Healthcare

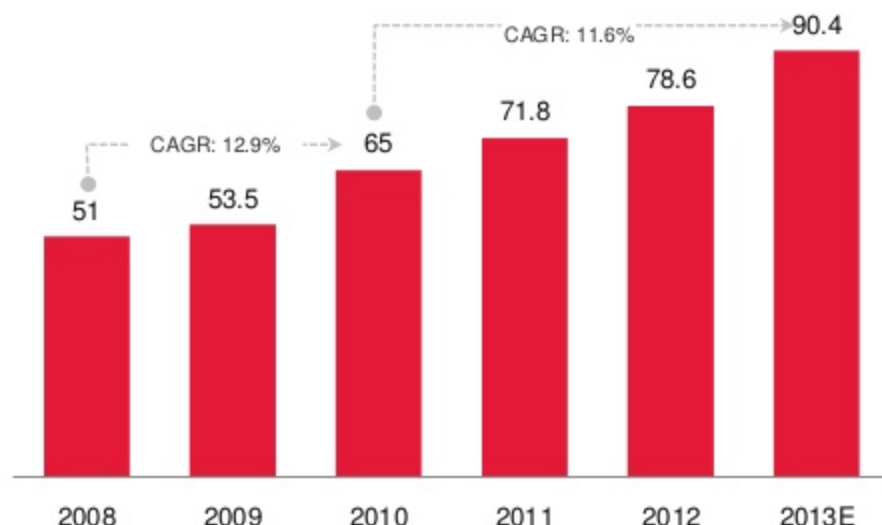India Sector Notes

MAY 2014

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USD90.4 billion
Healthcare Expenditure

71%
*Hospital Share in Total
Healthcare Expenditure*

USD61
Per Capita Healthcare Expenditure

0.9
*Hospital Beds Per Thousand
Population*

0.7
*Physicians Per Thousand
Population*

33.1%
*Government share in total healthcare
expenditure*

~15%
Health Insurance Penetration

Healthcare

- **Hospitals**
  - **Private Hospitals**
    - Establishments such as nursing homes, mid-tier and top-tier private hospitals
  - **Government Hospitals**
    - Government-owned facilities such as healthcare centers, district hospitals, and general hospitals

- **Pharmaceuticals**
  - **Formulations**
    - Manufacturing of final medicines directly sold to end consumers
  - **API/ Bulk Drugs**
    - Manufacturing of chemicals and materials used in the production of medicines

- **Medical Equipment**
  - Includes establishments primarily engaged in manufacturing medical equipment and supplies, such as surgical, dental, laboratory instruments, etc

- **Diagnostics**
  - Comprises businesses and laboratories that offer analytical or diagnostic services, including body fluid/blood analysis

- **Medical Insurance**
  - Covers an individual's hospitalization expenses and medical care bills incurred due to illness

Source: *Hospital Market - India by Research on India*

Total healthcare expenditure in India is estimated to have increased to USD90.4 billion in 2013, with private sector accounting for the maximum share

HEALTHCARE EXPENDITURE GROWTH

(in USD billion)

CAGR: 11.6%

CAGR: 12.9%

2008	2009	2010	2011	2012	2013E
51	53.5	65	71.8	78.6	90.4

- The growth in India's healthcare industry is driven by increasing population, rising incomes, changing lifestyle, easier access to high-quality healthcare facilities, and greater awareness of personal health and hygiene.

