

India

Overweight (no change)**Highlighted Companies****Apollo Hospitals Enterprise****ADD, TP Rs8549, Rs7355 close**

Margin pressure is likely in 2HFY26F due to hospital expansion plan.

Metropolis Healthcare**ADD, TP Rs2250, Rs1941 close**

Completion of capex cycle and margin improvement on the cards.

Summary Valuation Metrics

P/E (x)	Mar26-F	Mar27-F	Mar28-F
Apollo Hospitals Enterprise	55.2	46.8	29.2
Metropolis Healthcare	49.4	40.9	0.0
P/BV (x)	Mar26-F	Mar27-F	Mar28-F
Apollo Hospitals Enterprise	10.8	9.0	6.0
Metropolis Healthcare	6.6	5.8	0.0
Dividend Yield	Mar26-F	Mar27-F	Mar28-F
Apollo Hospitals Enterprise	0.3%	0.3%	0.5%
Metropolis Healthcare	0.2%	0.4%	0.0%

Healthcare - Overall

2QFY26 results review

- 2Q results of diagnostics companies were broadly in line for our coverage universe. Maintain ADD on Metropolis Healthcare & Thyrocare Technologies.
- Retain Overweight stance on the sector, despite tepid volume growth in recent quarters, due to expansion plan, specialty mix, and a surge in global patients.
- Regulatory changes like CGHS price revision and GST rehaul have a positive impact on the healthcare sector.

Diagnostics: 2QFY26 earnings broadly in line with expectations

The 2QFY26 earnings were broadly in line for companies in our coverage universe, with most companies meeting expectations and a few misses as well. Companies in our coverage universe saw 15.9% YoY revenue growth, (10% QoQ increase due to seasonality). There was lower volume growth than expected across the board due to decrease in seasonal fevers, despite a healthy growth in preventive health packages across our coverage universe. Companies saw a YoY margin improvement of 40bp. All three companies in our coverage (Dr. Lal Pathlabs or DLPL, Metropolis Healthcare or MHL, and Thyrocare Technologies or TTL) decided to keep price hikes at bay for the year. On the expansion front, DLPL is growing organically in Tier-3&4 cities (northern & eastern regions) and is also open to expansion opportunities in the southern region. MHL completed lab expansion and is looking to expand collection centres in its existing geographies. We maintain our ratings for all three diagnostics companies (HOLD for Dr. Lal Pathlabs and ADD for Thyrocare Technologies and Metropolis Healthcare). 4QFY26F will be a good entry point for diagnostics companies based on the historical trend.

Hospitals: 2QFY26 earnings slightly below expectations

The 2QFY26 earnings of Apollo Hospitals Enterprise were slightly below our expectations. Companies in our coverage universe witnessed 13% YoY revenue growth, (8% QoQ increase due to seasonality). There was lower volume growth than expected across the board due to the decline in seasonal admissions, despite better case mix and higher insurance penetration. The company saw YoY flattish margin with a decline of 30bp. All companies in the sector had a better case mix and international patient surge during the quarter. On the expansion front, Apollo Hospitals Enterprise is growing with multiple brownfield and greenfield expansions planned during the rest of FY26F and in FY27F. This will increase margin pressure in 2HFY26F. We maintain our ADD rating on the company with a higher target price of Rs8,549, from Rs7,355 earlier.

Government regulations

Goods and Services Tax (GST) rate overhaul will help companies in the diagnostics sector, but all of them are passing on the benefit completely to their customers. The quantum of the benefit passed on is not yet known for companies in our coverage universe. Central Government Health Scheme (CGHS) rate revision will benefit Max Healthcare and KIMS the most in the sector due to their exposure to this scheme. Max Healthcare expects a Rs2bn improvement in its topline in FY27F due to the revision.

Sector outlook

We maintain our Overweight stance on the sector, despite lower volume growth during the quarter for companies in our coverage universe. CGHS price revision and GST rate cut present huge opportunities in the sector. We are bullish on Apollo Hospitals Enterprise, Metropolis Healthcare, and Thyrocare Technologies.

