



**Somerset Indus**

Capital Partners

# Indian Healthcare Market

Viewpoint

# Strong demand backed by improving policy support has led to increase in the attractive opportunities in Indian Healthcare

## Advantage India

### Strong demand

- Healthcare revenue in India is set to reach USD280 billion by 2020; expenditure is likely to expand at a CAGR of 12 per cent over 2012-15
- Rising incomes, greater health awareness, lifestyle diseases, and increasing insurance penetration will contribute to growth

### Attractive opportunities

- Investment in healthcare infrastructure is set to rise with both 'hard' (hospitals) and 'soft' (R&D, education) infrastructure set to benefit
- Medical tourism is emerging as one of the most lucrative investment areas in the country

2020E  
Market size: USD280 billion

### Advantage India

### Quality and affordability

- There is a large pool of well-trained medical professionals in the country
- Compared to peers in the West and Asia, India has a comparative advantage in the cost of offering high quality medical services

### Policy support

- The federal government aims to develop India as a global healthcare hub
- There has been a wide array of policy support in the form of reduction in excise and customs duty, and exemption in service tax

2012  
Market Size USD 78 billion

Source: KPMG, Hospital Market - India by Research on India Aranca Research  
Notes: R&D - Research and Development, CAGR: Compound Annual Growth Rate, USD - US Dollar; 2020E - Estimate for 2020 (by KPMG)

## Key Macro Drivers

### STRONG GROWTH IN MIDDLE CLASS WITH HIGH PURCHASING POWER

- Middle-class population of India is expected to grow by 2x its current population of 153 mn in the near future
- Indian population spend on healthcare as % of income in 2025 is expected to be 13%, i.e. 2x its current levels

### SHARE OF RURAL MARKETS IN HEALTHCARE SPEND ON THE RISE

- Share of rural market will move up to 25% by 2020 from the estimated 20% at present
- Affordability will increase with 20% of all households in rural areas climb out of deprived income class

### CHANGING PROFILE OF DISEASES

- With increase in affluence and the onset of lifestyle related conditions, India's disease profile is shifting towards chronic diseases
- The growing size of people aged more than 60 years, which is expected to double in the next 20 years, will also be a key factor

### HEALTH INSURANCE PENETRATION

- Around 80% of healthcare expenditure is financed out of pocket while ~ 1.7% is spent through various Govt. schemes
- Though India's healthcare insurance is currently very small, it is expected to grow at: CAGR of 15% till 2015

### Increase in healthcare expenditure

Year	Food, Beverages & Tobacco	Apparel	Health & Utilities	Household products	Personal products	Transportation	Communication	Educative & Recreation	Healthcare
2005	41	6	11	8	17	5	7	7	
2015E	34	5	12	9	19	2	9	9	
2025E	25	5	9	3	11	19	9	13	

### Growing hospital infrastructure in India

Year	Top-Tier Private hospitals (>300 beds)	Medium Tier Private hospitals (30-300 beds)	Private Nursing homes (<30 beds)	Government hospitals
2005	26	34	26	34
2015E	40	31	30	25

### Diagnostics & Pathology market in India

Year	Market Size (INR bn)
2009	55
2012E	112

Source: Indian Pharma 2020, McKinsey; India Pharma Inc.: Capitalising on India's Growth Potential. PwC

# Various sub sectors of healthcare are developing in India

## Healthcare Delivery

- Asset Light Healthcare delivery - Day Care Chains/ Budget Hospitals
- Single Specialty chains - Ophthalmic, Dental, Orthopedic, Derma, Diabetes, Cardiac, Dialysis/ Urology/. Gynaec Chains
- Wellness Chains/ Fitness Chains

## Medical Devices

- Medical Device Mfg. companies – low cost as also high technology based
- Organized Medical Device companies
- Device companies that can access the large volumes Govt. business

## Diagnostics

- Biomarkers
- Low cost Diagnostics
- Point of Care Testing
- Diagnostic Lab chains
- Centralised Labs - Histopatholgy, Genertic, specialty testing

## Healthcare Insurance/ Financing

- TPAs/ Insurance processing companies
- Healthcare finance products
- Insurance related Technology products

## Pharma

- Market Penetration – Chronic Care, Acute Care
- Hospital Penetration models
- OTC Brand building
- Regional Geographical Focus
- Therapy focused companies

## Retail Models

- Retail Chains
- Stockist Chains
- Distribution/ Warehousing Chains
- Cold Chain Logistics

## Patient Delivery Models

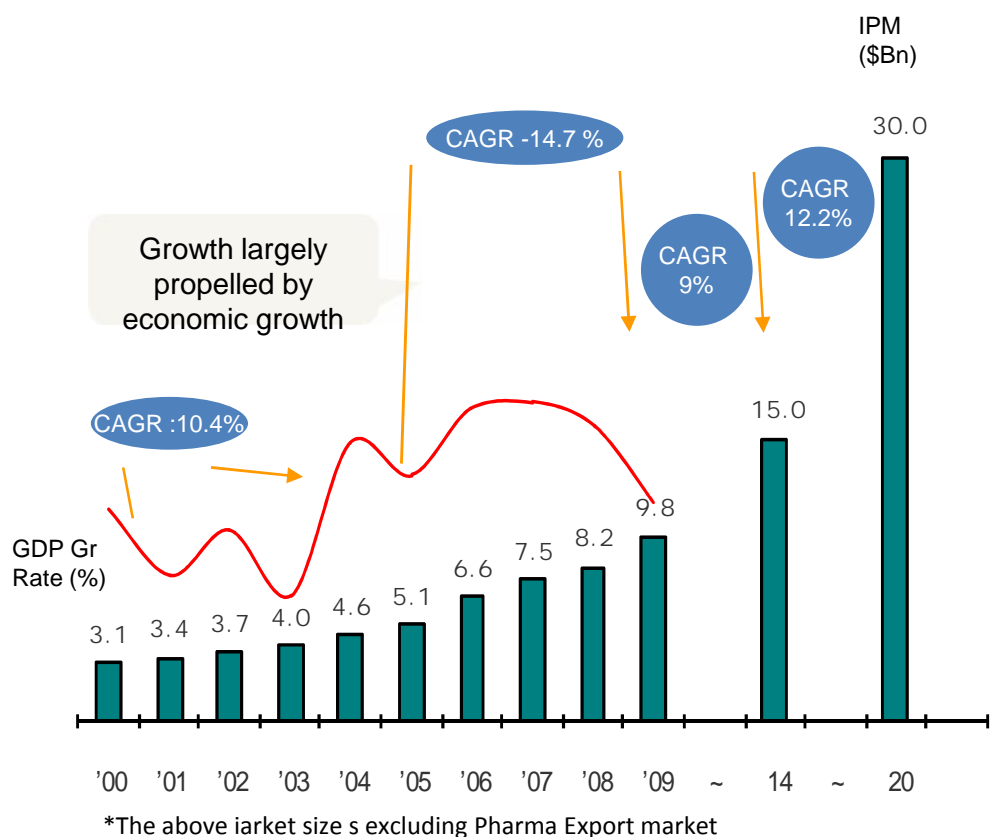
- Ventures based on Servicing Patients – creating products and services around patients
- Patient Profiling and developing services for Patients
- Ambulatory services
- Patient Rehabilitation
- Old age Homes