SHARE OF HEALTHCARE EXPENDITURE, 2012

33.1%

USD78.6 billion
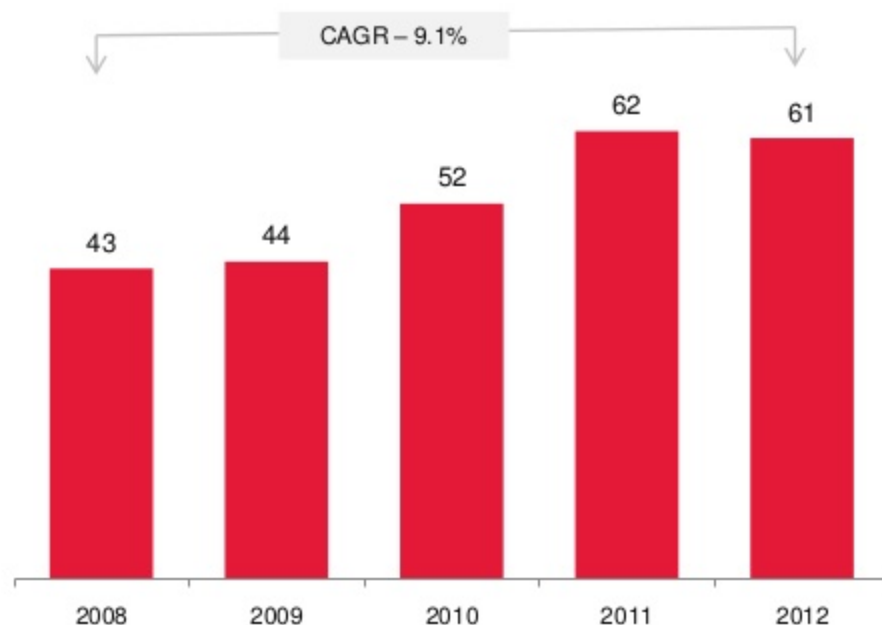
66.9%
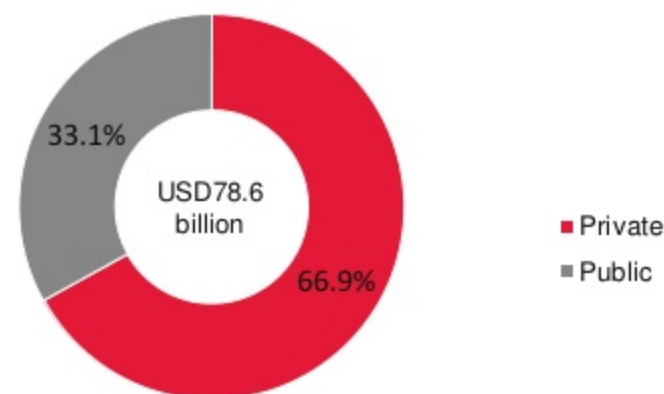
- Private
- Public

- Private sector has been the driving force behind the growth in the Indian healthcare sector

- Expenditure on private hospitals accounts for 66.9% of total healthcare expenditure in India, among the highest in the world.

- Most healthcare resources in India are with the private sector, which includes 80% of doctors, 26% of nurses, 49% of beds, 78% of ambulatory services, and 60% of in-patient care.

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India's per capita expenditure on healthcare improves over the years; however, continues to be one of the lowest in the world

PER CAPITA HEALTHCARE EXPENDITURE

(in USD)

CAGR – 9.1%

Year	Value
2008	43
2009	44
2010	52
2011	62
2012	61

- India's per capita expenditure on healthcare is very low compared with developed countries such as the US (per capita healthcare expenditure of ~USD4,700 in 2010), the UK (~USD1,700), Japan (~USD2,800), etc.

- This is primarily on account of low disposable income and low government spend; the Indian government spend on the healthcare sector is among the lowest, accounting for ~4.2% of the total GDP (as against ~17% in the US in 2010 and over 9% in Japan and the UK)

- Currently, the general public meets around 78% of their total health expenditure with own income; of this, 72% is spent on drugs.

Medical Insurance – 4%

- Indian health insurance markets, one of the fastest growing markets, recorded a CAGR of over 20% during 2008–13.

- Less than 15% of the Indian population has some form of health insurance coverage; by 2020 the figure is forecast to reach 45%

- The Indian health insurance industry is dominated by four public sector companies: National, New India, Oriental, and United India (60% market share).

