

INDIAN HOSPITAL INDUSTRY

**Introduction of GST on non-ICU
hospital beds to be credit-neutral for
hospital sector**

JULY 2022





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The hospital rooms in metro cities tend to cost more than Rs. 5,000 per day.

Hospitalisation (non-ICU) could turn expensive due to the implementation of GST; however, the impact on the overall amount charged to a patient is likely to be low



The Goods and Services Tax (GST) Council has recently decided to impose a tax rate of 5% on hospital bed charges exceeding Rs. 5,000 per day, excluding ICU (intensive care unit) beds, without allowing the benefit of input tax credit to the hospitals.



Bed charges typically constitute ~10-12% of the total hospitalisation charges.



Hospitals are likely to pass on the rate hikes to the patients, in the absence of input tax credit. This move would increase the burden on the patients; however, the impact of the same is not expected to be material - less than 2% increase in the overall hospitalisation expense.

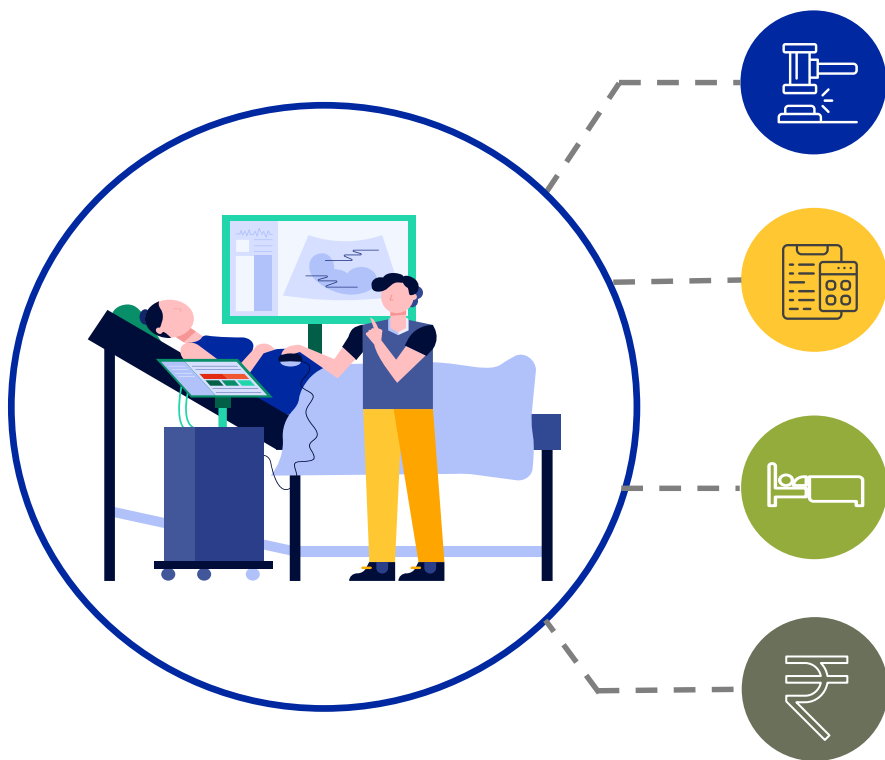


In the absence of detailed guidelines, clarity on the imposition of GST on room charges that are included in package billing is currently awaited. Further specifications of the tax ruling on the same will remain a monitorable for the industry, going forward.



Hospitals with relatively low bed charges per day could find it slightly difficult to pass on the 5% increase directly through a hike in bed charges, given the current inflationary environment and the price-sensitive nature of customers. However, premium hospitals are expected to pass on the same to customers completely in a short period of time.

GST Council proposed implementation of 5% GST on non-ICU beds above Rs. 5,000/day



With this development, the healthcare services have been brought under the GST regime for the first time in India, wherein the GST Council has decided to **impose a 5% GST on hospital room rents above Rs. 5,000 per day, excluding ICUs, without allowing the benefit of input tax credit**

This is expected to be imposed with effect from July 18, 2022

Typically, hospital rooms in metro cities tend to cost more than Rs. 5,000 per day. In the absence of input tax credit, hospitals are expected to pass on the same to patients, making healthcare cost more expensive

