Hospital Industry in India Set to Grow at 12% CAGR till FY26

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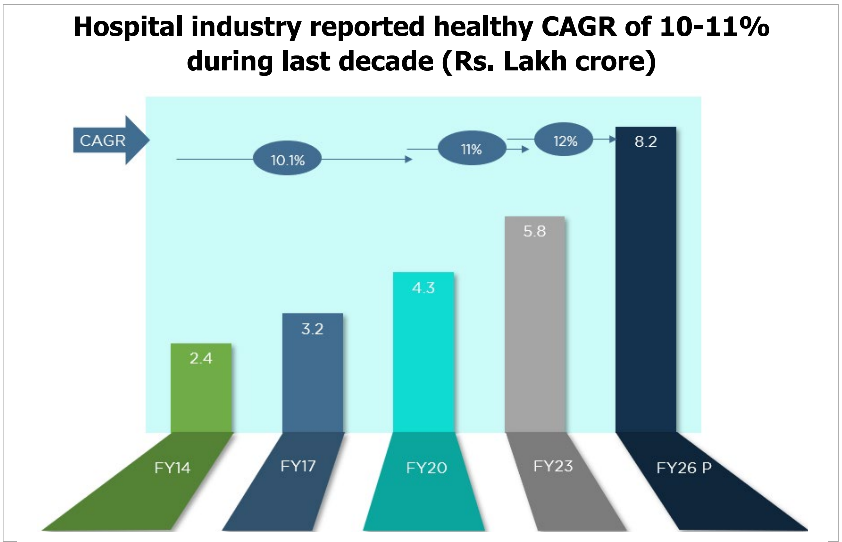
Synopsis

The Indian Hospital Industry is currently undergoing a profound transformation and experiencing remarkable growth. In FY23, it witnessed substantial mid-teen revenue growth, driven by several factors including expansion in Average Revenue Per Occupied Bed (ARPOB), amplified occupancy rates, augmented operational bed capacity, and a reduction in the average length of patient stays (ALOS). Despite pre-pandemic comparisons, the industry maintained robust operating margins, attributed to increased ARPOB, higher surgical volumes, an improved payor mix, and the sustained advantages derived from cost-optimization strategies implemented during the pandemic.

The recovery phase post-Covid-19 has ignited a surge in capital expenditure within the hospital industry. Multiple industry players are expanding their capacities and diversifying geographically to secure larger market shares. Simultaneously, larger companies are exploring inorganic growth opportunities, bolstering investor interest in the industry.

CareEdge Ratings anticipates that several factors such as increasing healthcare awareness, the surge in lifestyle diseases, a growing elderly population, the expansion of health insurance coverage, improved disposable income, augmented public expenditure on healthcare, and the rise in medical tourism will collectively contribute to the industry's growth at a healthy Compound Annual Growth Rate (CAGR) of approximately 12% over the next three fiscal years.

The Indian Hospital Industry continues to grow at healthy rate:

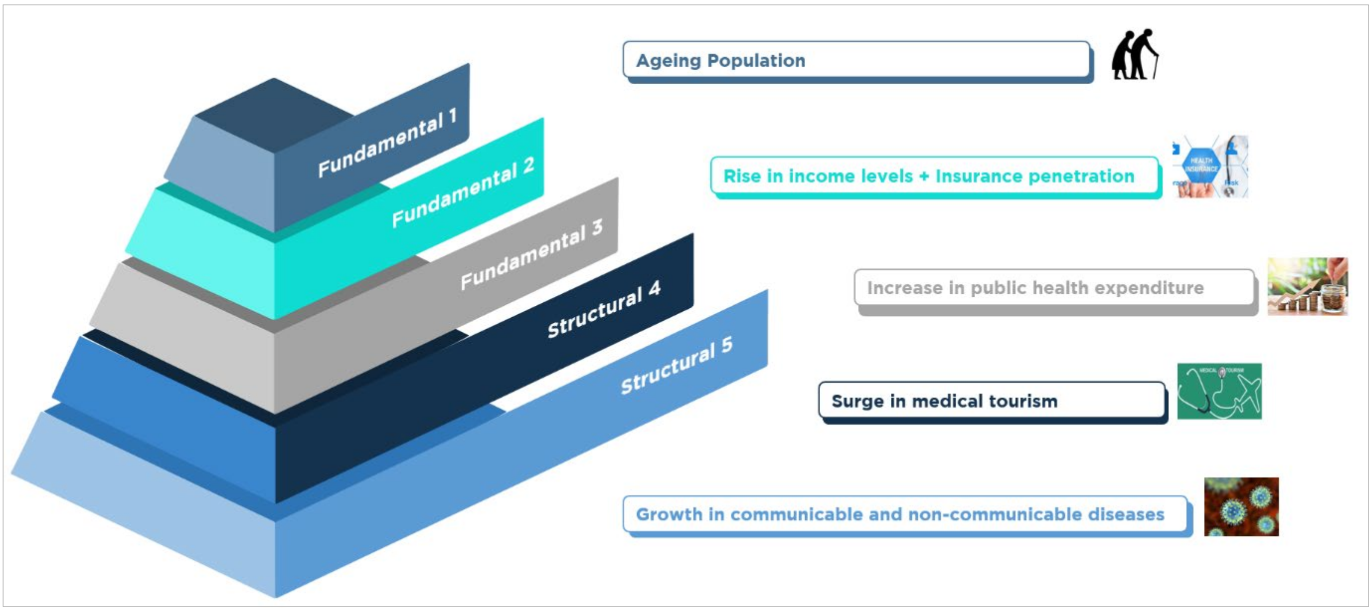


Source: Compiled by CareEdge Ratings

As per Organisation for Economic Co-operation and Development data for 2020, it is observed that the healthcare penetration in India has considerably low as evinced from less than 1 bed or doctors per 1000 people, indicating high scope for improvement. The chart on the left presents the compounded annual growth rate of the hospital industry during the pre-Covid era (FY14-FY20), Covid era (FY20-FY23) and post-Covid (FY23-FY26P).

It is observed that the industry during FY14 to FY20 has reported a CAGR of about 10%. However, during Covid the growth of the hospital industry was impacted to an extent as many of the patients have postponed elective surgeries, nevertheless, with the subsiding of Covid, the growth of hospitals has bounced back and it has reported a CAGR of about 11% during FY20 to FY23. Going forward CareEdge estimates the industry to grow by about 12%

and has identified the fundamental and structural growth drives, the pictorial depiction of the same is presented below:



Source: Compiled by CareEdge Ratings

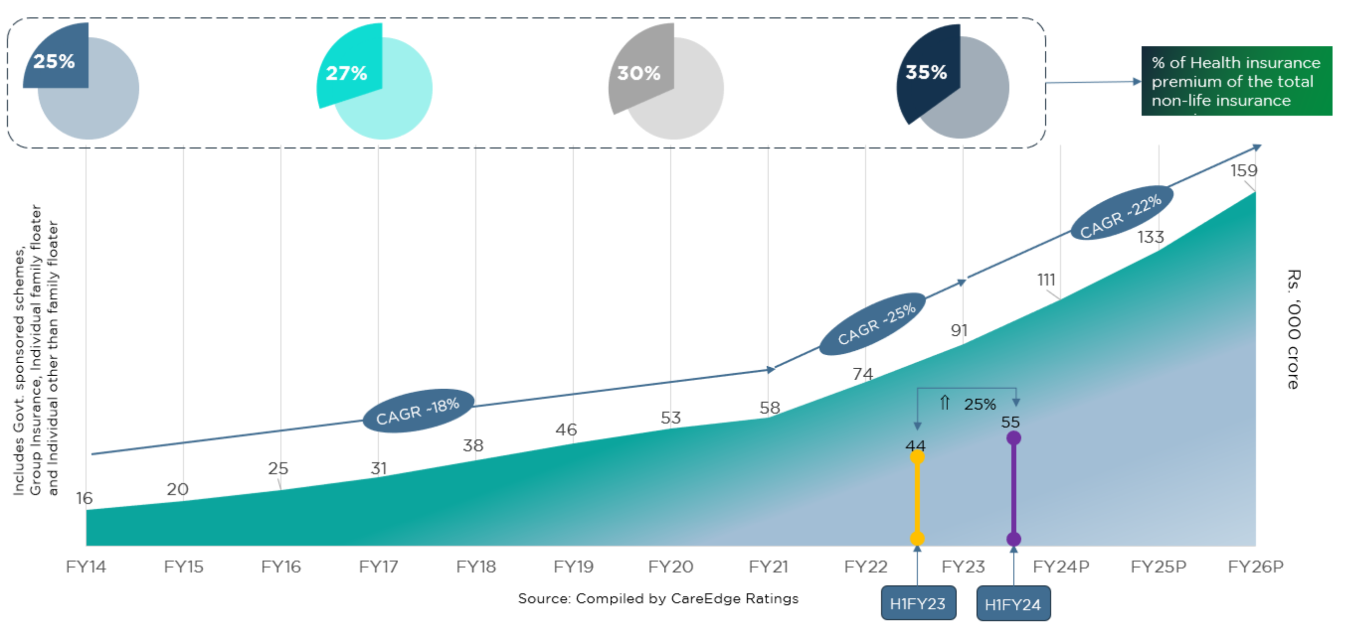
Health insurance premiums expected to grow at a healthy rate

The aggregate healthcare insurance premium, encompassing Government-sponsored schemes, Group Insurance, Individual Family Floater, and individual policies beyond family floaters, exhibited a robust Compound Annual Growth Rate (CAGR) of approximately 18% from FY14 to FY21. Moreover, the proportion of Health insurance premiums in relation to the total non-life insurance premium escalated from 25% to 30% during this period.