Medical Equipment and supplies – 9%

- The Indian medical device market is the fourth-largest in Asia, with 700 medical device manufacturers.

- India's medical device market is forecasted to expand at a CAGR of over 15% during 2012-2016, mainly due to increased financial support in the form of fiscal benefits as well as technological advancements and
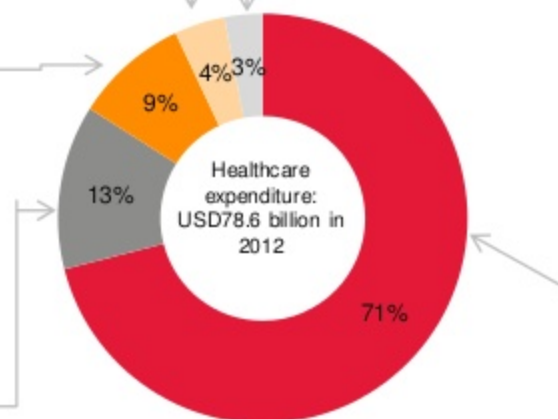
Pharmaceuticals – 13%

- The Indian pharmaceutical industry is estimated to expand at a CAGR of around 12% during 2012–20, mainly due to growth factors such as presence of epidemiological factors, increase in affordability due to increase in income, expansion of insurance coverage, and increased awareness.

- It is expected that India would be among the top three pharmaceutical markets by incremental growth and sixth-largest in absolute size.

Diagnostics – 3%

- The Indian diagnostics market is estimated to rise at a CAGR of 19.5% during 2011–16.

- Major growth is expected in hematology, reagents, molecular diagnostics (currently accounting for the largest share of 30-40%), and specialty diagnostics,

Healthcare expenditure: USD78.6 billion in 2012

4% 3%
9%
13%
71%

Hospitals – 71%

- Healthcare delivery market in terms of volume was ~4 billion treatments in 2012–13.

- Healthcare delivery comprises in-patient department (IPD) accounting for 72% and out-patient department (OPD) accounting for the remaining.

- The healthcare delivery market is dominated by private healthcare providers, accounting for around 80% of total healthcare delivery in value terms

- The market is estimated to expand at a CAGR of over 11% in value terms during 2013–17.

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Increased technological use and innovative business model are trends among Indian healthcare providers to drive revenue growth

INCREASED USE OF TECHNOLOGY

- Indian healthcare providers are increasingly adapting new technologies to offer better healthcare services, reach inaccessible regions, and improve operational efficiency
  - **Improve operational efficiency**: Hospitals are adopting digital health knowledge resources, electronic medical record, hospital information system to control costs and stream operations
  - **Increase accessibility**: Medical experts are opting for telemedicine as a way to reach rural India and create a network of health service providers.
- Spending on technology is estimated to increase from USD53 billion in 2012 to USD57 billion in 2013

INNOVATIVE BUSINESS MODEL

- Healthcare providers are looking for innovative business models to remain competitive and cost-effective in the competitive Indian landscape
  - Healthcare providers open multispecialty outpatient clinics to provide primary care. The trend of focusing on provision of primary care is likely to continue. For instance, CARE Hospitals, the fifth-largest chain of multispecialty hospitals in India, unveiled the country's largest integrated outpatient center in Hyderabad
  - Adapting interactive patient care models such as interactive technology platform, online patient self-help groups, mobile health, social media platforms, and patient remote monitoring. These models enable healthcare providers to improve customer service levels as well as increase revenues

GROWING MEDICAL TOURISM

- The number of medical tourists is estimated to grow from 150,000 in 2005 to 3.2 million in 2015
- Foreigners visit India for cosmetic and regenerative treatment, knee replacement, cardiac treatment, cancer, and other serious ailments. Previously, India received medical tourists from Iraq, Afghanistan, the former Soviet Union; however, the country now also receives patients from the US and Europe
- Inflow of medical tourists is mainly due to low cost advantage, a wide range of treatments, advance medical facilities, and qualified doctors. For instance, dental procedures are seven to eight times cheaper in India compared to the US. Cataract surgery in India costs half of what it does in the US