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Recent developments in hospitals sector

- EBITDA loss of Rs1.5bn is expected for Apollo Hospitals Enterprise (AHEL) in 2HFY26F because of its slightly altered expansion plan, such as a new oncology facility to be set up in Hyderabad. Gurugram and Hyderabad expansion plans have been pushed to 1QFY27F.
- Aster DM Healthcare has increased its stake in Ramesh Hospitals to 70.5% by acquiring an additional 13% stake for ~Rs630m during the quarter. The merger of Aster-Quality Care India (QCIL) is going on as planned.
- All hospitals in our coverage are in an expansion phase, with bed expansion plans running till FY29F.
- The CGHS rate revision impact will be known in 4QFY26F.

Recent developments in diagnostics sector

- Increased focus on preventive healthcare packages by companies in the sector.
- There has been increased focus and investment in genomics and specialised tests.
- All companies are planning to pass on GST rate cut benefit to their customers.
- GLP-1 presents opportunities in the diagnostics sector, and companies are making a provision for the same.

Figure 1: Commentary from hospital managements for the quarter indicate lower volume than expectation, despite a surge in international patients and better case mix, due to lower seasonal admissions

Company	Speaker	Event	Comments
AsterDM Healthcare	Sunil Kumar, CFO	2QFY26 Earnings call	<p>On GST rate cut impact: From the company's point of view, the overall top-line impact on a monthly basis is around 1.1% ,and out of that, 35-40bp impacts our EBITDA estimate.</p> <p>On CGHS rate revision impact: Rs200m of revenue generated every month. There, we see a positive Rs2m impact on revenue. As regards EBITDA from that impact on incremental revenue, around 75%-80% should flow in. Negative impact, which we see from the GST overhaul, should get compensated by the CGHS-related EBITDA increase.</p>
	Ramesh Kumar, COO	2QFY26 Earnings call	<p>On seasonal illness: Lower incidence of seasonal illness so far this year, which kept absolute volume growth moderate.</p> <p>As far as the case mix is concerned, it is all high-end and CONGO-T mix is really doing very well. Medical value travel (MVT) business grew by 49%.</p>
Fortis Healthcare	Asutosh Raghuvanshi, MD and CEO	2QFY26 Earnings call	<p>Higher ARPOB was driven by an improved specialty mix led by strong growth in oncology (29% YoY growth).</p> <p>On international patient volume: It has increased by 26% year-on-year. Overall, the international business constitutes about 8% of the company's business.</p>
	Anand K, CEO - Agilus	2QFY26 Earnings call	<p>During the quarter, the usual surge in vector-borne diseases has been not very significant, considering the elongated monsoon season.</p>
	Vivek Goyal, CFO	2QFY26 Earnings call	<p>On CGHS impact: There will be a positive impact. But there is a lot of clarity required in the way the circular has come.</p>
KIMS	Abhinay Bollineni, Executive Director and CEO	2QFY26 Earnings call	<p>On margin decline: Commissioned almost four-to-five new hospitals, which are yet to break even and because of which the revenue ramp-up in those hospitals is happening.</p> <p>On quantifying CGHS price hike benefit: Should be around 20% on the CGHS business. For three clusters (Andhra Pradesh, Telangana, and Nagpur in Maharashtra), 10% of the business will come from CGHS and related companies, excluding Aarogya Sri. 4QFY26F is when the full impact of CGHS rate revision will be known.</p>
Global Health	Pankaj Sahni, Group CEO and Director	2QFY26 Earnings call	<p>On seasonal admissions: Lower incidence of vector-borne diseases during the quarter compared to the same quarter last year.</p> <p>ARPOB registered a strong growth of 10%, primarily driven by a favourable change in specialty mix.</p> <p>CGHS contributes 5-6% to revenue, but the impact of rate hike not quantifiable yet.</p>

