Healthcare Update: March 2021

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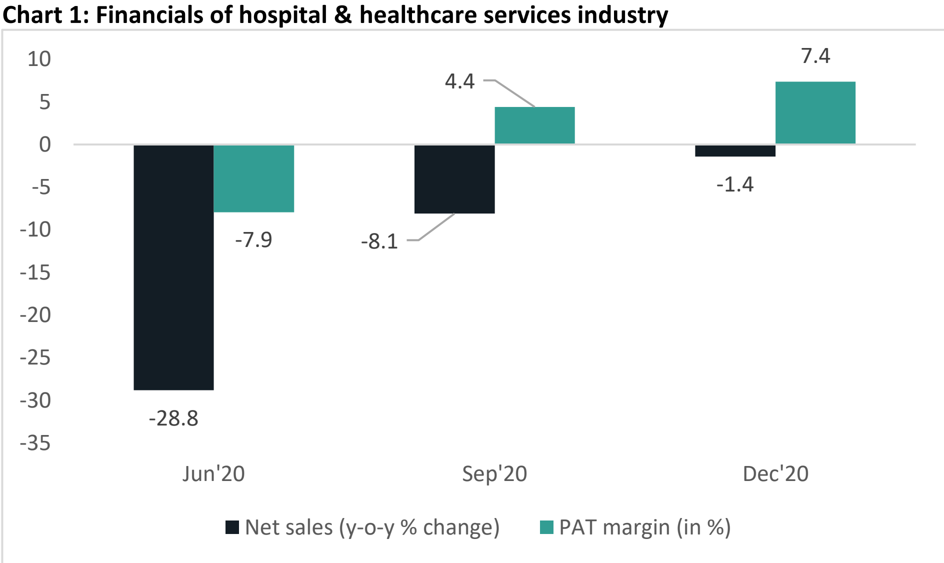
Hospital & healthcare industry's financials during April-December 2020

The healthcare industry being considered the most essential service continued even during the lockdown period where many other services were shut. While treatment of non-Covid patients (primarily non-emergency treatments) were instructed by the government to be kept on hold, treatment of Covid patients was prioritised after the outbreak of pandemic in India. Also, some hospitals had suspended outpatient departments (OPD) to ensure safety of the healthcare workers and to avoid the spread of infection in healthcare premises. Also, imposition of lockdown restrictions by the government in the end of March 2020 further constrained the mobility of patients.

The above mentioned factors, in turn, reduced the number of non-Covid patients visiting hospitals and clinics. Nevertheless, with easing of lockdown restrictions, the situation of hospital & healthcare industry improved sequentially in the September 2020 quarter and the December 2020 quarter which can be witnessed in the financials of the industry (refer Chart 1 below).

Chart 1: Financials of hospital & healthcare services industry



Source: Ace Equity
Note: The sample size includes data on 31 companies

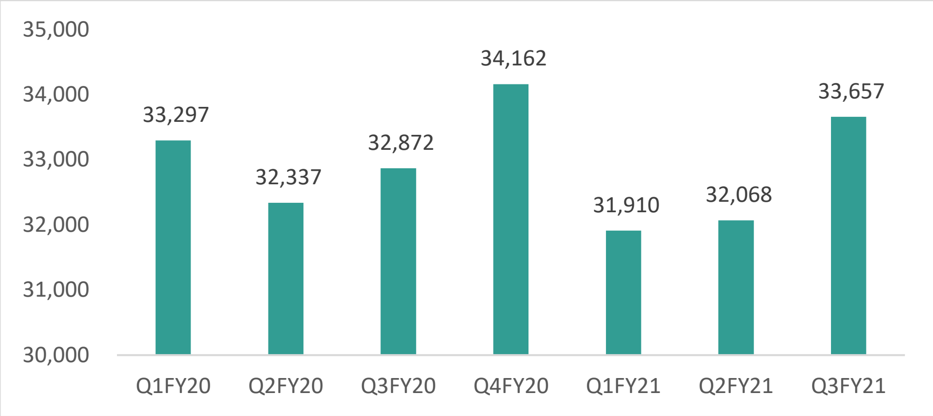
Sales of the hospital & healthcare industry which had declined by a sharp 28.8% y-o-y in the June 2020 quarter fell by a slower 8.1% and 1.4% in the September 2020 quarter and the December 2020 quarter, respectively, thereby showing sequential improvement. This momentum was also seen at the profit margin level. The industry profit margin which was negative 7.9% in the June 2020 quarter improved to positive 4.4% in the September 2020 quarter and further expanded to 7.4% in the December 2020 quarter. The sequential improvement was only backed by easing of lockdown restrictions which increased mobility of people and allowed hospitals to conduct treatments other than Covid treatments.

