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Indian healthcare start-ups

An inside look into funding

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Table of contents

Foreword	01
Executive summary	04
Emergence and role of healthcare start-ups in India	07
Funding scenario in the Indian healthcare sector	11
Measures to boost fund flow to healthcare start-ups	19
Way Forward	30

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FICCI Foreword

The Indian Healthcare sector has grown manifold in recent years to become one of India's largest sectors contributing to 6% of the country's GDP. Nevertheless, making quality healthcare accessible to a billion plus population in a country that accounts for 21% of world's disease burden, where the doctor patient ratio is as bad as 1:1700, and out of pocket expenditure as high as ~62% of total healthcare spending, is definitely a tremendous task.

What we need today is a unified approach for long term solutions that would help in optimizing disease-care to preventive and promotive care as well as patient centricity through data - driven, efficient technologies. Fostering Start-ups and Entrepreneurship will provide the requisite innovative approach for achieving these reforms.

Start-ups are already disrupting the way healthcare is delivered in India. According to the NASSCOM Start-up Ecosystem Report 2015, India serves as the fastest growing startup-base worldwide and 6-8% of the recent B2C Start-ups in India have been in the Health-tech sector. This means that the sector has already secured ample traction from investors owing to its huge potential. The changing patterns and fast emergence of PE and VC funding coupled with Social and Impact funding is bound to give a further boost to the booming industry. Further, with the government's focus though campaigns like 'Start-up India, Stand-up India' and 'Digital India', we perceive a bright future for the entrepreneurs as well as investors.

Federation of Indian Chambers of Commerce and Industry (FICCI) as a change agent has been working diligently with the government to bring about requisite policy change that can provide impetus to the growth of health services sector in reaching out to the masses. This joint study by **FICCI** and **KPMG** evaluates the role and need for healthcare start-ups in India, their evolution in the sector and the funding scenario. The report also assesses the future for healthcare start-ups, highlights some challenges being faced by them and suggests a way forward to overcome those challenges.

We are grateful to **Ministry of Health and Family Welfare, Government of India** for supporting **FICCI HEAL 2016** on the theme **"Re-engineering Indian Healthcare"** on August 31 & September 1, 2016 at FICCI, New Delhi. We are sure that the deliberations in the conference will help us in developing concrete recommendations that will be submitted to the Government at the highest level for consideration.



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KPMG Foreword

Healthcare, one of the largest sectors in India, has historically struggled with long-standing structural and fundamental challenges. From simple service-delivery to path-breaking innovations, blind spots have existed for decades in our country. While continuous efforts are underway from all participants to address these concerns, a new breed of stakeholders —start-ups —promise to take these challenges head on.

Although young, start-ups are gradually establishing their credentials and have carved out a niche for themselves through their innovative approach and agility. Online appointment booking to internet-based purchase of medicines, never before has the Indian healthcare sector witnessed such a shift in the operating model. In fact, start-ups have also upped the ante in the more critical areas of drug discovery and medical device inventions.

In more ways than one, start-ups are being heralded as the torchbearers of the future in healthcare. However, it has not been all smooth sailing for entrepreneurs. Indian healthcare start-ups merely attracted USD27 million in the first four months of 2016; the cumulative figure during the period 2009–16 (till April) was just about USD338 million.

When compared with global funding levels and that in other sectors domestically, healthcare start-ups fare poorly. Lack of capital is holding back many ideas, concepts and approaches from taking off.

Start-ups need to identify consumer-focussed solutions, sought after by investors globally. Their focus has to be on extensive innovation, differentiated product offerings and sustainable business models. Recognising the need and role of start-ups in the Indian healthcare sector, this publication by KPMG in India and FICCI, investigates the challenges they face and puts forth suitable measures to boost fund flow. The report highlights the various opportunities for both start-ups and investors, wherein they can complement each other to create a flourishing healthcare start-up ecosystem in India.