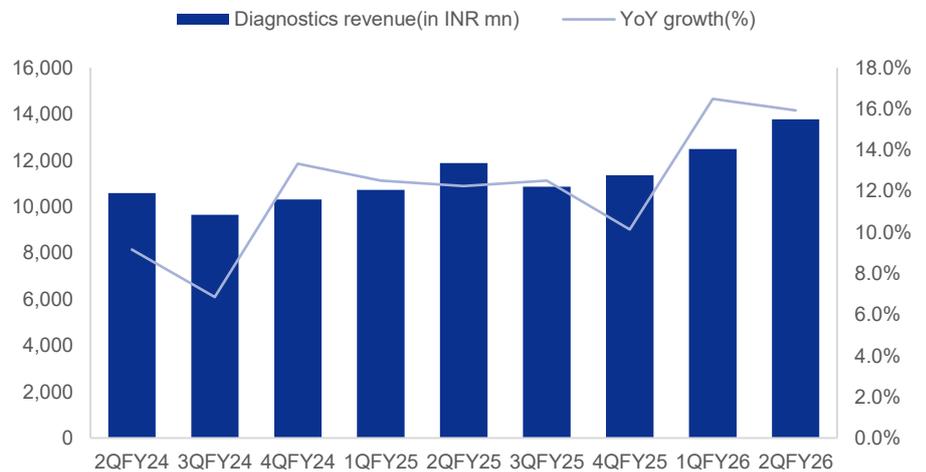
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Commentary from managements of diagnostics companies indicates that lower volume growth was due to lower incidences of seasonal fevers, but there has been a significant increase in preventive health packages across the board

Company	Speaker	Event	Comments
Dr Lal Pathlabs	Ved P Goel, CFO	2QFY26 Earnings call	Doesn't believe that this year any price increase is on the cards because of another development, which is GST overhaul. The GST benefit has to be passed on to customers. Company is always scouting and keen to expand its South India presence, especially through the M&A route.
	Shankha Banerjee, CEO	2QFY26 Earnings call	Overall volume appears moderate on a YoY basis, mainly due to lower incidence of seasonal illnesses such as chikungunya, malaria, dengue and general fever, compared to what was observed in the same period last year, across India. Swasthit, the preventive health check-up package, contributed 26% to 2Q revenue. First lab in India to integrate a deep learning-based AI module for detecting lymph node metastasis, including elusive micro metastasis, in cancer cases. Margin impact starts reflecting mostly in the second half of the year because of the investments that are happening. Definitely sees some positive impact due to CGHS rate revision, but yet to evaluate the quantum. However, the overall contribution of this portfolio may be lower than 5% to overall revenue.
Metropolis Healthcare	Surendran Chemmenkotil, MD	2QFY26 Earnings call	Fever-related test volume did grow, but the growth was slower than the usual monsoon season and also expectations, primarily due to the lower incidence of common infections such as chikungunya, malaria, dengue and viral fever. TruHealth (preventive healthcare) and specialty segment revenue grew by 21% and 15%, respectively, on a YoY basis. Observing a natural consolidation in the market, where many smaller unorganised labs are finding it difficult to sustain.
	Ameera Shah, Chairperson	2QFY26 Earnings call	Sees a long-term structural opportunity with GLP-based treatments. Integration of Core has enhanced its capabilities in high-end molecular diagnostics, oncology and next-generation sequencing.
Thyrocare Technologies	Rahul Guha, MD and CEO	2QFY26 Earnings call	On CGHS impact - Not to a large extent, although it does, because as the company raises the price, everyone follows suit. B2G is not a very large focus area for the company. If one looks at the overall revenue mix, it's about 1% of total revenue. Company is in the process of launching complementary packages with the GLP-1 therapy, both pre-therapy, during-therapy and post-therapy. As the patients take these weight-loss drugs, they preserve their health along with the benefit of weight loss. Fever-related volume was muted this season, down 26% versus the same quarter last year. Aarogyam continues to lead the preventive healthcare segment, growing at 19% YoY.
	Vikram Gupta, CFO	2QFY26 Earnings call	Radiology active sector business grew marginally.