## Healthcare IT/ Communications

- Telemedicine
- Tele-Imaging
- Healthcare Information Systems
- Rural IT based treatment platforms
- Mobile Healthcare Platforms
- Healthcare PR/ Communications

# Driven by economic performance and market penetration, Indian pharma market has grown and is expected to continue growing at a very high pace

## Growth Trend – Indian Pharmaceutical Market (US\$ Bn<sup>1</sup>)



## Key Trends shaping Indian Pharma Market

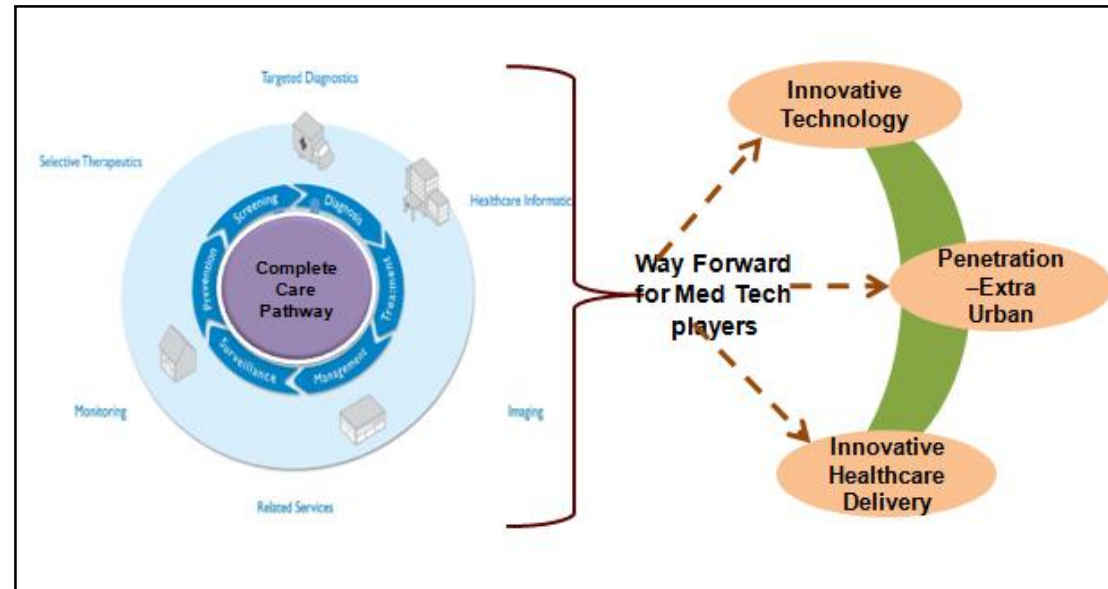
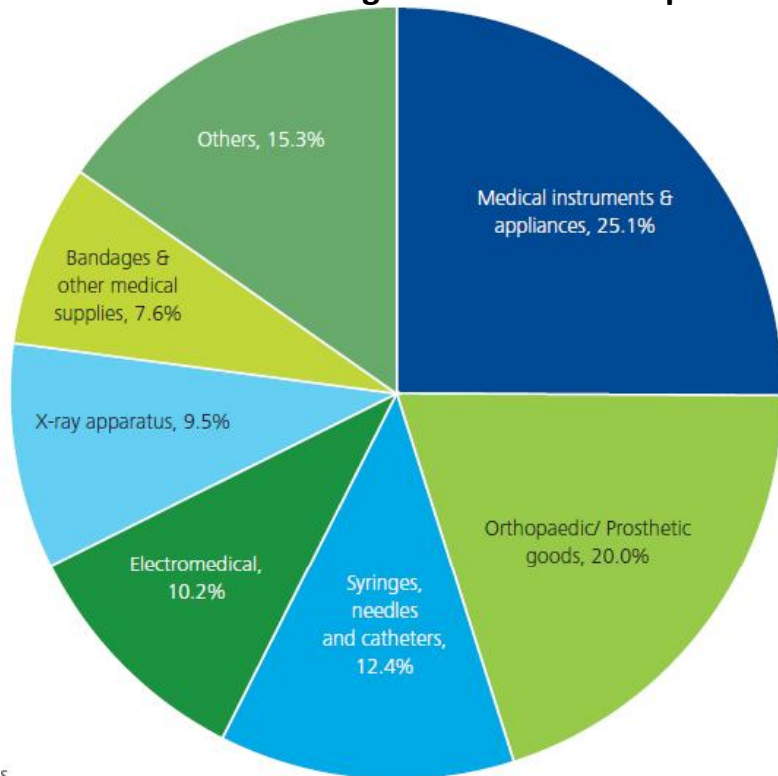
- 1 India is an out-of-pocket market: 85%+ is funded by individuals from their pocket, likely to remain so – market is “splitting” with one large MC-- “mass” group with low affordability and another MC++ “affluent” group with significant purchase power
- 2 Brands are much smaller: Indian molecular markets are fragmented and will likely remain that way; gaining critical mass in revenue terms will likely require a large portfolio and presence across TAs
- 3 Retail centricity: Largely retail driven, both at the level of prescriber and pharmacies – access requires feet-on-ground and is expected to remain so in the near future also. IPM continues to be metro centric but future growth likely to be driven by lower town classes – long-term play would require a deeper, pan-Indian presence
- 4 Market shift: From acute to chronic - indicates the higher spending power of patients, lifestyle and patient behaviour beginning to mirror more mature markets; a winning strategy will need adequate emphasis on chronic portfolio
- 5 Inroads by Patented Products : Patented products constitutes a small segment - though a marginal increase in the patented product market is expected in the next 5 years; branded generics will continue to be the mainstay in the market
- 6 Penetration of MNCs: From a “local” market, India is slowly migrating to a “MNC” market – yet gaining from this shift will require differentiated portfolio

