

# Raising Capital in Healthcare

*- creating value, growth and access*

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**“India's Healthcare: Time for Paradigm Shift”**

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# Foreword

The Indian healthcare sector has emerged as one of the fast-growing service sectors in India, contributing 6-7 percent to the country's Growth Domestic Product (GDP). However, the government has kept a tight rein on healthcare expenditure, despite rapid economic growth. India spends only ~1 percent of its GDP on public health, compared to 3 percent in China and 8.3 percent in the United States.

Healthcare in India has struggled to cater to the domestic needs because of the deficit in infrastructure and manpower. According to WHO, India has a ratio of 7 doctors, 10 nurses and 9 beds per 10,000 people, which is much lower than the global average. We need over 6800 more hospitals to provide basic health facilities to people in rural areas. Further, less than a quarter of the population is covered under health insurance and out-of-pocket expenditure has reached ~70 per cent of health spends.

On the other hand, healthcare has gained significant interest from investors owing to its huge growth potential. The large gap in demand and supply of quality health care services, and growing capital demand owing to operational costs and technology acquisitions have further created new opportunities for investments. India is also witnessing a shift in investment patterns driven by multiple stakeholders – government, private and social investors.

Private equity investment in healthcare has grown considerably coupled with private partnership with government (PPP) as a preferred approach to strengthen healthcare delivery. This sector has also gained attention from various multilateral agencies, mainly focusing on basic healthcare, access, disease control and prevention. FICCI has been active in promoting investments in healthcare sector through its Task Force on Innovations in Healthcare which brings together investors and budding entrepreneurs and gives them a platform to connect, network and incubate.

This joint report by FICCI and IMS Health is an attempt to highlight the various models of financing in healthcare. The report also provides insights into the emerging areas that have attracted attention from capital providers and would play a significant role in re-shaping Indian healthcare industry. It will also serve as a good reference point and a guide for investments in the sector.

We would like to take this opportunity to thank the leaders from the industry who provided their valuable inputs and contributed to this report.



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# Foreword

## Raising capital in healthcare- *creating value, growth and access*



Healthcare in India has evolved multi-folds over the last decade - both in terms of service delivery, inflow of equity capital and employment - and has become one of the largest sectors in Indian economy. Healthcare has attracted the attention and interest of both India-dedicated funds and many leading foreign investors. It has already become an attractive destination for high end services with tremendous capital investment for advanced facilities, infrastructure and technology.

The health care industry in India is reckoned to be the driver of the economy in the years to come. There are vast opportunities for investment in healthcare infrastructure in both urban and rural India. Rural India is set to emerge as a potential demand source. Bed density of around 2.1 per 1,000 people, including 1.0 to 1.2 beds per 1,000 people in rural areas and 3.8 to 4.2 beds per 1,000 people at urban areas is required in the next 5 years. There is a significant scope for enhancing healthcare services considering that healthcare spending as a percentage of GDP is rising.

Due to the progressive nature of the health care sector in India, several foreign companies are investing in the country. PE/VC funding has also fuelled the growth and expansion of organized healthcare segment which has begun to evolve and mature. Making the most of this opportunity would depend on the ability of healthcare providers to transform customer experience through operational excellence in clinical operations, cost effectiveness, quality and customer engagement.

The purpose of this report is to deep-dive into the investment activities that have shaped the healthcare sector, to assess the gaps that need to be bridged and bring out the emerging focus areas. The report also aspires to capture the role and need of multi-stakeholder involvement while studying the enablers. Private players will continue to be instrumental in bridging the demand supply gap in the industry due to lack of adequate healthcare infrastructure and low level of PPP models, while social investments act as a fulcrum to achieve international development goals. The government's focus on healthcare has seen a positive upswing in the last few years, and this momentum is likely to sustain in the coming decade, with the implementation of a slew of proposed measures.

This report aims to analyze the maximum potential for growth areas, major factors that influence decisions regarding investments. It further attempts to assess the profitability and scalability of various investment models. We have also attempted to chalk out possible areas of investments and future plans. In addition, we have explored the emerging areas in healthcare delivery that are fuelling the growth and are gaining traction among investors. Our goal in this effort is to provide investors, both for-profit and not-for-profit investors, with a holistic view of healthcare delivery sectors offering attractive and sustainable investment opportunities.