It is to be noted that the industry's profit margin had deteriorated sharply in the June 2020 quarter as against 15.8% positive profit margin in the June 2019 quarter. In the following September 2020 quarter and December 2020 quarter, the profit margin however contracted only in the range of 0.4%-1.7% y-o-y indicating improvement in profit margin performance. The industry had reported positive sales growth in each of the quarters during FY20.

Performance indicators

ARPOB: To understand the trend in Average Revenue per Occupied Bed (ARPOB) per day for the industry we have averaged the ARPOB per day data of top 5 players which can be seen in Chart 2 below. From the chart it can be observed that the ARPOB per day for the top 5 players declined by 6.6% to Rs.31,910 on sequential basis in Q1FY21 primarily due to Covid-19 induced lockdown which restricted the mobility of patients. The ARPOB level improved by a marginal 0.5% to Rs. 32,068 per day in Q2FY21 and further increased by 5% to Rs.33,657 in Q3FY21 backed by easing of lockdown restrictions which aided patients' visits to hospitals and clinics that were postponed by them.

Chart 2: Trend in ARPOB per day of top 5 companies on average basis (in Rs.)



Source: Company reports

Note: This includes data on the top 5 players (in terms of sales) for which the performance indicators are available

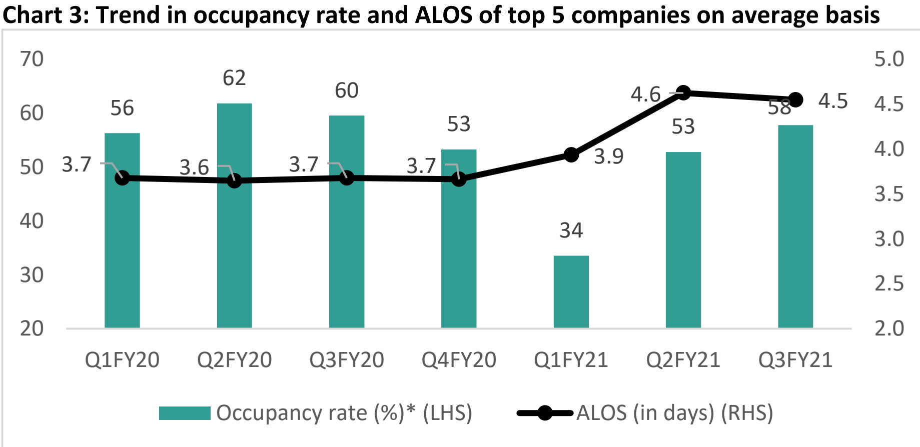
Improvement in ARPOB level was seen on a y-o-y basis as well, the ARPOB per day for top 5 players which had declined by 4.2% to in Q1FY21 fell by a slower 0.8% in Q2FY21 and increased by 2.4% in Q3FY21. However it is important to note that of the top 5 players considered, while the ARPOB level of 3 companies improved on a y-o-y basis in each of the quarters during April-December 2020, the ARPOB level of the other 2 companies declined in each of the quarters in the same period. The higher ARPOB in Q1FY21 was backed by lower number of Covid-19 treatments amid limited and emergency surgeries (including high-end treatments) and low occupancy. Revenue earned from Covid patients is almost half of the ARPOB level earned by these hospitals. In the following Q2FY21 even while higher Covid-19 treatments impacted the ARPOB level, other non-Covid treatments which gained some traction on account of easing lockdown restrictions are believed to have supported the ARPOB level in addition to patients with severe Covid-19 conditions. In Q3FY21, higher ARPOB was mainly on account of increase in surgical volumes and other non-Covid treatments that were postponed and receding Covid-19 treatments.