**Pharmaceutical industry is expected to expand at a CAGR of 12.25 per cent over 2014–20 to reach USD30 billion**

**The pharmaceutical export market would be additional USD36 billion in 2020 from USD18 billion in 2014**

# Indian Med Tech industry is still in the early stages of evolution and has strong growth potential

Med Tech – Segment wise break up

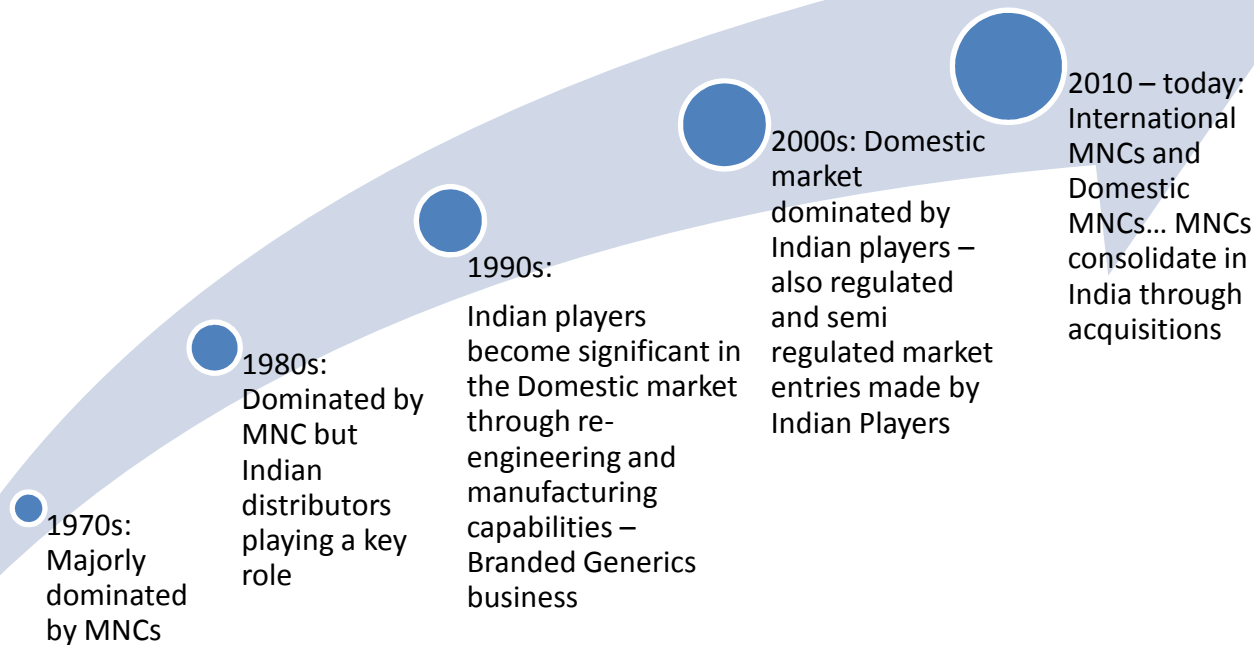


- The medical technology market in India is estimated at US\$11 bn in 2015.
- The market is estimated to reach US\$50 bn by 2025 with an annual growth rate of nearly 16%.
- Import dependent (~70%) & largely dominated by MNCs with few and fragmented local players
- Very few PAN-India distribution players outside of big 3 MNCs (GE, Siemens, Philips)
- Distribution network a key barrier to scale and a strong competitive advantage.

- Currently, India lags China by ~10 years
- During the late 1990s, Chinese market was dominated by MNCs, who were supported by local Chinese distribution companies.
- Over the past decade, these distributors ventured into manufacturing of MedTech products.
- By successfully marrying their distribution strength with own manufacturing capabilities, they emerged as strong indigenous MedTech players.
- Eg. Mindray Medical, Shandong Wiegao, Jiangsu Yuyue & Lepu Medical
- Indian players could follow a similar cycle of evolution