OUTSOURCING AND APPOINTMENT OF FULL-TIME DOCTORS

Outsourcing

- Indian healthcare facilities are focusing on core business and outsourcing non-core operational activities, including laundry, kitchen, housekeeping, security.
- The facilities are outsourcing revenue-centric operations such as imaging, laboratory, and pharmacy

Full-time doctors

- Hospitals are eradicating the visiting doctors practice by appointing full-time doctors, ensuring full-time availability of doctors for patients.
- Hospitals, such as Kokilaben, Hiranandani, and Seven Hills, have opted for all, or majority of specialties, to have full-time consultants on board

Source: *Desk Research*

KEY GROWTH ENGINES

↑ **Healthcare expenditure**: India's per capita healthcare expenditure increased at a 10.3% CAGR from USD43.1 in 2008 to USD57.9 in 2011. Furthermore, it is estimated to increase to USD88.7 by 2015 due to:

– **Increasing population**: Indian population is estimated to increase to 1.4 billion by 2026, of which the geriatric population is expected to grow to ~168 million.

– **Rise in disposable income**: Disposable income in India grew 15–21% in nominal terms between 2008-09 and 2011-12.

– **Rising literacy**: Literacy rate in India has increased to 74% in 2011 from 64.8% in 2001, leading to increased general awareness, patient preferences, and better utilization of institutionalized care in India.

↑ **Lifestyle diseases**: Due to change in lifestyle, incidence of lifestyle-related diseases, such as heart problems, oncology, and diabetes, have increased, and are expected to grow further.

↑ **Health insurance**: Penetration of health insurance in India is expected to increase from the current 15% to about 45% by 2020. The surging health insurance industry would address the affordability problem faced by the Indian healthcare sector.

↑ **Growing private sector**: Government support in the form of tax relief for the first five years for hospitals setting up operations in tier II and tier II cities will drive growth of private hospitals. The share of private sector in the Indian healthcare industry is forecasted to rise from 66% in 2005 to 81% by 2015.

↑ **Technological advancements:** The telemedicine market is expected to rise at a 20% CAGR to USD18.7 million by 2017 compared with USD7.5 million in 2012. Robust infrastructure and 4G services are estimated to fuel growth in the Indian mobile health industry and help it reach USD0.6 billion by 2017.

**Source:** *Business Standard, Economic Times, Healthsite*

KEY GROWTH INHIBITORS

- **Lack of infrastructure and manpower**: India has the lowest healthcare delivery rate due to acute shortage of beds and skilled personnel. To meet the world standards of 2.6 beds per 1,000 population, the country needs additional 1.7 million beds. Furthermore, as per World Health Organization's mandate, India should double the number of doctors, triple the number of nurses, and quadruple the number of paramedics.

- **Inaccessibility of healthcare services**: Almost 72% of India's population resides in the rural areas and 28% in the urban areas. The urban population has access to 66% of India's available hospital beds, leaving one-third for the rural population. Also, around 50% of the total Indian population, which is about 75% of the total rural population, has to travel beyond five kilometers to access healthcare services due to lack of proper infrastructure.

- **Shortage of medical specialists**: The number of post graduate medical seats in India is 14,000 compared with 32,000 in the US, leading to shortage of medical specialists. Under the regulatory framework, only a specialist can perform certain tasks. Thus, with low number of specialists, the growth of Indian healthcare industry is at risk.

- **Nursing profession**: The nursing profession in India is losing its grip. The admissions to nursery colleges have dropped 50%, leading to closure of half of the colleges in Karnataka. If this persists then it could pose a serious challenge to the healthcare sector.