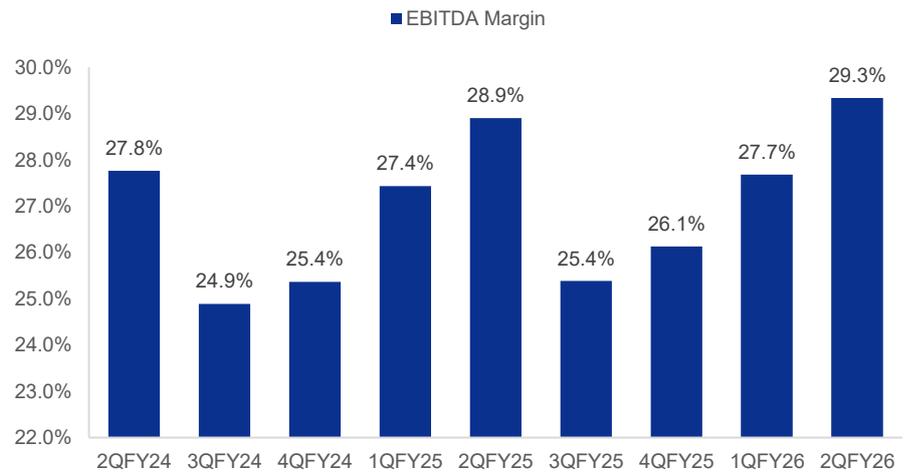
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Total revenue and YoY growth of diagnostics industry – growth has been low in 2QFY26 due to the decline in seasonal fevers, despite a heavier monsoon season



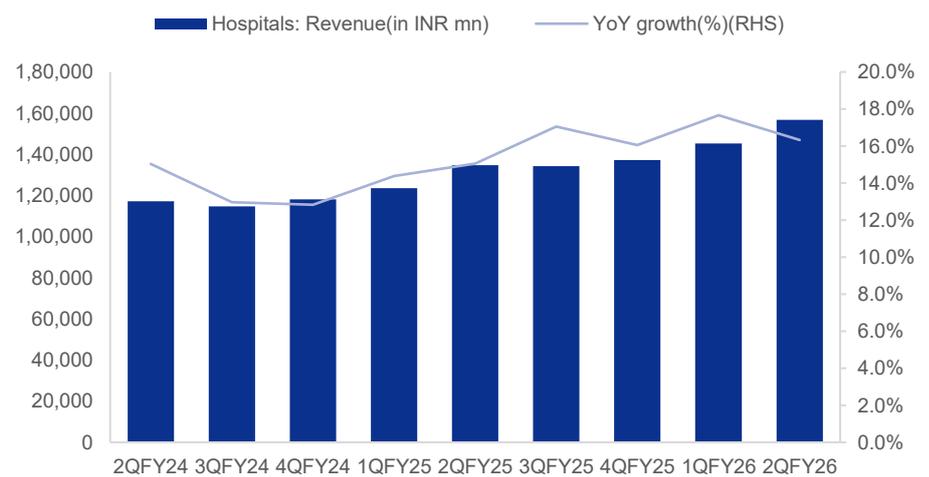
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: EBITDA margin of diagnostics industry continues to improve due to preventive healthcare packages and broad-based cost-cutting



