

Indian Diagnostic Market to Grow by ~12% p.a., Margin to Remain Steady

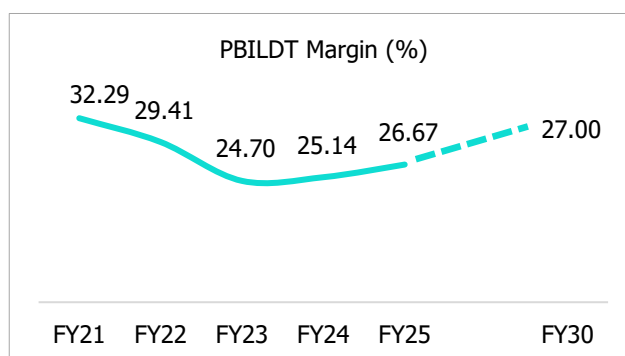
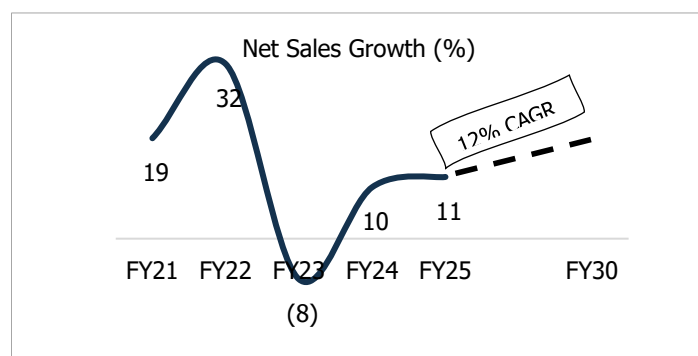
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Synopsis

- The Indian diagnostic market is set for a Compounded Annual Growth Rate (CAGR) of ~12% over the next five years, envisaged to reach \$15-16 billion. Although diagnostic services account for less than 10% of the overall healthcare industry in India, they play a critical role in early disease detection, guiding treatment decisions, and monitoring recovery.
- Demand from the wellness / preventive testing segment is expected to be a major growth driver, alongside factors such as changing demographic profile, expanding healthcare infrastructure in tier-2/3/4 towns, and rising private and public health insurance coverage. India's diagnostic services remain among the most affordable globally, which is expected to further boost demand.
- The industry faces intense competition, with numerous unorganised players, prompting consolidation. CareEdge Ratings anticipates accelerated consolidation, which will enhance growth and profitability for large diagnostic chains. Additionally, major pharmaceutical companies, hospital networks, and e-pharmacy platforms are entering the sector, leveraging their strong balance sheets and cash flows. For these players, diagnostics represent a natural extension of their businesses and an avenue for deploying surplus capital, thereby intensifying competitive pressures.
- Over the past five years, average realisation per test has marginally declined, reflecting heightened competition. Revenue and profitability growth have been driven primarily by volume expansion and operational efficiencies. CareEdge Ratings expects pricing per test to remain stable or grow modestly (1–2% annually) over the next 4–5 years. Volume growth, innovation, and efficiency improvements are the key drivers to support profitability in the industry.