However, amidst the pandemic spanning FY21 to FY23, insurance premiums experienced a significant upsurge, showcasing a commendable CAGR of around 25%. Concomitantly, the contribution of health insurance premiums to the non-life insurance domain has increased to 35% from 30%. This substantial growth is primarily attributed to the growing recognition of the imperative nature of such insurance policies during health crises, compounded by an increment in insurance premium rates.

As awareness regarding the criticality of health insurance policies continues to rise, CareEdge Ratings forecasts a healthy CAGR of approximately 22% in insurance premiums over the next three years. Notably, the health insurance premiums recorded an impressive 25% growth in H1FY24 compared to H1FY23, affirming this positive trajectory.

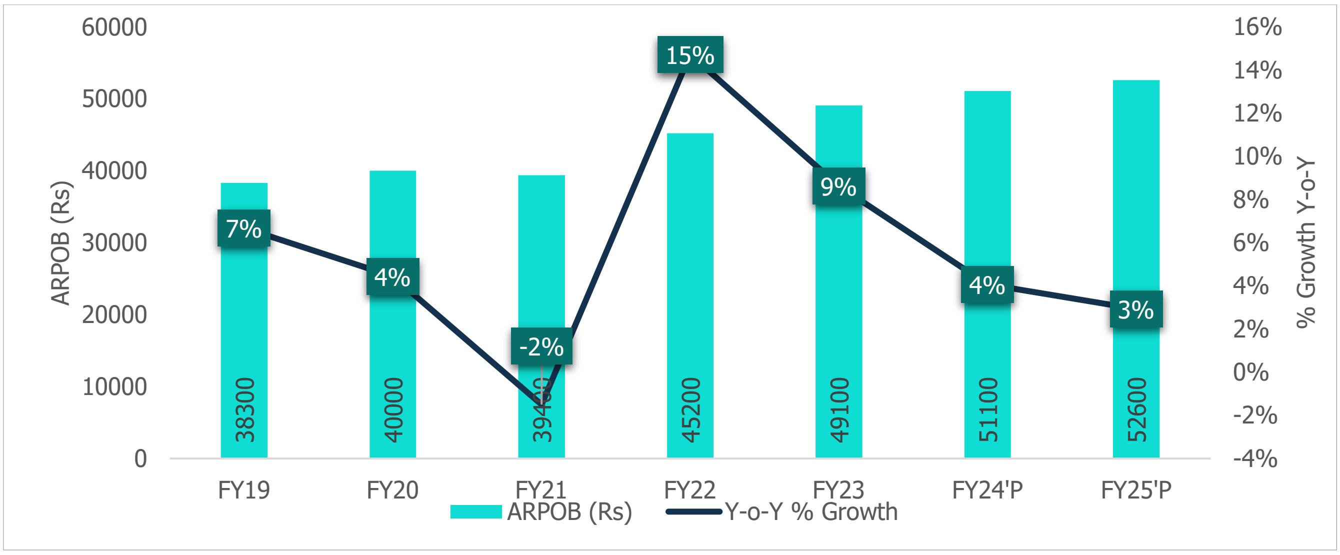
Health insurance premiums to grow at about 22% CAGR for FY23 to FY26



Source: Compiled by CareEdge Ratings

Confluence of positives driving ARPOB to expand further

The growth over the years in ARPOB has been healthy in this parameter except the period when Covid had stuck. Rising surgeries and continuous optimization of payor mix clubbed with some price increases which players take every year, ARPOB has registered healthy growth.



