

Healthcare Update: November 2020

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-6837 4433

Author

Bhagyashree C. Bhati
Deputy Manager – Industry Research
bhagyashree.bhati@careratings.com
+91-22-6837 4407

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6754 3573

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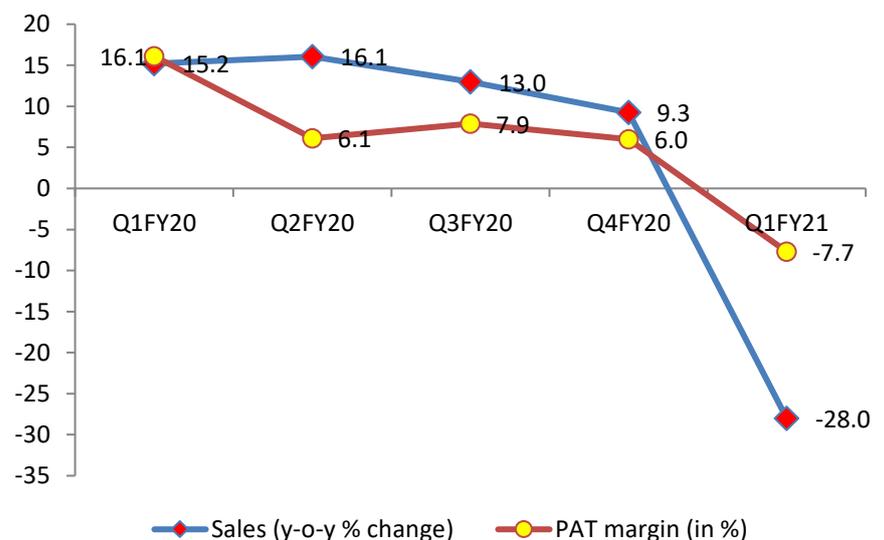
The healthcare industry was the most essential industry during the tough time of Covid-19 induced lockdown. As a result, the industry’s operations continued even during this period. The industry however faced some challenges in the initial phase of lockdown in terms of movement of healthcare workers, supplies of medical equipments and transport of drugs among others.

It is to be noted that while the industry was allowed to function smoothly, primary importance was given to the treatment of Covid-19 patients. Consequently, the government had encouraged suspension of routine services and non-emergency services by hospitals so as to prioritize the treatment of Covid-19 patients and to ensure social distancing norms to prevent infection of the virus.

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. Resultantly, footfalls in hospitals were affected and thus the operations of the healthcare industry dealing with non Covid-19 patients were impacted.

This can also be seen in the financials of hospital & healthcare services industry which is shown in chart 1 below.

Chart 1: Financials of hospital & healthcare services industry



Source: Ace Equity

Note: Sample size is 29 companies

Sales of the hospital & healthcare services industry declined by a sharp 28% y-o-y in the first quarter of FY21 and reported losses amounting to 7.7% of sales during the quarter. Lower footfalls due to Covid-19 induced lockdown affected the performance indicators of the industry (which is discussed going ahead) and thus sales and profit margins in Q1FY21. Also,

state/inter-state movements and international travel restrictions resulted in lower number of patients visiting hospitals. The industry's sales however had grown in double-digits in each of the quarters in FY20 except for Q4FY20 and the industry had reported profits at the net level in each of the quarters during FY20. It is to be noted that lockdown was imposed from last week of March 2020 onwards.

Performance indicators

ARPOB: The Average Revenue per Occupied Bed (ARPOB) for the top 5 players in the industry declined by 4.3% y-o-y to Rs.31,910 during Q1FY21. While the ARPOB was higher on a yearly basis for some players, it was lower for others. Limited and emergency surgeries (including high-end treatments) and low occupancy increased the ARPOB for the players. Also, lower number of Covid patients in these hospitals led to the growth in ARPOB as the revenue earned from Covid patients is almost half of the ARPOB level earned by these hospitals. The higher count of Covid patients for some players on the other hand lowered their ARPOB. Moreover, treatments for Covid patients have a price cap set by various state governments.

Table 1: Average performance indicators of top 5 companies

	Q1FY20	Q1FY21	% change
ARPOB (Rs.)	33,352	31,910	-4.3
ALOS (days)	3.7	3.9	5.4
Occupancy rate*	57%	34%	-40.4

Source: Company reports

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

*indicates data for 4 top companies

Table 2: Average performance indicators of top 4 companies

	Q1FY20	Q1FY21	% change
ARPOB (Rs.)	33,633	34,425	2.4
ALOS (days)	3.5	3.6	2.9
Occupancy rate*	63%	40%	-40.4

Source: Company reports

Note: This includes data on the top 4 players (in terms of sales) for which the performance indicators are available

Note: This sample excludes data of one player for which the important source of revenue is non-high priority treatment that could be deferred in Covid time

*indicates data for top 3 companies

Also, hospitals mainly dealing with non-high priority treatments that could be deferred in Covid time (like dermatology, orthopaedic etc.) have seen their ARPOB come down. In addition to this, treatment of Covid patients also affected the ARPOB level for such hospitals. This can be understood better referring to table 2 where we exclude a player from table 1 that primarily deals with treatments that could be deferred or postponed in Covid time. So here we see that the ARPOB of the remaining 4 players excluding this player resulted in higher ARPOB of 2.4% on a y-o-y basis which otherwise declined by 4.3% (in case of top 5 players).

ALOS: The Average Length of Stay (ALOS) has seen an increase in both the cases (table 1 and table 2). It grew by 5.4% to 3.9 days (table 1) and by 2.9% to 3.6 days (table 2) during Q1FY21. 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.

Occupancy rate: The direct impact of lower footfalls is decrease in occupancy rate of hospitals as can be seen in both the cases (table 1 and table 2). It fell by a sharp 40.4% to 34% (table 1) and again by 40.4% to 40% (table 2). While operations

for emergency and critical care continued even during lockdown, decline was witnessed in other non-high priority treatments which, in turn, affected the industry's occupancy rate and this can be understood better when occupancy rates mentioned in table 1 and table 2 are compared.

Lower patient visits not only impacted the hospitals segment of the healthcare industry but also the diagnostics and testing segment of the industry. Fall in volumes of tests conducted by diagnostic centres due to decline in flow of samples from hospitals, clinics, OPD centres, local clinics and doctors along with higher costs associated with Covid-19 tests (that gains traction) affected the profitability of these units even when revenue per patient and test was up on y-o-y basis in Q1FY21 primarily backed by Covid-19 tests.

The easing of lockdown restrictions from June 2020 nevertheless have augured well for the industry with footfalls improving on sequential basis for the industry which is supporting occupancy rates and diagnostic tests from non-Covid patients.

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

With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are expected to improve as demand from non-Covid patients gathers pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. While operations of healthcare industry are estimated to return to normal levels only from Q3FY21 onwards, we might not see operations at pre-Covid level rates in the current quarter for all the players. Nevertheless, the healthcare industry is extending the services of e-consultations and other home care services that will also support their growth. 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. In addition to this, while Covid treatments and testing continues to be a part of business for healthcare industry, getting back to non-Covid business remains the focus point of the industry.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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