The higher count of Covid patients for other players on the other hand lowered their ARPOB. Moreover, treatments for Covid patients have a price cap set by various state governments. Apart from this, the hospitals for which the important source of revenue is non-high priority treatment which could be deferred in Covid time are also believed to have impacted the ARPOB level of these hospitals during April-December 2020 on y-o-y basis. However, it is to be noted that all the hospitals except for one reported their respective highest ARPOB per day in Q3 FY21 among the first 3 quarters of FY21 on account of growth in non-Covid treatments including elective surgeries and abating Covid-19 treatments.

Occupancy rate and ALOS

It can be seen from Chart 3 below that the average occupancy rate of top 4 players had declined sequentially by 10.5% to 53% in Q4FY20 which further deteriorated by 37.1% to 34% in Q1FY21 due to Covid-19 induced lockdown restrictions which impacted the mobility of patients and, in turn, their footfalls. Lockdown was imposed by the government in last week of March 2020. In the following quarters, the average occupancy rate however improved to 53% in Q2FY21 which further increased to 58% in Q3FY21. The occupancy rates expanded on account of easing of lockdown restrictions which supported non-Covid treatments to gain traction. The average occupancy rate of 58% in Q3FY21 suggests that the occupancy rates are nearing pre-Covid levels as can be seen in the below chart.

Chart 3: Trend in occupancy rate and ALOS of top 5 companies on average basis



Source: Company reports

Note: This includes data on the top 5 players (in terms of sales) for which the performance indicators are available

Note: *indicates data for 4 top companies

The Average Length of Stay (ALOS) which was in the range of 3.6-3.7 days during FY20 increased to 3.9 days, 4.6 days and 4.5 days in Q1FY21, Q2FY21 and Q3FY21, respectively. This is primarily because of Covid patients who are required to stay longer (up to 14 days and in severe cases more than 14 days) in hospitals compared to some other elective treatments. Also, severe Covid patients are referred to private hospitals by government for treatments.

It is to be noted that lower ALOS helps in faster turnaround of beds which result in more patients to be treated from the current facilities. Also, it helps the hospitals to increase their income as most of the revenues are made by hospitals in the initial few days of the patients' treatment.

Increased occupancy rates and footfalls have even supported the revenues of the diagnostics and testing segment of the industry in Q2FY21 and Q3FY21. This was backed by returning non-Covid treatments which resulted in higher volume of samples from hospitals, clinics, OPD centres, local clinics and doctors and Covid & Covid-allied tests which have gained momentum these days. In addition to this, higher average realisation per test on y-o-y basis have also aided the segment's sales.

It is to be noted that the healthcare industry comprises hospitals (which accounts for more than half of the industry's size), pharmaceuticals, diagnostics, medical equipment and supplies, medical insurance, telemedicine.

Outlook

The industry is estimated to return to normal levels by end of Q1FY22 backed by expected improvement in occupancy rates, footfalls and ongoing vaccination program. Also, increase in momentum of non-Covid treatments and elective surgeries which tend to provide better ARPOBs on an average compared to the ARPOBs from Covid patients will support the industry growth in FY22. In addition to this, the healthcare industry is extending the services of e-consultations and other home care services that will also support their revenues. Moreover, international patients are also allowed to travel to India for medical treatments (though with certain conditions) and this will benefit healthcare units that have a fair share of international patients. **Thus, the hospital and healthcare industry is expected to grow by about 10%-12% during FY22**.

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