

# Indian Diagnostic Sector to See Stable Double-digit Growth in Medium Term

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## Synopsis

- The diagnostic industry is highly competitive and fragmented in nature due to the low entry barriers, and the market share of organised players is only limited to around 17%. The major chunk of the market share is with the unorganised players.
- In India, the diagnostics space is a growing sector owing to various factors, viz., increase in healthcare spending by ageing population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, market penetration of healthcare insurance, and healthcare measures by the central government.
- The diagnostic industry faces pricing pressure due to high competition and government-enforced pricing regulations.
- More number of players in the industry are focusing on geographical expansion and inorganic growth acquiring regional local players to capture higher market share.
- The companies are employing digitisation and artificial intelligence/ machine learning techniques since there is a rise in the customer demand for home-based diagnostic services.
- The diagnostic industry is likely to witness stable double-digit revenue growth, ranging from 12%-14% with operating profitability margins likely to be at pre-Covid-19 levels and remain in the range of 23%-25% for FY23-24.

## Overview

Healthcare is one of the key sectors in India in terms of both revenue and employment. India's public budgeted expenditure on healthcare touched 2.1% and 2.2% of gross domestic product (GDP) in FY23 and FY22, against 1.6% in FY21, as per the Economic Survey 2022-23. The share of expenditure on health with respect to the total expenditure on social services, has increased from 21% in FY19 to 26% in FY23 (BE).

Diagnostic forms a very essential part of the healthcare industry and is usually the first step towards treating diseases, starting from the detection of the disease to prognosis and determination of treatment regime to post-treatment monitoring of the patient. The Indian diagnostic services market was valued at USD 14.57 billion in 2022 and USD 16.23 billion in 2023 and is forecasted to reach USD 43.57 billion by FY32 (as per a report published by Polaris Market Research in March 2023). SPER market research predicts the Indian diagnostic lab market to reach USD 44.92 billion by 2032.

The growth in the diagnostic sector is supported by an increase in healthcare spending by an ageing population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, market penetration of healthcare insurance and healthcare measures by the central government.

Diagnostic services are classified into pathology testing services and imaging diagnostic services, wherein the former accounts for approximately 60% of the market share while imaging tests account for the rest. The radiology market is growing rapidly due to the increasing demand for imaging services, while the pathology testing services

market is also expanding due to the growing number of people undergoing preventive health check-ups. Overall, the diagnostic services industry in India is poised for continued growth in the coming years.

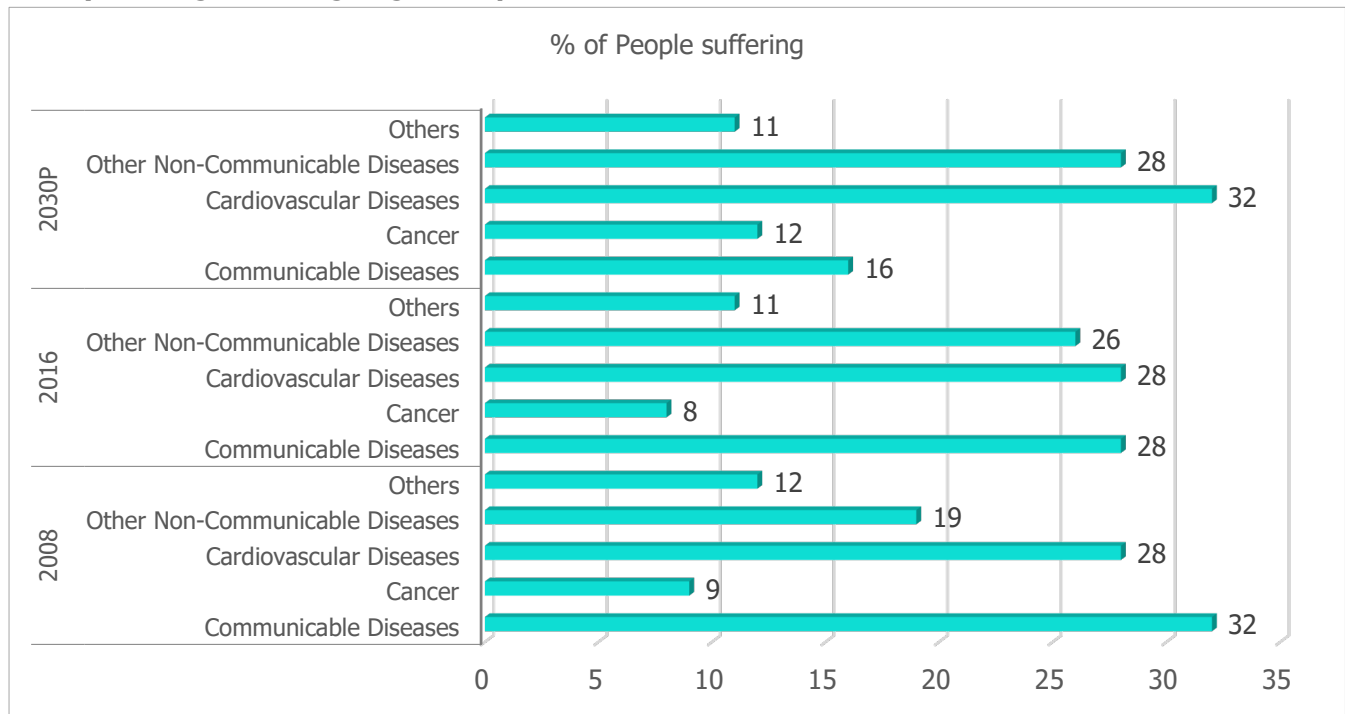
The market share of diagnostic services is divided into unorganised/local standalone labs, hospital-based labs, and organised players. A major part of the diagnostic business is driven by doctor recommendations. For the precise prescription for the patients, doctors are conducting diagnostic tests for most of the patients before prescribing the medication, which was not the case earlier.