India's diagnostic services market

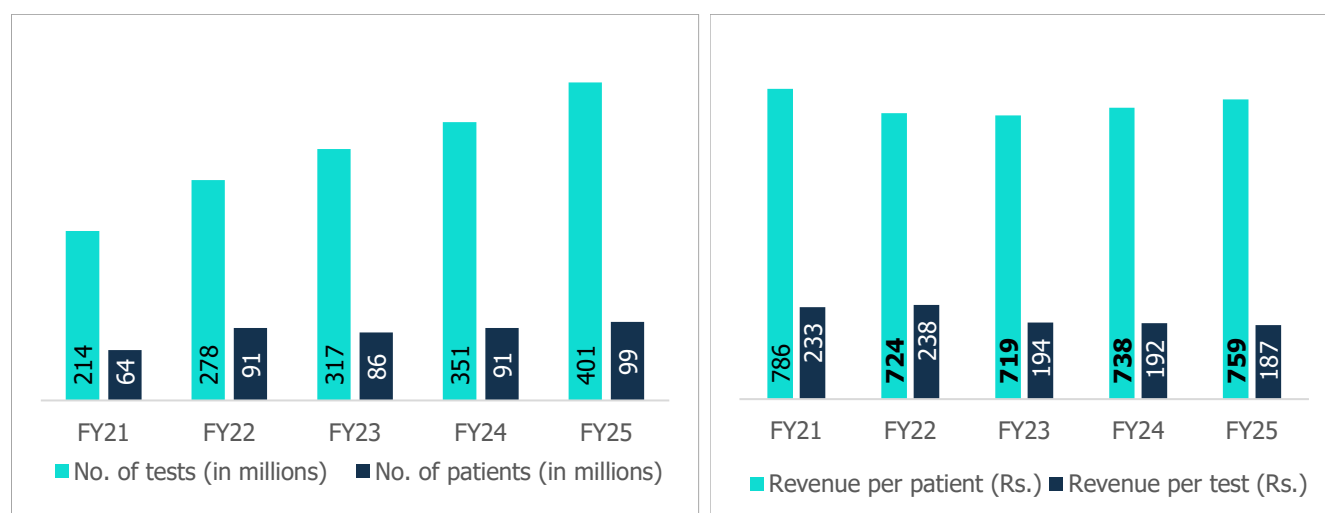
India's diagnostic services market is highly fragmented, primarily dominated by standalone diagnostic centres and hospital-based laboratories, while organised diagnostic chains account for approximately 20%-25% of the total market. With over 1.3 lakh laboratories nationwide, this fragmented landscape poses challenges to scalability.



Source: Compiled by CareEdge Ratings. The data represent the aggregate financials of seven sample companies in the Indian diagnostic industry, namely Dr Lal Pathlabs, Thyrocare Technologies, Suraksha Diagnostics, Vijaya Diagnostics, Krsnaa Diagnostics, Agilus Diagnostics and Metropolis Healthcare.

The seven sample diagnostic entities, which account for nearly 10-12% of the industry, reported a CAGR of 12% in net sales during the past five-year period ending FY25. During the COVID-19 pandemic-impacted years (FY21 and FY22), growth was exceptional, with net sales surging ~32% and PBILDT margins peaking to ~29-32%, driven by pandemic-related testing. As COVID-related demand subsided, revenue growth and margins normalised. However, structural growth remains resilient.

Revenue expansion has primarily been driven by patient volume growth (CAGR of 12%) and an increase in the number of test samples (CAGR of 17%). Consolidation and expansion by leading organised players have further supported volume growth, accelerating the sector's transition towards a more structured and scalable model. Revenue per patient and per test declined from Rs 786 and Rs 233 in FY21 to Rs 759 and Rs 187 in FY25, respectively, reflecting competitive pressure but improving affordability and access.



Source: Compiled by CareEdge Ratings. The data represent the aggregate operational data of seven sample companies in the Indian diagnostic industry, namely Dr Lal Pathlabs, Thyrocare Technologies, Suraksha Diagnostics, Vijaya Diagnostics, Krsnaa Diagnostics, Agilus Diagnostics and Metropolis Healthcare.

Wellness and preventive services revenue has delivered over 25% CAGR for the sample entities in the last four years ending FY25. Wellness and preventive services revenue accounted for nearly 12-25% of the total revenue of the sample entities in FY25, as against 6-12% in FY21. Rising awareness of preventive healthcare and the introduction of specialised packages position this segment as a key driver of future growth.

Despite more than 60% of India's population residing in rural areas, urban markets account for over 70% of diagnostic revenues. Major diagnostic chains are expanding their presence into tier 2, 3, and 4 towns, which are expected to contribute significantly to industry growth. NABL-accredited lab distribution highlights regional disparities, with the South and West regions accounting for ~58% of approved labs. These regions benefit from industrial hubs, higher per capita income, and urban density. In contrast, East and North remain underpenetrated due to infrastructure gaps and cost sensitivity, representing a substantial untapped opportunity.

Demographic trends further reinforce long-term growth prospects. According to UN projections, India's population aged 45 years and above is expected to grow by ~2.3–2.4% annually between 2020 and 2050, compared to overall population growth of ~0.6–0.7%. Rising per capita income, increasing healthcare awareness, an ageing population,

expanding healthcare infrastructure, and growing insurance penetration will continue to drive demand for diagnostic services.