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## Executive summary

Healthcare consumption in India is expected to increase progressively in the future, in line with economic growth. According to industry estimates, the Indian healthcare market is estimated at US\$74 bn in 2011 and is projected to reach **US\$ 280 bn in 2020 growing at a CAGR of 16% for next 5 years**. One among many growth drivers is India's geriatric population which is expected to increase from current 96 million to around 168 million by 2026. This represents a significant patient base and creates a market for preventive, curative and geriatric care opportunities. Higher affordability of healthcare services along with increasing incidence of chronic diseases and improving penetration of health insurance are likely to trigger additional demand for specialized treatments such as specialty care units. In addition, medical tourism is poised to host around 2.4 million medical tourists by 2020 and is projected to increase to 4.9 million tourists by 2025. **Low and inequitable health infrastructure** and access, shortage of healthcare workforce are few of the many supply drivers that are propelling the growth of healthcare in India.

However, Indian healthcare sector has to respond to the various **existing gaps on multiple fronts**. For instance, physical reach of any healthcare facility (private or public) is a challenge in rural areas where only 37% of people were able to access IPD facilities within a 5km distance, and only 68% were able to access the OPD. Containing out-of-pocket expenditure, increasing insurance coverage, strengthening public health services and quality infrastructure are some of the key focus areas that indeed have been acknowledged by the government.

Indian healthcare sector offers an unrivalled investment and business opportunity, receiving significant attention from investors, primarily from '**PE and VC**', '**government**' and '**social**' investors. Delivery providers received nearly *US\$ 3.6 bn* worth of PE/VC investment from 2006 to 2014. Investment opportunities continue to expand in terms of deal types and formats - *single specialty formats and co-investment continue to redefine the sector*. PE/VC funding fuelled the growth and expansion of organized healthcare providers till 2008-09, it is only in the last 5-6 years that this segment has begun to evolve and mature. Several single specialty formats have attracted the interest of PE/VC firms due to their asset-light nature and relative ease of scalability. Due to the expansion of healthcare infrastructures, there is a need to upgrade the service standards and provide state-of-the-art facilities to bring the service levels at par with global standards. This will change the outlook of the healthcare delivery sector and create excellent opportunities for the investors to provide much needed **managerial and financial support**. Also, growing demand for healthcare services in urban areas and hitherto underserved rural areas is creating enormous potential for private enterprises. Moreover, those offering **low-cost, low-asset based models** will make healthcare affordable for people at the base of the pyramid.

**Innovation and technology** are poised to stimulate future growth in healthcare delivery in emerging areas - operational excellence and supportive policy framework will play a critical role. The share of early phase funding by venture capitalists and angel investors are expected to increase due to growth and expansion of newer models more amenable to VC funding, such as e-health, m-health, home care services, primary healthcare chains, and rehab services. **Digital health sector has already raised US\$ 6.9 million venture capital (VC) funds**. Additionally, mHealth is likely to be a large value creation opportunity for multiple stakeholders – mobile operators, device vendors, content and application players and healthcare providers – across the world. The huge market opportunity for mHealth makes a strong case for promoting its adoption.

**Public Private Partnership** is emerging as a preferred approach to strengthen public healthcare delivery as the government endeavours to bridge the healthcare funding gap. Many states have successfully adopted the PPP mode of investment and have fruitfully delivered results. In this report we have identified suitable healthcare models for investments which will help to create additional capacity in terms of infrastructure and human resource. Also we have analyzed models which are profitable in the short and medium term, and those that resonate with 'government and social sector' with a focus on long term profitability. For instance, the government could opt for **BOT or O&M contracting models**, given better margins and lower capital needs.

The role of the government will largely be focused towards disease prevention, improving access to primary care, increasing and improving the quality of the country's pool of medical manpower and incentivizing the

private sector to invest in capacity building and improving access to healthcare services. **Multilateral funding** in health is an important component of addressing the unfinished health agenda. The cumulative not-for profit funding in health into India was US\$ 3.6 billion disbursed during the period 2006 to 2012. Social investments in health have contributed in addressing health challenges most of which were directed at communicable diseases.

*For the purpose of this report, we define healthcare as those industry segments relevant to investment: delivery/providers, diagnostics and emerging digital healthcare sub sectors. While the healthcare industry includes insurance firms, pharmaceuticals etc, however, these are not considered to be within the scope of traditional healthcare investments. Healthcare education and ambulance services are other areas which have witnessed investments from private sector. However, evidence of profitable models for such investment are limited, thus, are not assessed under this report.*