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Context

The healthcare sector in India is a large contributor towards employment and revenue generation. A lot has been achieved over the past few decades with respect to healthcare delivery. Yet, given the diverse geography of India, its challenges are equally varied, such that they escalate with each passing year. For example, the limited availability of medical professionals is currently seen as a major concern. Likewise, penetration of healthcare is another area where the government is focussing heavily, and trying to bridge the gap between healthcare professionals and patients. Upon analysis of the data provided by the Medical Council of India (MCI), the situation does not seem to be ideal. The doctor–patient ratio in India is 1:1,674 against the World Health Organization (WHO) norm of 1:1,000[1]. Further, India observes 253 deaths per 100,000 people every year on account of communicable diseases, which is higher than the global average of 178[2]. Besides the lack of overall healthcare infrastructure, another major concern is the low medically insured population coupled with the high out-of-pocket expenditure[3]. Due to low insurance penetration, over 60 per cent of the total medical costs are by and large paid by people from their own reserves[4].

The government cannot tread this path alone. While the private sector has been playing its part for some time, a new wave of change is desired to give healthcare the much needed boost. It is believed that start-ups may emerge as the desired channel of change. Healthcare start-ups can help to bring leading technologies to the sector. They also have the potential to emerge as a key member in the healthcare ecosystem through their innovations to promote accessibility and affordability of healthcare services.

A sound healthcare scenario leads to healthier citizens, which would eventually help to build a progressive nation. Keeping this goal in mind, there is a need to augment the scope of healthcare start-ups in India, which is still not at par with the global healthcare landscape.

The following are a few areas where the healthcare sector stands to gain through participation by healthcare start-ups:

- **Innovation, R&D**
  Innovations can help hospitals and healthcare set-ups to practice better processes, positively impacting the sector. Research and Development (R&D) at start-ups could help save bigger organisations the burden to invest their time and effort in imparting services. Start-ups could also engage in drug delivery and medical device inventions to boost Indian production.
- **Accessibility to healthcare and medicines**
  Innovations towards easing medical needs through mobile applications, telemedicine, etc. aim to bridge the gap between patients and doctors.
- **Employment generation**
  Start-ups not only help patients access better treatments, but also create job opportunities – serving a dual role. With a conducive ecosystem for start-ups in India, there is greater scope for them to generate employment and help solve the present day healthcare delivery challenges.
- **Organised healthcare sector**
  Healthcare start-ups could help streamline and organise the sector. It is expected to bring about transparency in accessing information about medicines, healthcare processes and services, reducing the scope of fraudulence in healthcare delivery throughout the country.

Even though multiple advantages are provided by healthcare start-ups, they have not yet received a steady stream of funding to support their ventures. This publication investigates the scope of healthcare start-ups in India and identifies the challenges it faces along with suitable measures which could be deployed to overcome them. The report outlines a road map that starts-ups could adopt to attract investors' attention and collaborate with them for sustainable growth.

1. "Grim picture of doctor-patient ratio, 1 doctor for 2,000 people", India Today, 29 April 2016
2. "Healthcare: Another Chapter In Indian Start Up Success Story", Businessworld, 11 January 2016
3. "Budget 2016: Healthcare cannot wait, Mr Jaitley; healthy India can hasten wealthy India", First Post, 26 February 2016
4. "For healthcare start-ups, the future is rosy", Live Mint, 1 July 2016