Genomic testing is emerging as a significant growth driver for the Indian diagnostic industry. By analysing DNA to detect genetic mutations, genomic testing aids in disease diagnosis, cancer treatment planning, predicting drug response, prenatal screening, and informed preventive healthcare decisions. Leading diagnostic chains are investing heavily in this segment, building advanced labs and platforms to deliver faster, more precise results. The genomic testing segment consistently delivers double-digit revenue growth, supported by a superior product mix and higher profitability margins. However, this capability requires substantial investment in equipment, software, and skilled talent, creating entry barriers for smaller players and single-location diagnostic centres.

Margins face competitive pressure; efficiency and innovation are key

India's diagnostics industry is highly fragmented, characterised by low entry barriers and the presence of numerous standalone labs and hospital-based diagnostic centres. While this fragmentation limits scalability and investment capability, it also creates opportunities for consolidation and the development of new business models. Over the past five years, revenue per patient and per test have marginally declined. Adding to the competitive pressure, several large pharmaceutical companies, hospital chains, and e-pharmacies have entered the market aggressively. CareEdge Ratings expects competitive intensity to remain high, keeping the pricing per test and profitability margins under check. Diagnostic chains will need to rely on volume growth and operational efficiency to sustain profitability. Smaller standalone labs and regional chains are already facing margin pressure and are likely to continue experiencing challenges in the near to medium term.

Artificial Intelligence (AI) has the potential to transform the Indian diagnostic industry by enhancing efficiency, accuracy, and scalability. AI tools can process large volumes of imaging and pathology data with high precision, enabling faster and more accurate detection of anomalies. Leveraging patient data and biomarkers, AI can also predict disease onset and progression, shifting diagnostics from reactive to preventive care. However, AI adoption requires significant investment in scanners, cloud infrastructure, and advanced software, leading to higher initial costs. These costs are largely fixed, and benefits such as reduced error rates and improved turnaround times scale rapidly with higher test volumes.

Large diagnostic chains with strong balance sheets and/or those with strategic backing of private equity (PE) funds are well-positioned to lead the next phase of growth through consolidation, digital transformation, and regional expansion. Investor confidence in the sector is evident, with six major diagnostic companies going public over the past decade, led by Dr Lal PathLabs as the first major listed player—underscoring the industry's growing maturity and attractiveness to capital markets. Mergers and acquisitions have further reshaped the competitive landscape. PE investments have surged, highlighted by Neuberg Diagnostics securing Rs 940 crore from Kotak Strategic Situations India Fund II—the largest primary fundraise in the sector to date. Additionally, a series of smaller acquisitions, each under Rs 50 crore, signals accelerating market consolidation.

Notable deals over the last decade include:

Acquirer	Target Company	Consideration
PharmEasy	Thyrocare Technologies Limited (66% stake)	~Rs 4,546 crore
Fortis Healthcare	Agilus Diagnostics Limited (additional ~31% stake)	~Rs 1,780 crore
Agilus Diagnostics Limited	DDRC SRL Diagnostics Private Limited (additional 50% stake)	~Rs 350 crore
Dr. Lal Pathlabs	Suburban Diagnostics Limited	~Rs 967 crore
Metropolis Healthcare	Dr Ganesan's Hitech Diagnostic Centre	~Rs 636 crore
Metropolis Healthcare	Core Diagnostics	~Rs 246 crore
Vijaya Diagnostics	PH Diagnostics Centre Limited	~Rs 148 crore
Metropolis Healthcare	Scientific Pathology	~Rs 83 crore
Redcliffe Labs	Celara Diagnostics	~Rs 60 crore

CareEdge Ratings' View

"India's diagnostic services market is expected to maintain double-digit growth (~12% CAGR), reaching \$15-16 billion by FY30, driven by rising preventive healthcare awareness, demographic shifts, and expanding health insurance coverage. The growth is expected to be majorly supported by volumes, while pricing may remain stable", stated Dhruv Shah, Assistant Director at CareEdge Ratings. However, competitive intensity will keep margins under check. Large diagnostic chains must thereby focus on volume growth, operational efficiency, and technology adoption (AI, genomic testing) to sustain profitability.

"Organised diagnostic chains are taking steps to gain scale through consolidation. Large, well-capitalised players are also best positioned to benefit from digital transformation and market expansion. Strong investor interest, PE funding, and M&A activity could accelerate consolidation, enabling organised players to further scale up and innovate, while smaller labs may face continued profitability challenges," said Krunal Modi, Director at CareEdge Ratings.

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