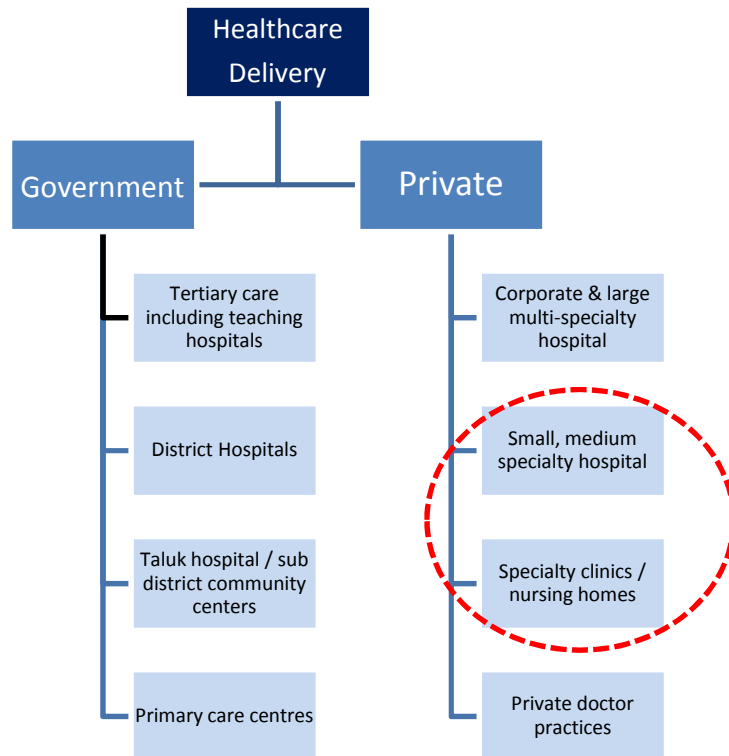


## Pharma Lifecycle Evolution

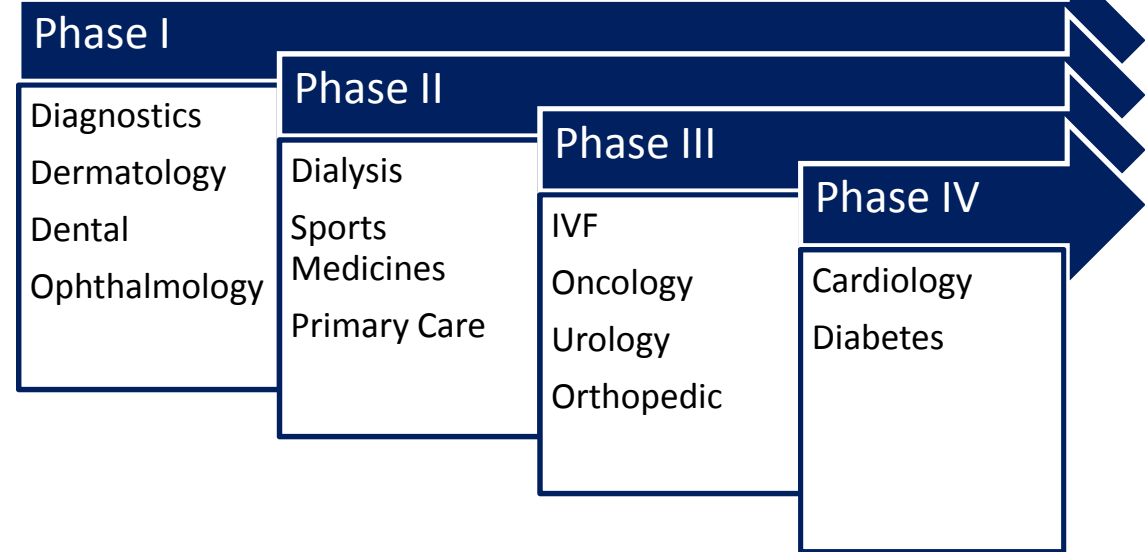


- In our view, Med-Tech market is where pharma market was in the 1980s where the majority of the market share is in the hands of International MNCs.
- We expect the Med-Tech market to take the same route as the pharma market in a shorter time frame.
- The model of direct contact with customers supported by a distributor network seems to be the way forward
- Hence, we expect companies in med-tech to attain faster growth.

# The Private sector especially asset light models are helping create a larger healthcare delivery network



Specialty clinics provide accessible to AFFORDABLE QUALITY healthcare across wider geographies



- The chart depicts the formats available in healthcare delivery today.
- Over the years, the healthcare delivery format has evolved from large government hospitals to private & specialized hospitals & clinics.
- Private healthcare now accounts for 80% of India's healthcare expenditure, and continues to be a major driver of growth in the sector.
- Specialty clinics has been successful because of their ability to deliver affordable, accessible and quality healthcare in an asset light format
- Hence, specialty clinics and budget hospitals are included in the areas of interest for the fund.

- Specialty clinics have evolved from the equipment oriented models (like Diagnostics, Dental, etc.) to more specialized-treatment models like IVFs, Orthopedic, etc.
- As the specialty clinics offer faster geographic expansion in an asset-light model, there has been a significant growth in the number of specialty clinics across India.