**Key Characteristics and Trends**

**Increasing income levels backed by improved awareness about preventive healthcare**

India’s approach towards preventive healthcare has undergone a change post the Covid-19 pandemic. Individuals are now more inclined towards preventive healthcare than curative healthcare. The increasing income levels of people, as reflected in the increase in GDP per capita to over US \$2,388 in 2022 from US \$1,958 in 2017 (as per the World Bank data) have also backed the paradigm shift in this inclination. The diagnostics companies would benefit from this shift, and growth of around 12%-14% in the revenue of the diagnostic companies is expected in the medium to long term.

**Lifestyle changes leading to greater prevalence of chronic diseases:**

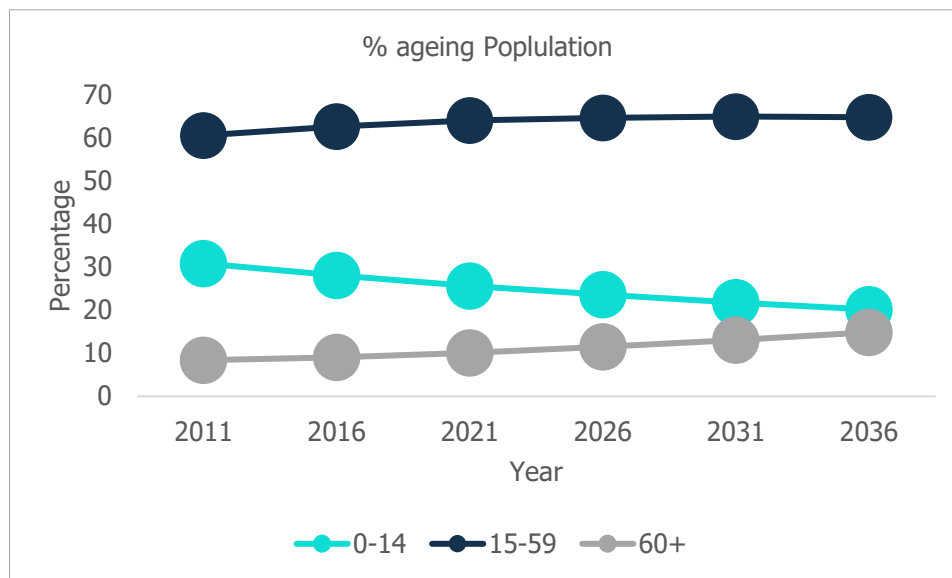


Source: World Bank data as of 2019

Owing to the sedentary lifestyle, chronic diseases like obesity, diabetes, hypertension etc. have been on the increasing trend. The graph above captures the data on the increase in the number of people suffering from non-communicable diseases which is expected to jump from 19% in 2008 to 28% in 2030. Chronic diseases have been a major reason for mortality in the country. Owing to a sustained increase in the patient pool, growth has been witnessed in the healthcare market and it is thus a key driver for growth in the healthcare and diagnostics segments.

Furthermore, as per the report of the technical group on population projections, Ministry of Health and Family Welfare, there has been an increase in the age group above 45 years in the Indian population. The same was supported by an increase in life expectancy and the availability of better medical facilities. However, ageing causes a decrease in immunity levels and consequently higher need for diagnostic services. Thus, the increase in the ageing population is positively correlated to the growth in the diagnostic sector.