- **Inefficiency of public healthcare providers**: Lack of proper services from public healthcare providers has forced Indians to shift to private healthcare providers whose services are comparatively expensive. It is believed that private healthcare facilities are around two to nine times more expensive than the public services, proving them to extremely expensive for poor people.

Source: KPMG

HEALTHCARE EXPENDITURE - PROJECTED GROWTH

(in USD billion)

CAGR: 15%

158.1

137.5

119.5

103.9

90.4

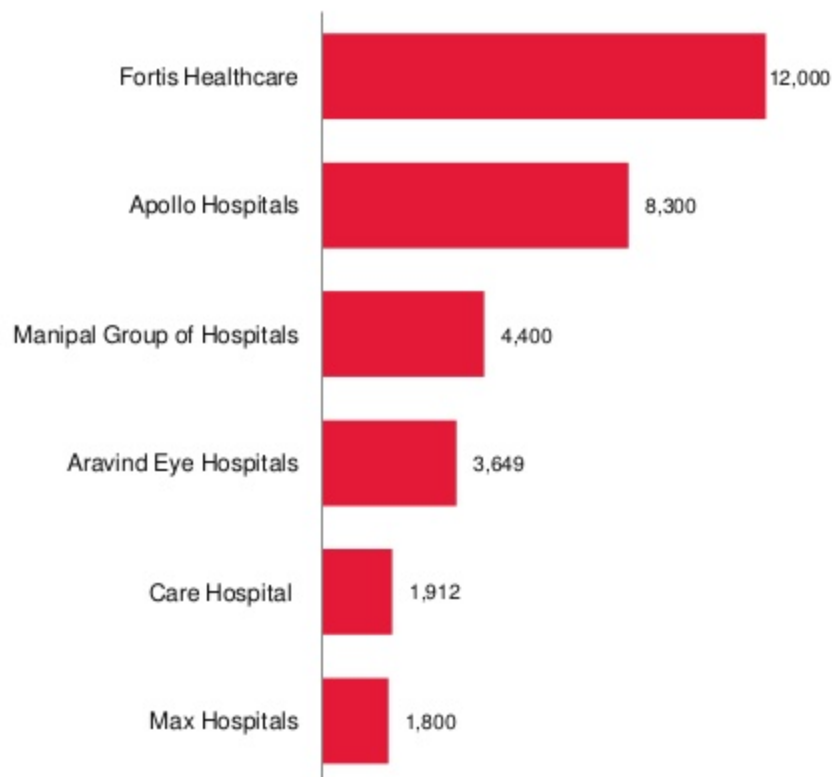| 2013E | 2014F | 2015F | 2016F | 2017F |
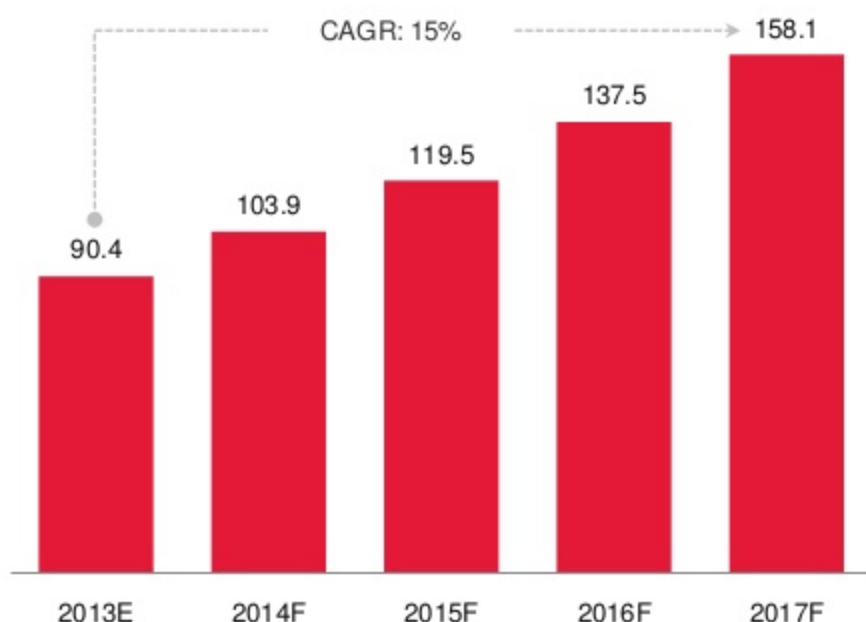
- Growth of India's healthcare sector would be principally driven by increase in per capita healthcare expenditure on the back of rising awareness and disposable income; per capita healthcare expenditure is expected to reach USD88.7 by 2015.