# Wellness – Emerging Play in Preventive healthcare

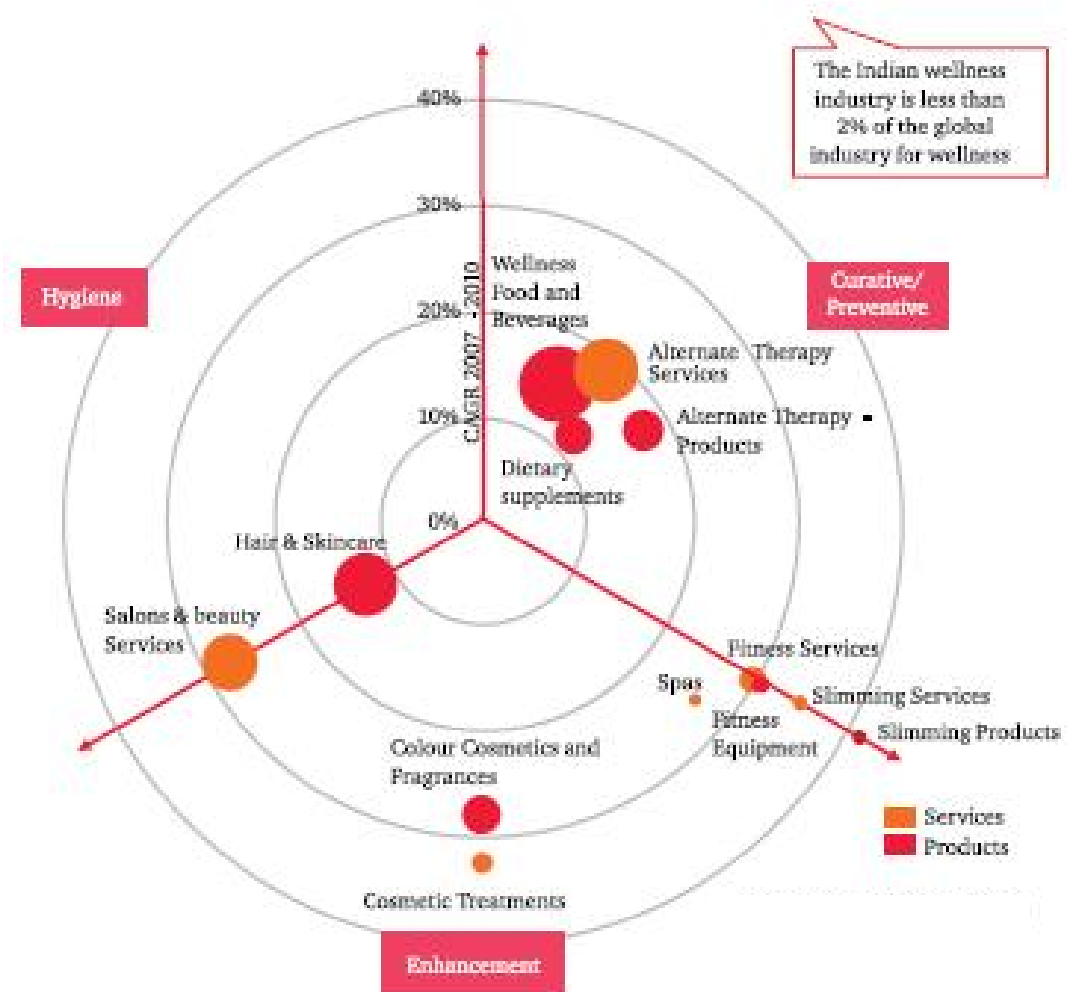
**Wellness market in India is estimated to be about Rs. 1000 bn in 2015 and wellness services account for 40% of this market**

The beauty care market comprising salons, cosmetic treatment centres and cosmetic products is estimated at Rs. 455-490 bn

Of the estimated Rs. 100-115 bn fitness and slimming market in 2015, services (fitness and slimming centres) account for over 65% of the market

Health and wellness food and beverages dominate the Rs. 270 bn nutrition market

The alternate therapy market in India is estimated at Rs. 210 bn to 270 bn. Consumer preferences for alternative therapies in India are driven by its deep penetration, affordability and traditional mindset.





# Challenges faced in Healthcare Delivery and potential solutions

## Healthcare Challenges

## Potential Solutions

### Lack of Serious Preventive Healthcare System

- Preventive healthcare a privilege of few
- Not penetrated across the society
- Perceived expensive and not a NEED
- Lack of it ultimately makes healthcare expensive for all

### Carrying (to) beyond Corporate

- Retailing B2C direct
- Online – Web purchase
- Predictive Healthcare
- Community Outreach

### Lack of balanced distribution of healthcare facilities

- Dense in State Capital and tier 1 cities
- Sparse in tier 2 and beyond
- Scarce in Rural Hinterland

### Building a patient flow funnel from Primary to Quaternary

- Hub & Spoke structure – Tertiary Fed by Secondary
- Strategically aligned to local players- closer to community
- Leveraging and Using Technology

### Paucity of Specialists on ground

- To service unmet/underserved needs beyond urban landscape
- To be available 24/7 beyond the cityscape

### Pool of Specialists by turn make available at key points

- Outreach program to offer regular/scheduled consulting
- Remote support ( ICU, Emergency etc., ) leveraging advanced connectivity

### Multiple location Investment – Failing Economics

- Full fledged multi location facility means high investment, low returns
- Asset utilization and revenue recovery sub optimal

### Asset light models at bottom to Asset heavy models at top

Financial stake to local care providers to ensure optimal self use

### Scheme supported revenues – low rates- lower margins

- pressure on pricing, margin and working capital
- managing the government

### Ethical re-use/repeat use of materials where possible to amortize costs

Use of Generic drugs and medicines

Equal sacrifice in margin by Consultants and Hospitals

Non Prime time service

# Challenges faced in Healthcare Delivery and potential solutions

## Healthcare Challenges

## Potential Solutions

Community – Care Provider GAP- Empathy Vs Economics

- Emotion over rules economics resulting in concessions/discounts/write offs
- Perception of fleecing by corporate healthcare providers

Bringing the Philanthropist and the Practioner together  
 CSR programs with Industry/Business  
 PPP with Government  
 Free Community connect programs

Short term capital- high cost debt- long term requirement- mismatch

- Private Equity with short term stay is an available source
- Debt comes with guarantees, collaterals, high cost and limited repayment tenor
- Equipment ( most expensive part of project) comes with 3-5 year loans

Emerging Patience Capital  
 Institutional long term funding – 10-12 years  
 Specialized Healthcare funds for Customized Investment

Multi-Specialty facilities – with skewed specialty mix composition

- High cost set up, with only one or two specialties contributing
- Box Hospital structure means sub-optimal utilization of full facilities
- By cost – multi specialty, by revenue – single, at best dual specialty

Single Specialty Centres  
 Dual Specialty Centres  
 Centres of Excellences  
 boutiques for less complex practices/specialty