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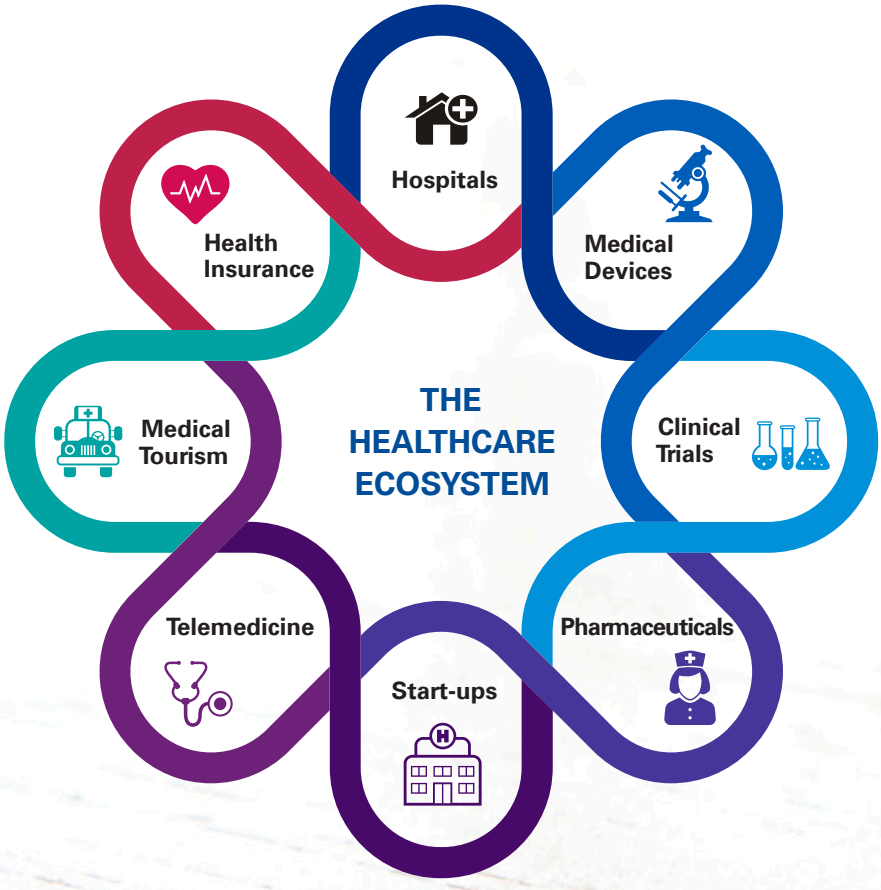
Introduction

Healthcare is one of the largest sectors in India, both in terms of employment generated and revenue earned. It is expected to be worth USD280 billion by 2020 and has been growing at a Compound Annual Growth Rate (CAGR) of 16 per cent since 2011[5]. The healthcare workforce required in India is likely to double to 7.4 million by 2022 from 3.6 million in 2013.[1] The importance of this sector goes far beyond its economic value; it is pivotal for the well-being and progress of the nation.

Growth in the sector is attracting interest from all quarters of the globe. India received USD288,634.1 million aggregate Foreign Direct Investment (FDI) between April 2000 and March 2016. During this period, the drug and pharmaceuticals sector received USD13,849.6 million, hospitals and diagnostic centres were recipients to an FDI of USD3,592.1 million, and medical and surgical appliances received USD1,097.1 million (constituting 4.8 per cent, 1.3 per cent and 0.4 per cent of the total FDI into India, respectively).[6]

Although the healthcare sector in India is growing rapidly, accessibility to affordable healthcare remains a distant dream for a majority of the population. The number of healthcare personnel along with the infrastructure required is significant, to satisfy the needs of the growing population amidst the voluminous disease burden in the country. To put things in perspective, India requires about 600,000–700,000 additional beds over the next five – six years — indicative of an investment opportunity of USD25–30 billion.[7]

Much scope exists for enhancing healthcare services as India presently spends only 4.7 per cent of its GDP on healthcare and has one of the least public healthcare expenditures globally (1.4 per cent of its GDP)[8]. A majority of India's population lives in rural areas with no or limited access to hospitals and clinics. On the other hand, in urban areas, lifestyle diseases and ailments associated with urban environments, such as pollution, are increasing. The existing gap between the demand and supply of quality healthcare services, coupled with growing operational costs and the need for technology acquisitions have opened new opportunities for investments in this sector.



Source: KPMG in India's analysis, 2016 Please provide the primary resource based on which this analisis was conducted. This information needs to be provided across relevant sources.

5. "Healthcare: The neglected GDP driver", September 2015, KPMG in India
6. Fact sheet on foreign direct investment (FDI), DIPP, Government of India, http://dipp.nic.in/English/Publications/FDI_Statistics/FDI_Statistics.aspx, accessed on 05 July 2016 (Please insert the entire URL along with 'accessed as on ….)
7. 'Health: Infrastructure Sectors', India in Business, Ministry of External Affairs, Government of India, http://indiainbusiness.nic.in/newdesign/index.php?param=industryservices_landing/373/2, accessed on 12 July 2016 (Please insert the entire URL along with 'accessed as on ….)
8. World Bank, http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS, accessed as on 9 July 2016 (Please insert the entire URL

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