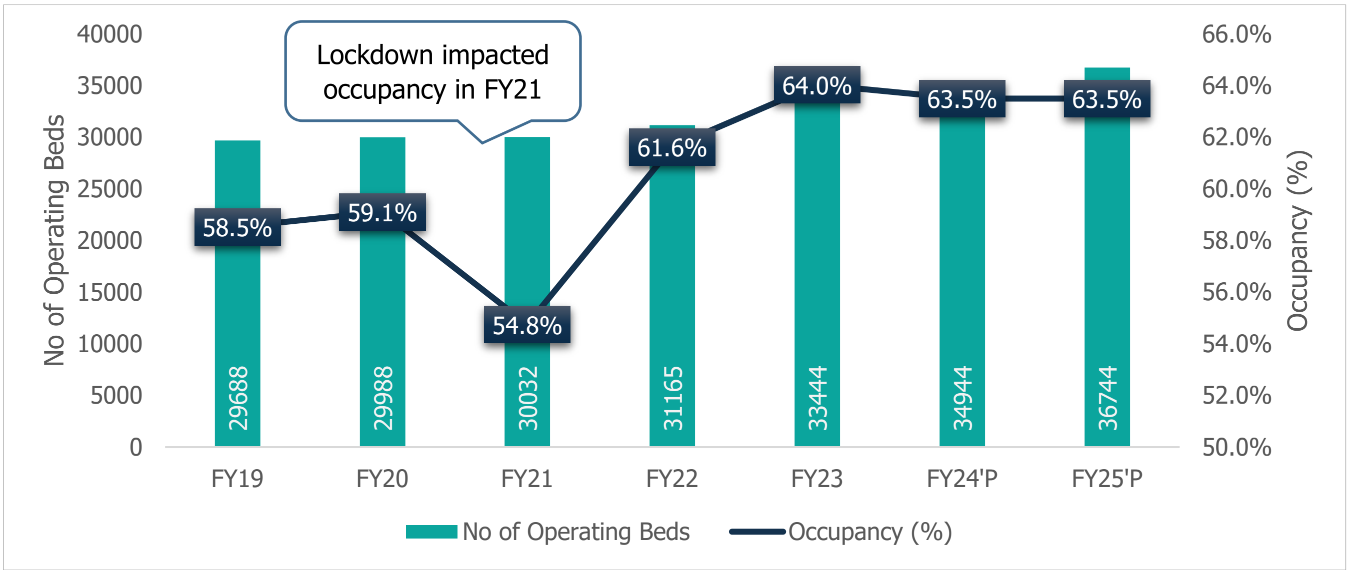
Source: Sample set of 9 listed players, CareEdge Ratings

After Covid-19, rising awareness of insurance benefits led to more people opting for health insurance and the hospitals have been focussing on high-end specialty treatment such as oncology, transplant and neurology. Post Covid the industry registered a phenomenal growth of 15% in ARPOB in fiscal of 2022 and even on a high base of FY22, the industry again registered a 9% growth in ARPOB in fiscal 2023. CareEdge Ratings expects that the industry will record a 4-5% growth going forward in AROPOB for the next two years.

Occupancies trending higher than pre-Covid era even on higher bed base

During FY19 & FY20 the occupancy on average in the industry trended at 58-59%. In FY21 on account of the COVID-19 outbreak which restricted patient movement and the fear of infections impacted hospital operations significantly as people deferred their elective surgeries leading to a drop in occupancy levels to ~55%. As elective surgeries resumed post covid and hospital inpatient footfall increased, the industry witnessed a steep rise in occupancy levels to 62% in FY22 and thereafter 64% in FY23.