India’s appeal as a cost-effective destination for high-quality medical treatments and advanced healthcare facilities has resulted in sequential improvement in international patient footfalls in the healthcare sector which also augured well for the growth in the diagnostic sector in India.



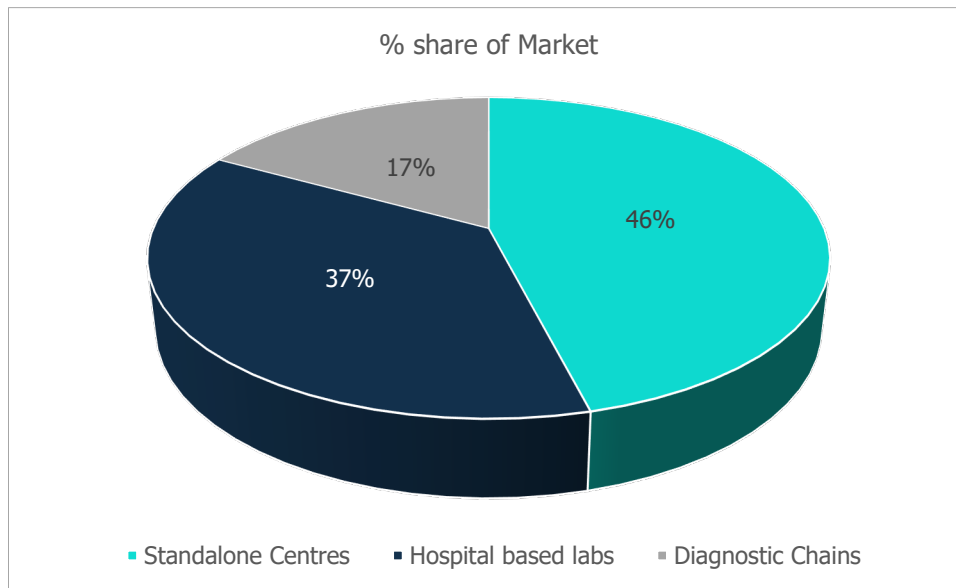
Source: Report of the technical group on population projections, Ministry of Health and Family Welfare

**High competition characterised by highly fragmented nature of the industry**

The diagnostic industry is highly fragmented with the organised players contributing only 17% of the market share. Of this share of 17%, PAN-India diagnostic chains have a market share of about 35% and the regional chains have a market share of approximately 65%.

The four largest players, viz., Dr. Lal PathLabs, Metropolis Healthcare, SRL Diagnostics and Thyrocare Technologies have only about 6% market share. Local players enjoy a market share of approximately 46% fragmenting the market followed by hospital-based labs with a market share of about 37%.

Low barriers to entry, low capital requirements for asset-light business models and the absence of stringent regulations are the key reasons leading to the highly granulated nature of the industry.



Source: Centrum Institutional Research Report

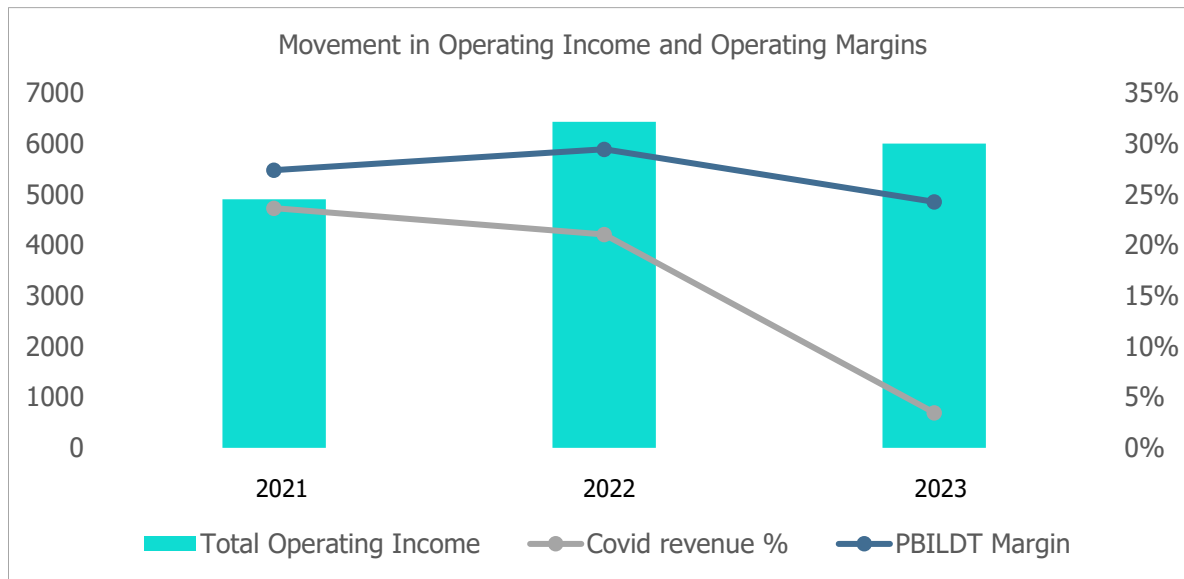
### Organic and inorganic growth strategies

