shown better Occupancy rates on account of their capability to deal with complicated ailments, ability to provide a wide variety of services and their established presence in the industry.

Table: 1

Lower Quartile	FY'19	FY'20	FY'21	FY'22 (E)
Occupancy	52%	54%	41%	58%
ARPOB	17,071	16,829	21,157	22,716
ALOS	3.4	3.5	3.7	3.8

Table: 2

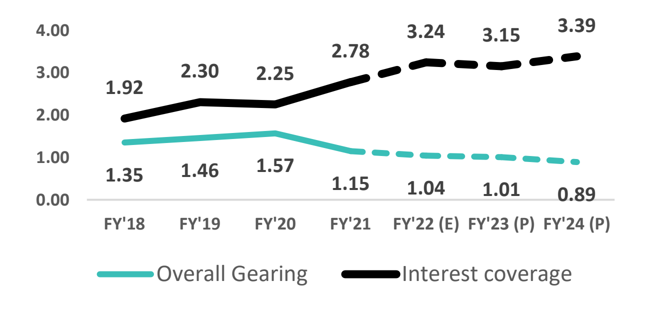
Upper Quartile	FY'19	FY'20	FY'21	FY'22 (E)
Occupancy	70%	71%	64%	79%
ARPOB	28,578	30,721	34,007	36,015
ALOS	4.6	4.5	5.0	4.9

Source: CareEdge rated portfolio companies

Improvement in debt metrics of hospitals

The capex cycle, which was affected during FY21, has resumed in FY22. Aggressive greenfield expansion due to better liquidity and attractive interest rates have aided the expansion. Despite capex, debt metrics have improved in FY22 on account of higher ARPOB and occupancy levels. Greenfield expansion is expected to continue from FY23, and large players are likely to go in for inorganic acquisitions cum expansion leading to increase in bed capacity by about 30% by FY25. Improving cash flows, prudent funding, and equity infusion will benefit credit risk profiles. CareEdge expects the overall gearing of its rated entities to remain close to unity while the interest coverage ratios at about 3x times by FY24.

Debt Metrics*

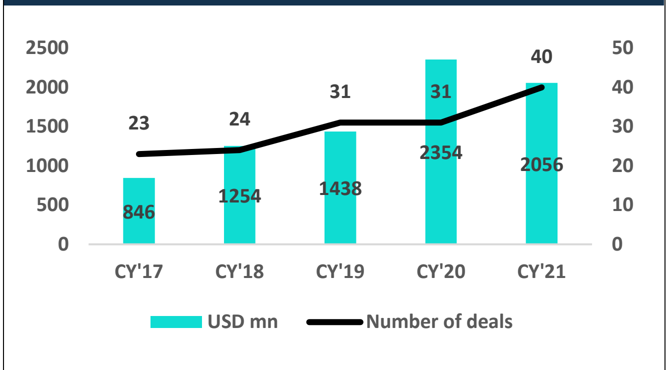


* Pertains to hospital entities rated by CareEdge portfolio

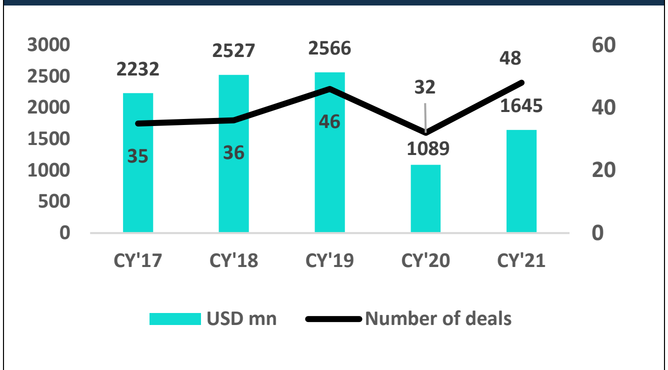
Interest of PE players in healthcare sector

While marquee transactions drove deal values, heightened PE volumes drove the overall deal volumes during CY20 and CY21. Private equity infusion rose to USD 2,354 million in CY20 and slowed down in CY21 to USD 2,056 million. The number of deals, however, has increased from 31 to 40 in CY21 in the sector. The focus of such investments has been largely on hospitals, although medical device manufacturing is also sought after. Investment momentum has been robust for many leading Indian hospitals. Key deals include an investment of National Investment and Infrastructure Fund in Manipal Health Enterprises, Everstone investment in Sahyadri Hospitals, General Atlantic and True North investment in Krishna Institute of Medical Sciences, and KKR investment in Radiant Life Care (Max) etc. Key M&A deals include Manipal Health Enterprise's acquisition of Vikram Hospitals and Columbia Asia Hospitals etc. The robust growth continues to attract investments. PE also provides multi-dimensional benefits to the Indian healthcare sector apart from the capital infusion.

Volume and Value of PE Deals^



Volume and Value of M&A Deals^



Source: Industry reports compiled by CareEdge
^ Pertains to deals in Healthcare, Pharma & Biotech during CY17-CY21

Rolling out of the National Digital Health Ecosystem, which is an open platform that comprises digital registries of health providers and health facilities, unique health identity and universal access to health facilities, would nudge the sector towards digitalisation. It will also enhance and promote the role of the health tech business along with providing the effective means of medication to the patient.

Outlook

Indian healthcare industry has been growing at a CAGR of about 14% to 15% since 2016 and is estimated to reach about USD 110 billion in FY22. Hospitals, forming 60% to 70% of the healthcare sector, are expected to report about 15% of revenue growth and expansion of operating margins by 300 to 400 basis points during FY22. Sharp recovery in topline is driven by higher occupancy, release of deferred non-Covid surgeries, higher ARPOB and increased bed capacity of hospital chains. The revenue growth of hospitals is expected to revert to pre-Covid levels of 10% to 12% for FY23 and FY24, respectively. Prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry and increasing public and private health spend are expected to aid the healthcare industry to surpass USD 130 billion by FY24. The operating margins are expected to revert at pre-Covid levels of 14% to 15% due to increased fixed costs, as the bed capacity created due to greenfield and brownfield expansion would take a while before it gets absorbed. Nevertheless, improved cash accruals, and cautious pattern of capex funding with adequate support in the form of equity infusion are expected to benefit the credit risk profiles of the entities operating in the healthcare industry, thus keeping the outlook of the industry stable.

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