Servicing the Discerning and the Discount patient under one roof

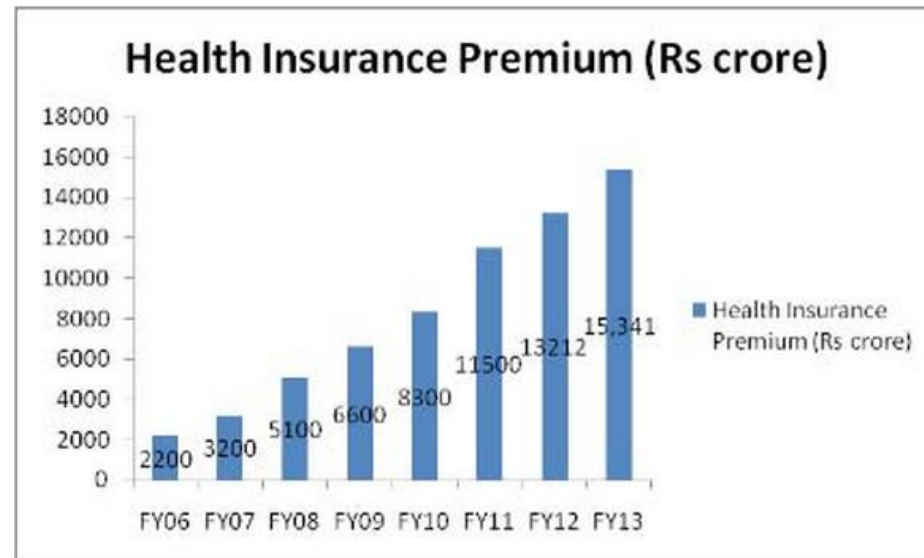
- Low satisfaction levels
- Dilution in positioning, resulting in pricing and margin pressure
- Perceived high cost by the price conscious patient,
- Perceived dilution in premium ness by the discerning patient

Multifarious models- low cost to Premium – same umbrella with distinct identities  
 Segregation to suit patient profile at front end in the same premises  
 Separate IP Wards to suit pricing points

# Challenges faced in Healthcare Delivery and potential solutions

Healthcare Challenges	Potential Solutions
<p>Post Treatment Hand-hold/Relationship</p> <ul style="list-style-type: none"> <li>• Abysmal to Non existing</li> <li>• Managed care not available</li> </ul>	<p>Free Standing Rehab Centres – to seamlessly take over Disease Care Management</p> <p>Home care</p>
<p>Short Stay at hospital = Affordable stay to patient</p> <ul style="list-style-type: none"> <li>• In Patient stay for all surgeries and procedures</li> <li>• Out Patient procedures performed under In patient admission</li> </ul>	<p>Increased Out Patient care management</p> <p>Day Care Centres</p> <p>Short stay surgeries</p> <p>Advanced techniques in surgeries for quick discharge/minimal stay</p>
<p>Sub Optimal usage of High Investment Facilities</p> <ul style="list-style-type: none"> <li>• Closed practice results in limited use</li> <li>• In house utilization is sub optimal</li> <li>• Post regular hours, idle infrastructure</li> </ul>	<p>Evening Clinics Open to Select Practitioner/s</p> <p>Partnered Care Providers access at Concessional rates</p> <p>Lower charge during non prime time usage</p> <p>HISP-Hospital Infrastructure Service Model to attract Select /Limited independent Practitioner</p>
<p>Deficit in Talent Pool Availability</p> <ul style="list-style-type: none"> <li>• Regulated environment restricts medical school numbers</li> <li>• High cost of PG education ( demand &gt; supply) resulting in mendicants becoming managers</li> <li>• Lack of Job Oriented Healthcare courses</li> <li>• Lack of unified sector approach results in low preference for healthcare opportunities</li> </ul>	<p>Training and Retrofitting of Alternate Medicine Graduates at Physician Assistant Levels</p> <p>Using DNB courses as an handle to attract and retain talent</p> <p>Setting up captive Para-medical schools and colleges</p>
<p>High cost of medical equipments</p> <ul style="list-style-type: none"> <li>• Significant portion of investment lock up in equipments</li> <li>• Lack of monetary resources results in inadequately equipped facilities</li> <li>• Frequent upgrades pressurizes regular change over at high cost to be market relevant</li> <li>• Recurring costs- CMC-AMC killer costs</li> </ul>	<p>Emerging trend in local manufacture</p> <p>India Specific –Right Priced Model made for India</p> <p>Supplier Financing through finance arm</p> <p>Pay per use model/Co-ownership model</p> <p>Gold seal models</p>

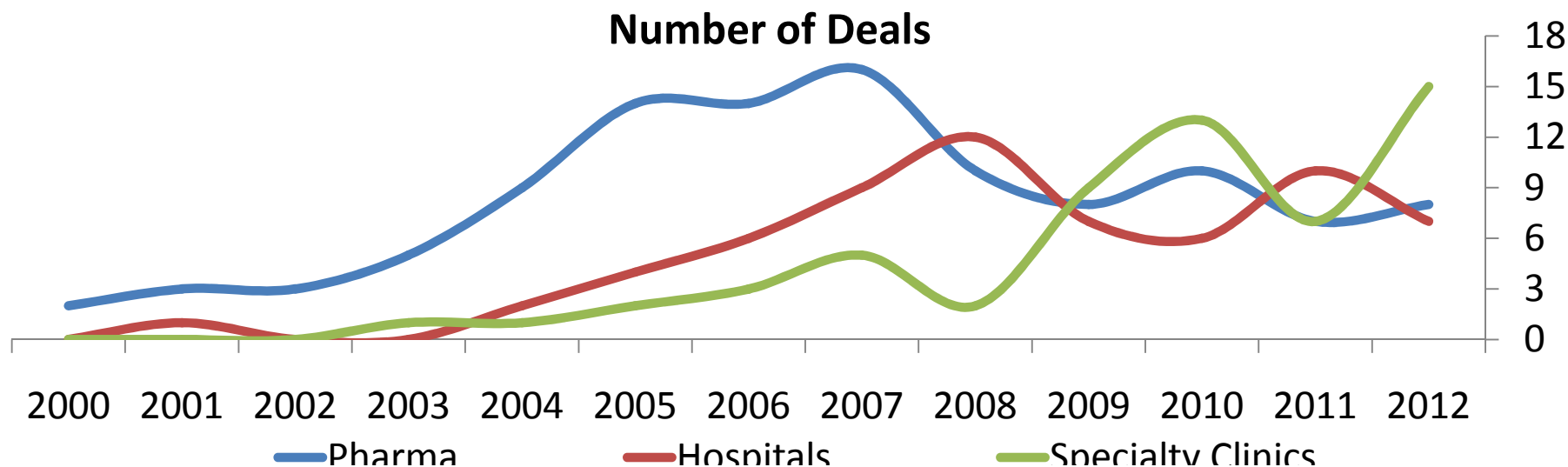
## Health insurance: a catalyst to fast growing healthcare sector