Owing to the highly fragmented nature of the industry, the companies in the sector are employing inorganic growth strategies as a move towards consolidation apart from the organic growth measures being used for expansion. The companies are setting up new centres in untapped geographies majorly based on the franchisee model for organic growth. For example, Dr Lal Path Labs, which is a leading player in the northern and eastern parts of India, is expanding its presence in the west as well as central India by the acquisition of Suburban Diagnostics India Private Limited. Metropolis, a leading brand in the Mumbai Metropolitan Region is considering creating a presence in north and south India. Thyrocare, having a strong presence in the south, has set up a central laboratory in Delhi-NCR. The large players are using inorganic strategies acquiring small players to expand their presence in the new territories. Furthermore, owing to the strong balance sheet of major listed players, supported by a high level of cash profits along with a strong liquidity position and low reliance on debt, CareEdge Ratings expects the momentum of inorganic growth by major players to continue in the medium term.

### Analysis of Top Six Listed Entities in Organised Diagnostic Sector

#### Correction in the topline and the profitability

The total operating income (TOI) of the diagnostic companies had increased significantly in FY21 and FY22 on account of revenue from Covid-19 and allied testing. However, the non-Covid-19 revenue continues to increase in FY23 on account of the increased inclination among people towards preventive healthcare which has led to an increase in the sales of wellness packages (bundles). This revenue also increased on account of the inorganic growth of the large, organised players. The PBILDT margin was higher in FY21 and FY22 due to an increase in the utilisation levels due to COVID-19. The margins, however, got corrected to pre-Covid-19 levels in FY23. The PBILDT margin for major organised players operating in pathological diagnostics is expected to be in the range of 23-25%, going forward. However, the operating margins are expected to be above 40% for entities engaged in imaging diagnostics services.



\*The data have been taken for the top six listed companies in the diagnostic industry

### Companies’ focus on digital initiatives and home-visit segment

The major players in the diagnostic industry have focused on reinventing by integrating technology and digitisation. Increasing demand for testing post-pandemic along with the need for faster results and accurate diagnosis, has compelled the diagnostic companies to focus on a customer-centric approach. The companies are largely focusing on the home visit segment and are looking to provide service at par with the lab visit walk-ins. The strategy is to digitise the end-to-end home visit segment by employing various artificial intelligence/ machine learning techniques since the customers now look for omni channel presence for better service. The digitisation has also led to the entry of new startups in the diagnostic ecosystem which is primarily focused on home visit diagnostic services like Tata 1mg, PharmEasy, Healthians, Orange Health, etc. Apart from this, the companies are also focusing on geographical network expansion by considering penetrating Tier-2 and Tier-3 cities.

### CareEdge Ratings’ view

Post-Covid crisis, Diagnostic services have become an integral part of the healthcare industry starting with the early detection of the disease, the entire treatment cycle and finally the post-treatment monitoring. CareEdge Ratings expects the diagnostic industry to witness stable double-digit revenue growth, ranging from 12%-14%, driven by both organic and inorganic expansion of the players and a paradigm shift in the consumers towards preventive healthcare. However, the operating profitability margins are likely to be at pre-COVID levels and remain in the range of 23%-25%, on account of the entry of health tech diagnostic startups like Tata 1mg, Healthians, Neuberg, Redcliffe etc., price capping by the government and increase in the price of the input reagents stressing the gross margins of the companies. “The cost of diagnostic services in India can vary depending on the type of test and the facility, but it is generally more affordable compared to many other countries. Consequently, India is fast emerging as a medical tourism hub, witnessing a surge in patients from across the world for cost-effective and quality treatment options. Besides, the growing efforts to make India a medical tourism destination by the government authorities are expected to boost the demand for the Indian diagnostic services for the next few years,” said Priti Agarwal, Senior Director at CareEdge Ratings.

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