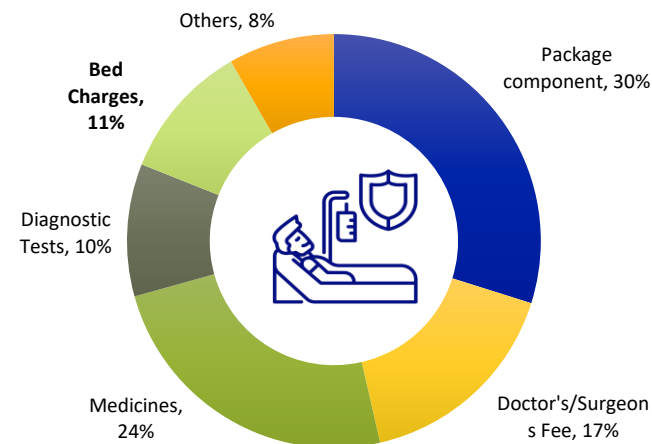
However, given the fact that in most cases, hospitals tend to offer packages to various treatments, computing bed cost separately is likely to be a challenge and clarity on this front is awaited.

Bed charges constitute ~10-12% of hospitalisation expenses

Exhibit: Average medical expenditure (for hospitalisation cases) in Rs.

Average medical expenditure (for hospitalisation cases) in Rs.				
Hospital Type & Cost item	Government Settings	For-Profit Settings	Not-for-profit Settings	Average
Package component	557	10,060	7,959	6,012
Doctors'/ Surgeons' Fee	179	5,710	3,674	3,332
Medicines	2,184	6,903	5,680	4,888
Diagnostic Tests	791	3,038	2,658	2,084
Bed Charges	128	3,690	2,062	2,150
Others	612	2,444	2,201	1,668
Total	4,451	31,845	24,234	20,134

Cost break-up of average medical expenditure during hospitalisation in India



Typically, bed charges constitute ~10-12% of the average medical expenditure for hospitalisation in for-profit settings

Impact assessment of the latest GST amendment

Exhibit: Expected impact calculation

Particulars	Amount in Rs.
Average revenue per occupied bed day (ARPOB)	44,000 - 46,000
Occupancy %	55.0% - 57.0%
Average revenue per bed day	80,000 - 81,000
Bed charges (assumed at 10% of total revenues)	8,000 - 8,100
Average length of stay (ALOS in number of days)	3.2 - 3.4
Average billing value per patient towards bed charges	25,600 – 27,500
GST on bed charges (5% of bed charges)	1,280 - 1,400
% GST impact on total bill	Less than 2.0%

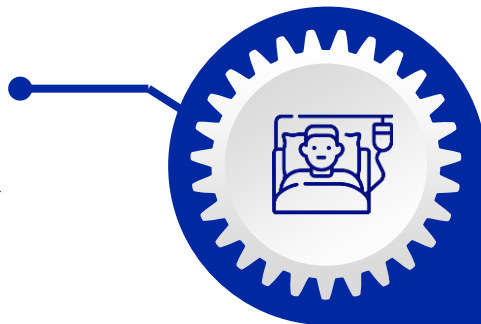


- Assuming a full pass-through of the entire 5% GST to the patients, the impact is not expected to be material (less than 2%) in terms of the overall amount being charged to the patient
- In case of patient covered under insurance, the impact is expected to be minimal since part of the cost is borne by the insurance company
- Further clarity on the applicability of GST on package charges (which include room rent as blended charges) could differently impact the billing amount

Source: ICRA Research; based on Q4 FY2022 data for a sample set of 9 companies

Hospitals to pass on levy to patients; impact not expected to be material

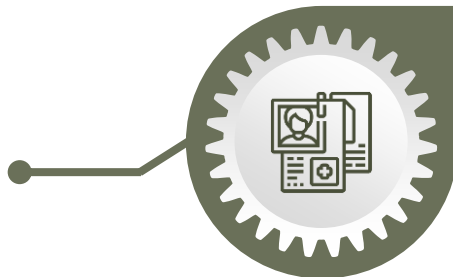
In the absence of input tax credit, hospitals are expected to increase bed charges, following the introduction of GST



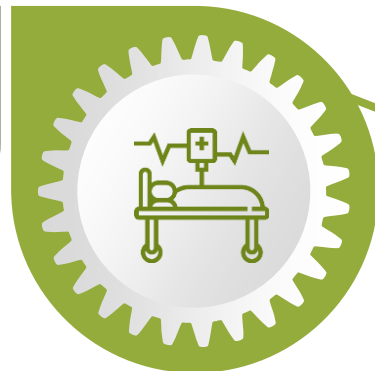
With Covid infections on the rise and the relatively long average length of stay for Covid patients, an increase in bed charges is expected to result in higher cash outflow for Covid patients



Increase in bed prices will result in a higher cost burden on patients; however, impact not expected to be material



While premium hospitals may not be impacted much, hospitals which cater to price-sensitive consumers may find it difficult to pass on the hike directly, given the current inflationary environment





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