Source: IRDA and annual report of Apollo Hospitals and Max India for 2012-13

- Health insurance market in India has grown at a CAGR of 32% from 2006 to 2013 period due to the growth in the economy, greater consumption power, more awareness on health, increased corporate responsibility and also a younger population adopting to newer formats in healthcare.
- It still contributes to 4-5% of the healthcare spend in India as compared to 60-65% in the USA – thereby creating a large opportunity
- We see a huge potential of growth in the insurance market will in turn help grow other sectors within healthcare like healthcare delivery, medical devices, pharmaceuticals, etc.
- The Healthcare insurance market seems to be maturing and better regulations and monitoring is ensuring a more rationale pattern of claims
- More innovative products like OPD, Diabetes, Maternity insurance are entering the market which would lead to faster growth of this sector

# Investments in healthcare increasingly focusing on specialty clinic formats...



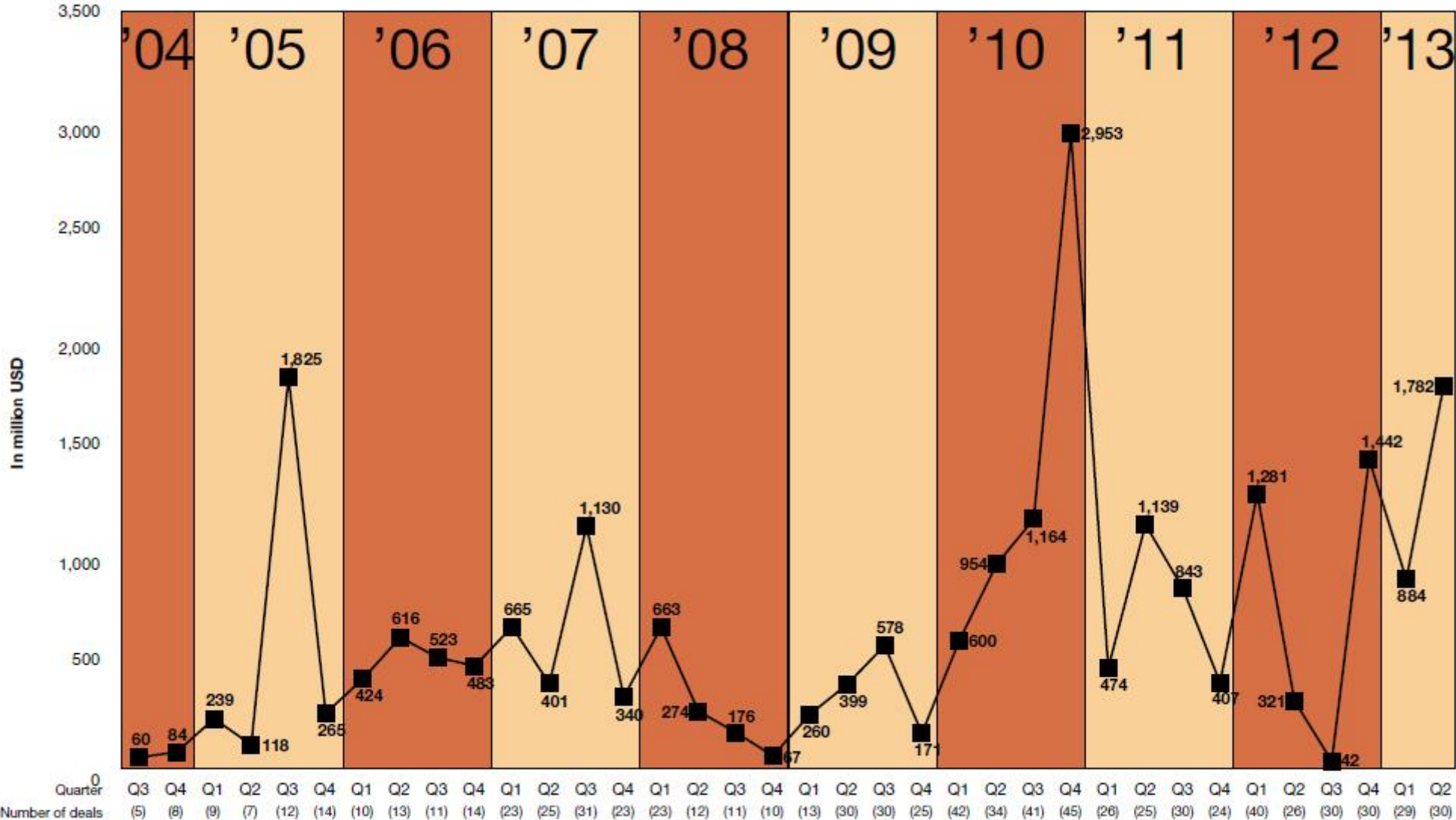
- It has been noticed that the PE/VC investment trend has moved on from pharma and hospitals to specialty clinics.
- In 2012, specialty clinics attracted USD 309.4 million of PE/VC funding as compared to pharma, which attracted USD 142.5 million.

