AXIS CAPITAL

Indian Diagnostics

Plenty of steam still left

Healthcare | Sector Report | June 16, 2025

Valuation

Cos.	Mcap (USD bn)	Rating	CMP	TP
DLPL	2.87	ADD	2,953	3,260
MetroHL	1.02	BUY	1,700	2,000

Source: Axis Capital

We take a deeper look at the Indian diagnostics industry, given the current geopolitical uncertainties and earnings moderation seen post Q4 in pharma plus potential margin disappointments and rich valuations for hospitals. Key observations: (1) visible shift from standalone labs to regional/national chains; with expansion on the cards, this trend should accelerate; (2) wellness/package testing continue to evolve, driven by science-based campaigns; (3) online players' pricing discipline first seen in mid-CY23 and limited success of hospital-based chains provide comfort on realizations; and (4) strong return ratios (20+% RoCE) and OCF-to-EBITDA conversion of 80%+ continues. We maintain BUY on MetroHL (TP revised to Rs 2,000) and ADD on DLPL (TP stays at Rs 3,260).

Industry trends – key observations

- Perceptible shift to large-format chains: Large-format chains' share increased from ~15% over FY15-20 to 22% as of FY24 (Ex. 9, standalone at 39% vs 47%), driven by industry consolidation and the need for home collection and online reports during Covid, with regional/multi-region chains seeing mid-high teens CAGR over FY20-24.
- Wellness testing, which formed ~8% of the industry in FY18, saw a 12% CAGR to an 11% share in FY24 and will likely reach ~15% by FY28E, growing at mid- to high-teens, which is reiterated by the 20-25% FY18-25 CAGR seen by traditional players (Ex. 11).
- With competition from online players like 1mg/Netmeds gradually subsiding, entry of pharma (Lupin, Torrent, Medplus) and hospitals (Apollo, Max, Medanta) remains a key monitorable. Their profitability is still below mid-teens (Ex. 41), and given they are not significantly undercutting prices (Ex. 25, 27), we see little threat of another price war but expect some volume moderation as they expand on the back of strong cashflows.
- Hinterland regions are becoming a focus area for expansion – historically, organized players have focused more on urban areas, as 70% of the population (rural) represent ~24% of the market (Ex. 14). But this is expected to change, foreseen with the following comments: Dr Lal – 'Tier-2/3+ towns will be a larger demand driver ahead;' and Metropolis – '51 of the 85 labs added in the past four years were in Tier-2/3 cities.'

Apr'25 price check: Pricing discipline prevails

- Traditional players like MetroHL and Agilus, which refrained from price hikes in our Nov'24 check, have now selectively hiked prices (DLPL remains an exception and Metropolis also cut prices by 3-10% in Delhi, Ahmedabad, and Hyderabad).
- Prices were hiked also by Apollo (15-25%), 1mg (0-15%), and Netmeds (0-5%).
- Pharmeasy cut prices by 2% across cities, while Healthians, which had hiked prices by mid- to high-teens in Nov'24, has partly reversed it with 12% cuts across cities.
- Max Labs's pricing in Delhi is similar to Dr Lal's, while in Mumbai it is at a 12% discount vs Metropolis, and same for Lupin is at a 21% discount.
- Package tests: Netmeds, Pharmeasy, and DLPL maintained status quo; Metropolis hiked by 6-9%, 1mg hiked by double-digits; Agilus maintained prices but increased the number of parameters; while Healthians cut prices by 15-20%.

Strong growth prospects and return profile drive industry premium

The Indian diagnostic industry's revenue/EBITDA CAGRs are expected to accelerate to mid-teens over FY25-28E from low-teens over FY19-25 (Ex. 56) on volume-driven growth, stable pricing dynamics, continued traction in wellness/package testing, expansion into Tier-2-4 cities, and M&A. Currently, the industry trades at an FY27E EV/E of 22x (Ex. 58), with an FY25 RoCE of 23%, which is at a 10% premium to domestic pharma with comparable EBITDA growth and RoCE profile on better industry growth trends. However, diagnostics trades at a 16% discount to Indian hospitals, given a 21% EBITDA CAGR for hospitals, even as the RoCE profile is better vs 19% for hospitals.

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