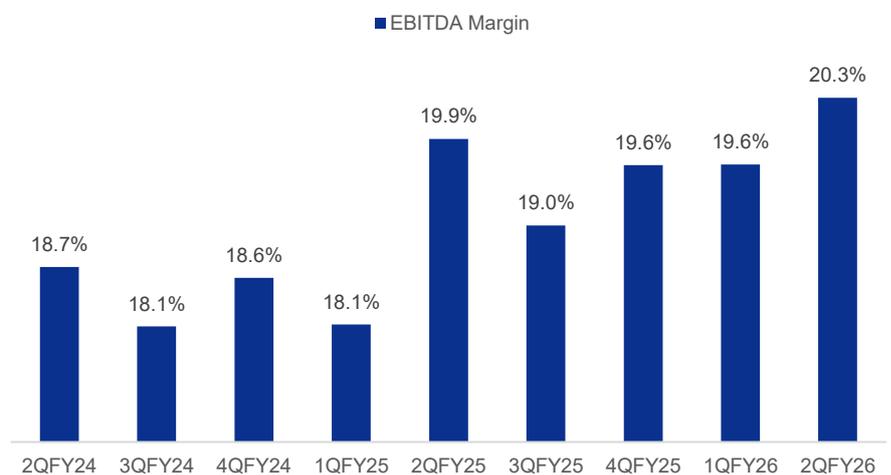
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 5: Tepid growth in hospital revenue, despite a better case mix across the board, due to lower seasonal admissions (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Margin improvement in hospitals industry due to the improvement in case mix across hospitals



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Sensex outperformed BSE Healthcare Index recently due to sector correction

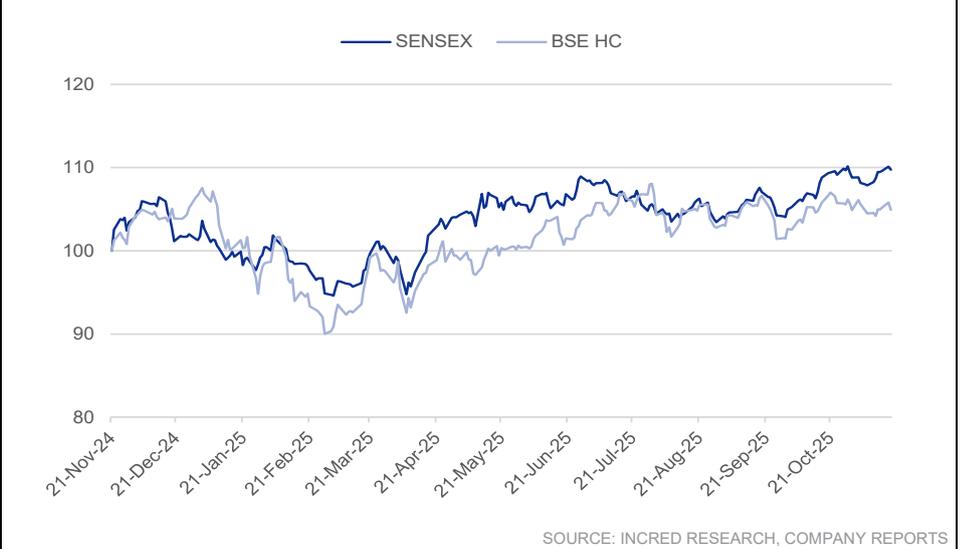


Figure 8: 2Q management commentary of hospitals & diagnostics segments and our ratings

	Current Rating	Previous Rating	Earnings	Commentary
Dr Lal Pathlabs	HOLD	HOLD	Green	Yellow
Metropolis Healthcare	ADD	ADD	Green	Green
Thyrocare Technologies	ADD	ADD	Green	Green
Apollo Hospitals Enterprise	ADD	ADD	Red	Yellow
AsterDM Healthcare	Unrated	Unrated	Green	Green
Fortis Healthcare	Unrated	Unrated	Green	Green
Narayana Hrudayalaya	Unrated	Unrated	Green	Green
Max Healthcare	Unrated	Unrated	Green	Green
KIMS	Unrated	Unrated	Red	Green
Global Health	Unrated	Unrated	Yellow	Green

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Earnings revision was a mixed bag with few upgrades and downgrades

Name of the company	FY26F	FY27F
Dr Lal Pathlabs	1.5%	-0.6%
Metropolis Healthcare	0.0%	0.0%
Thyrocare Technologies	7.7%	7.6%
Apollo Hospitals Enterprise	-12.8%	-15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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