- Technological advancements will be another major factor driving market growth; rapid growth is expected to be witnessed in telemedicine and mobile-based healthcare industry.

- The private sector is expected to continue to witness accelerated growth momentum; by 2015 the sector is forecast to account for over 80% of the healthcare expenditure.

Source: *India's healthcare sector to grow to $158.2bn in 2017' by Economic Times, Dec 2013, Aranca Analysis*

01	Sector Overview
02	**Competitive Landscape**
03	Regulatory Framework
04	Conclusions & Findings
05	Appendix

NUMBER OF BEDS WITH TOP FIVE PRIVATE PLAYERS

Hospital	Number of Beds
Fortis Healthcare	12,000
Apollo Hospitals	8,300
Manipal Group of Hospitals	4,400
Aravind Eye Hospitals	3,649
Care Hospital	1,912
Max Hospitals	1,800

HOSPITAL LOCATION OF TOP FIVE PRIVATE PLAYERS

GEOGRAPHICAL PRESENCE IN INDIA	FUTURE PLANS IN INDIA
Pan India – Mumbai, Bengaluru, Kolkata, Mohali, Noida, Delhi, Amritsar, Raipur, Jaipur, Chennai, Kota	Aims to add 500–600 beds every year for the next two to three years. Focus regions – Bengaluru, Noida, Gurgaon, and Ludhiana, among others
Pan India – Chennai, Madurai, Hyderabad, Karur, Karim Nagar, Mysore, Visakhapatnam, Bilaspur, Aragonda, Kakinada, Bengaluru, Delhi, Noida, Kolkata, Ahmadabad, Pune , Raichur, Ranipet, Ranchi, Ludhiana, Indore, Bhubaneswar	Plans to have 12,000 beds by end of 2015 through investment of INR22.5 billion. Focus regions – Mumbai, Patna, Vishakhapatnam, Indore, Chennai, and Bangalore
South India – Udupi, Bengaluru, Manipal, Attavar, Mangalore, Goa, Tumkur, Vijaywada, Kasaragod, Visakhapatnam	Invest INR15 billion to expand operations in India and abroad by adding 7–12 more hospitals to its current network of 15
South India – Theni, Tirunelveli, Coimbatore, Puducherry, Madurai, Amethi, Kolkata	Establish a state-of-the-art, 700-bed ophthalmic hospital at Maduravoyal , Chennai, in the coming years
South and West India – Hyderabad, Vijayawada, Nagpur, Raipur, Bhubaneswar, Surat, Pune, Visakhapatnam	Achieve target of 3,200 beds by end of 2015 by investing INR4 billion. Focus regions – Andhra Pradesh, Orissa, and Chattisgarh
North India – Delhi, NCR, Punjab, and Uttarakhand	Aims to expand presence in Punjab by investing INR450 million. The company plans to expand its Mohali hospital and add 90–100 beds as well as intensive critical units (ICUs), high dependency units (HDUs), and two operation theatres