## Deals in Specialty Clinics in 2012

Date	Target	Investor	PE Type	Investment (\$ mn)	Category	Sub category
26-Sep-12	Thyrocare Technologies Ltd.	Norwest Venture Partners	Private Equity	22.6	Specialty Clinics	Diagnostics
12-Sep-12	SRL Ltd.	Avigo Capital Partners Pvt. Ltd.	Private Equity	4.0	Specialty Clinics	Diagnostics
27-Aug-12	NationWide Primary Healthcare Services Pvt. Ltd.	Norwest Venture Partners	Venture capital	4.5	Specialty Clinics	Family GP
18-Aug-12	Axiss Dental Pvt. Ltd.	India Equity Partners Fund Advisors Pvt. Ltd.	Private Equity	-	Specialty Clinics	Dental
13-Aug-12	Nova Medical Centers Pvt. Ltd.	New Enterprise Associates, Goldman Sachs (Principal Investments)	Private Equity	54.6	Specialty Clinics	Day Care
13-Aug-12	Express Clinics Pvt. Ltd.	Somerset Indus Healthcare Fund I	Venture capital	-	Specialty Clinics	Family GP
6-Jul-12	Asvas Healthcare Ltd.	Nirvana Holdings Pvt. Ltd.	Angel/Seed	0.9	Specialty Clinics	Rural clinics
4-Jul-12	International Oncology Services Pvt. Ltd.	RVCF II SME Tech Fund	Private Equity	3.7	Specialty Clinics	Oncology
1-Jul-12	Xcode Life Sciences Pvt. Ltd.	Shead Holdings Ltd.	Venture capital	0.3	Specialty Clinics	Genetics
12-Jun-12	SRL Ltd.	International Finance Corp., NYLIM Jacob Ballas India Fund III	Private Equity	66.3	Specialty Clinics	Diagnostics
14-Mar-12	Medfort Hospitals Pvt. Ltd.	TVS Shriram Growth Fund-IA, ePlanet Capital	Venture capital	2.5	Specialty Clinics	Ophthalmic
2-Mar-12	Meta Dermatology Pvt. Ltd.	Housing Development Finance Corp. Ltd.	Angel/Seed	-	Specialty Clinics	Diabetes, Cardio
22-Feb-12	Vasan HealthCare Pvt. Ltd.	GIC Special Investments Pte Ltd.	Private Equity	100.0	Specialty Clinics	Ophthalmic
23-Jan-12	SRL Ltd.	International Finance Corp.	Private Equity	25.0	Specialty Clinics	Diagnostics
12-Jan-12	DaVita NephroLife Care India Pvt. Ltd.	New Enterprise Associates, DaVita Inc.	Private Equity	25.0	Specialty Clinics	Dialysis

Source: VCCEdge

# PE Exits



Data provided by Venture Intelligence



## Top five PE exits

Q2 '13

The top two exits comprised 32% and the top five constituted close to 51% of the total exit value in Q2 '13.

Company	Industry	PE firm(s)	Deal amount (In million USD)
Shriram Transport Finance	BFSI	TPG Capital	301
CSS Group	IT and ITeS	SAIF, Goldman Sachs, Sierra Ventures	270
JustDial	IT and ITeS	Sequoia Capital India, SAIF, Tiger Global, SAP Ventures	130
Havells India	Energy	Warburg Pincus	130
TRIL Roads	Engineering and construction	Actis	84

Data provided by Venture Intelligence

Type of exit (from 2012)	Number of Deals	Deal Amount (USD m)	Average (USD m)
Public Market Sale	69.0	3,436.5	49.8
Strategic Sale	57.0	943.8	16.6
Buyback	36.0	146.6	4.1
Secondary Sale	56.0	1,700.2	30.4
Other	2.0	10.0	5.0
<b>Total</b>	<b>220.0</b>	<b>6,237.1</b>	<b>28.4</b>

\*Valuation available for only 147 out of the 220 companies

Company Valuation (in INR cr)	Number of Deals
100 or below	3.0
100-500	14.0
500-1000	10.0
1000 and above	25.0
<b>Total</b>	<b>52.0</b>

\*Valuation available for only 52 companies

- Though the high value exits generally take place through the public market route, we have seen a lot of action in the small deal size where the preferred route of exit is either secondary sale of promoter buyback.
- The number of companies which are small in size and have successfully provided an exit to investors also remains high.

## Deals in Healthcare since Jan 2011

Sub-sector	Number of deals	Amount (USD mn)
Hospitals	45	1,135
Pharmaceuticals	29	328
Clinics	15	184
Medical Devices	14	202
Diagnostics	11	203
Biotech	7	88
Wellness	5	27
Daycare Surgery Center	3	61
CRO	2	46
Consulting	1	2
FMCG	1	5
Personal Care	1	12
Stem Cell Bank	1	7
<b>Total</b>	<b>135</b>	<b>2,298</b>

Note:

1. Sector classification and data by Venture Intelligence
2. Includes PIPE deals also
3. Investment amount not available for a few deals

# In focus: The healthcare opportunity

- The healthcare sector emerged as a sector of growth in a contracting PE industry in 2012, and this is expected to continue to grow every year. Investments in healthcare almost tripled recently, rising from \$0.46 billion in 2011 to around \$1.3 billion in 2012. Deal volume also rose 50%, with 44 deals done in the sector in 2012.
- The overall Indian healthcare market is around \$78 billion and has grown 11% in the past five years.
  - However, India remains a highly underpenetrated market in terms of healthcare spending per capita and offers huge growth potential.
  - India's growing population, increased incidence of diseases, greater affordability, expanding insurance coverage and supportive government schemes are the key drivers of high double-digit growth expectations of the PE industry.
- About 140 healthcare companies have received investment over the past five years, with 15% to 20% raising more than one round of capital. What this points to is the increasing confidence in the value creation potential of the sector.
- Even in terms of exits, the picture is promising. Of the \$5 billion invested in healthcare, \$2.8 billion has been returned, with an average holding period of five years for the top 25 deals.

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