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Most national diagnostic players to deliver double-digit revenue growth in FY2022: ICRA

15 December 2021 | News

Margins expected to improve by 300-400bps



The Indian diagnostics industry witnessed healthy revenue growth in FY2021 with COVID-19 related tests contributing to ~20-25per cent revenues, in turn supporting profit margins. During H1 FY2022, ICRA's sample set witnessed volume growth of 74 per cent aided by a low base and spike in COVID-19 and allied tests in the second wave. This was in line with the active cases in India that touched an all-time high in May 2021, peaking at more than 4x the first wave peak. Despite regulated pricing on COVID-19 tests, a better volume mix led to improved realisation in H1 FY2022. Overall, the revenues of the sample set grew by 55 per cent Y-o-Y in H1 FY2022; this is expected to moderate in H2 FY2022 on account of the festive season and relatively lower pent-up demand.

Says Mythri Macherla, Assistant Vice President and Sector Head, ICRA, "We expect revenue growth of its sample set to be 20-25 per cent in FY2022. In line with sequential improvement expected in non-Covid revenues and consolidation of regional chains, revenue growth is estimated at ~8-10 per cent in FY2023. Recent trends such as a focus on digital brand building, improved offerings in bundled medical packages, changing consumer mindset towards organised players are likely to support demand traction for national diagnostic chains going forward."

The operating profitability margins (OPM) of the sample set improved to 32 per cent in H1 FY2022 (as compared to 23 per cent in H1 FY2021 and 30 per cent in Q4 FY2021) given a lower base, operating leverage benefits from increased realisations and stabilised raw material prices. ICRA expects the OPM levels to improve sharply to 30-32 per cent in FY2022 (as against 27.2 per cent in FY2021). The same is expected to stabilize in the range of ~29-30 per cent during FY2023 due to the sector's focus on volume growth against the prevailing pricing pressures.

AddsMacherla, "With pricing pressures weighing in on the organized players, realization and EBIDTA levels are expected to stabilise going forward. That said, the shift of customer demand from unorganised to organised chains and the increasing trend of home collections shall positively impact the volume mix and support realisations. Geographical diversification by way of acquisition of regional and smaller diagnostic chains shall result in consolidation and generate synergy benefits in the medium term. Expansion of lab and collection centre network via franchisee model will aid asset-light growth prospects. With news around the Omicron variant, testing is expected to increase in December 2021 due to travel norms in certain states. That said, increasing pace of vaccinations could mitigate the spread of the new variant and reduce the level of COVID-19 related tests in the medium term."