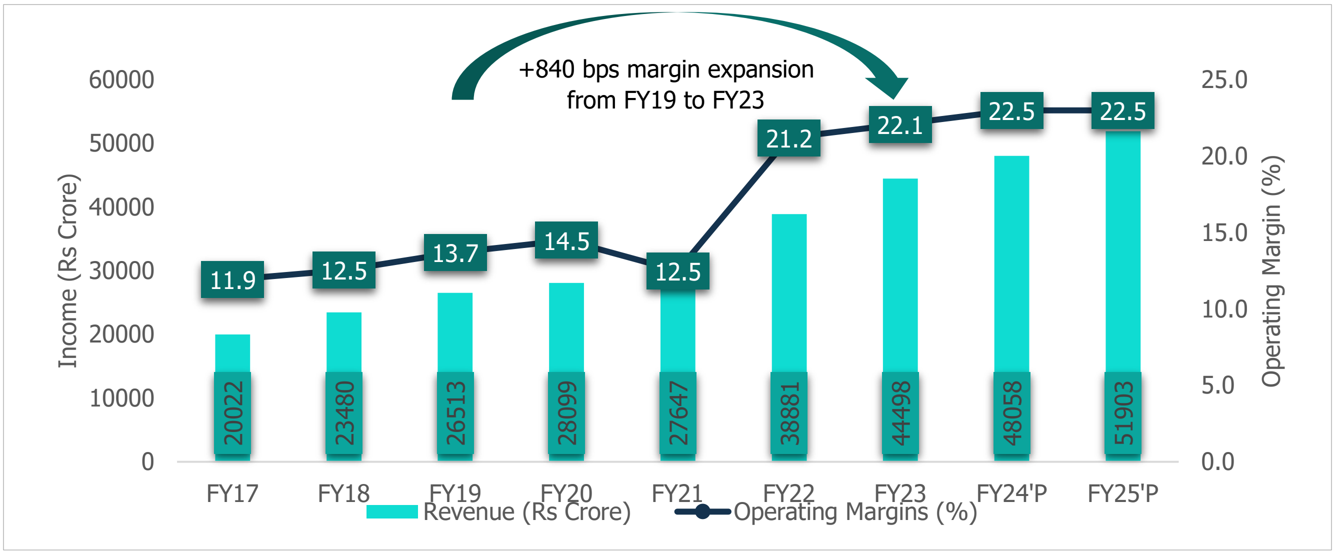
Looking at the healthy demand drivers such as the need for quality healthcare and rising occupancy levels, players have announced capacities in both greenfield and brownfield. The occupancy levels are however expected to remain range bound and strong at 62-64% even on the higher bed base on the back of rising awareness for health, deeper insurance penetration, rising chronic ailments/surgeries and medical tourism gaining traction. Further occupancies will get a further boost from medical tourism in India. In recent years medical tourism in India has been on a gradual uptrend, given the relatively low cost of surgery, critical care, advanced technology hospitals, and e-medical visas. After witnessing sharp fall in 2020 due to travel restrictions imposed during Covid, medical tourism has almost recovered back to pre-Covid levels in 2022 and is poised to grow further.



Source: Sample set of 9 listed players, CareEdge

Revenue and margins registered healthy growth post Covid; Set to remain robust

The selected hospital cohort has demonstrated an impressive 41% revenue growth amid an otherwise subdued fiscal year in FY21. Despite the elevated base of FY22, the industry continued its strong performance, marking healthy mid-teen growth in FY23. CareEdge Ratings anticipates revenue growth trajectory to persist, forecasting a 10-12% revenue increase over the next two years. This anticipated expansion is underpinned by the projected healthy growth in Average Revenue Per Occupied Bed (ARPOB) and stable occupancy rates, bolstered by increased health insurance penetration and the rise in medical tourism.



Source: Sample set of 9 listed players, CareEdge

Before the onset of the pandemic, the average operating margin for the sample set of industry players rested within the 12-15% range. The pandemic prompted hospital chains to adopt various cost optimization measures. Coupled with improving ARPOB and operational leverage, these measures resulted in a remarkable enhancement in the operating margin profile, surging by approximately 840-900 basis points to 22% in FY23. CareEdge Ratings estimates suggest that operating margins are likely to stabilize within the 22-23% range over the next two years. The augmented operating profitability facilitated increased cash accruals, leading to substantial deleveraging within the industry over the past two to three years. For instance, the net debt to EBITDA ratio, which stood around 3 times in FY19 for the sample set, significantly reduced to 0.6 times in both FY22 and FY23. This decline in debt burden subsequently lowered interest costs, while improved operating profitability provided a cushion, enhancing interest coverage metrics.

Looking ahead, while both leverage and debt coverage indicators are projected to experience marginal moderation from FY23 levels due to anticipated debt-funded expansions, they are expected to remain robust and healthy over the next two years.

Conclusion

"The Indian healthcare industry stands on the cusp of a profound transformation, driven by key factors that underpin its fundamental growth. These include an ageing demographic, increased public health spending, expanding insurance coverage, and rising per-capita income. Moreover, the industry is witnessing structural shifts, particularly in the wake of the Covid-19 pandemic, manifesting in a surge in communicable diseases and a notable uptick in medical tourism. This trajectory is projected to sustain a robust CAGR of 12% over the upcoming three fiscal years, spanning from FY23 to FY26," explains D. Naveen Kumar, Associate Director at CareEdge Ratings.

"In FY23, the hospital industry thrived with mid-teen revenue growth driven by improved ARPOB, higher occupancy, expanded capacities, and shorter average length of stay. Operating margins exceeded pre-pandemic levels, fuelled by increased ARPOB, surgical volumes, and cost optimizations. Post-Covid, there's a surge in capital expenditure for capacity expansion and geographic diversification. Despite rising leverage from capex, industry players remain financially robust, having significantly reduced leverage over the past two years through strong cash accruals.", states Ravleen Sethi, Associate Director at CareEdge Ratings.

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