Source: Company Website

Note: No of beds include owned, subsidiaries, joint ventures and affiliations
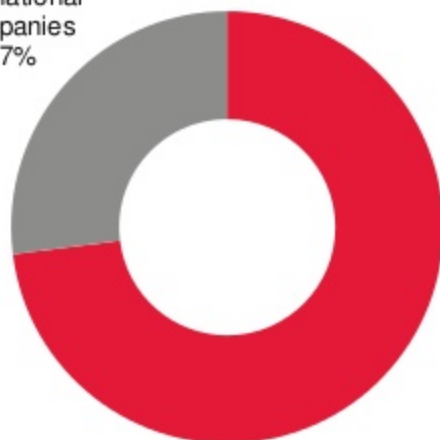
KEY PLAYERS IN INDIAN PHARMACEUTICALS MAREKT

Key international players

Abbott Laboratories

GlaxoSmithKline plc

Pfizer

Market share for 2013

International companies 27%

Indian companies 73%

- Currently, Abbott Laboratories leads the market with a 6.5% market share.

- With Sun Pharma's acquisition of Ranbaxy expected to complete in 2014, the market share of Indian companies is forecasted to become 77%.

- The combined entity is estimated to replace Abbott Laboratories' market share by holding a combined market share close to 9.3%.

Key domestic players	Revenues (INR million)
Sun Pharma	116,880 (2013)
Lupin Limited	96,691 (2013)
Cipla	85,240 (2013)
Ranbaxy	65,607 (2012)
Glenmark Pharmaceuticals	50,188 (2013)
Zydus Cadila	37,286 (2013)

Source: *Company Website, Economic Times, Aranca Analysis, PwC*

Indian medical equipment market is majorly dominated by international players, particularly GE Healthcare and Philips Healthcare

KEY PLAYERS BY MEDICAL EQUIPMENT PRODUCT SEGMENTS

Serial no	Product Segment	Key Players
1	Immunochemistry	Transasia Bio Medicals, BioMeriux India, Siemens Medical Solutions
2	MRI Equipment	GE Healthcare, Philips Healthcare, Hitachi Medical
3	HPLC Equipments	Waters Corporation, Agilent Technologies, Shimadzu
4	Biochemistry	Transasia Bio Medicals, BioMeriux India, Siemens Medical Solutions
5	Ultrasound Equipment	GE Healthcare, Philips Healthcare, Trivitron
6	CT Scanners	GE Healthcare, Philips Healthcare, Siemens Medical Solutions
7	Hematology	TransasiaBiomedicals, Mindray, Beckman Coulter
8	Cath Labs	Allengers, GE Healthcare, Philips Healthcare
9	Patient Monitoring	L&T Medical, GE Healthcare, Philips Healthcare
10	X-Ray Equipment	Allengers, Carestream Health India, GE Healthcare
11	Ventilators	Maquet Medical, GE Healthcare, DraegerMedical
12	ECG Equipment	BPL Healthcare, Concept Integration, GE Healthcare
13	Anesthesia Equipment	GE Healthcare, Philips Healthcare, Maquet Medical

Source: IMAP

SUN PHARMA

Acquires

RANBAXY LABORATORIES LIMITED

2014

- Sun Pharma proposed acquisition of Ranbaxy Labs to increase its market share to 9.3% in the Indian pharmaceutical market. Subsequently, the company aims to become world's fifth-largest generic drug maker.

- The deal would increase market share of Indian companies to 77% from 73% in the Indian pharmaceutical market.

- Each share of Ranbaxy would be exchanged for 0.8 shares of Sun Pharma

Total equity value of the transaction is ~USD3.2 billion

Advent International
GLOBAL PRIVATE EQUITY

Invested

CARE HOSPITALS

2012

- Advent International Corporation invested in the Hyderabad-based hospital chain Care Hospitals.

- Advent International invested with the aim to enhance Care Hospitals' operations as well as enter the healthcare sector.

USD110 million

Medical Equipment & Systems
Electrical & Electronics Division (EBG)

Divested

SKANRAY

2012

- Larsen & Toubro (L&T) divested its Mysore-based medical equipment business to privately held Skanray Healthcare Pvt Ltd.

NA

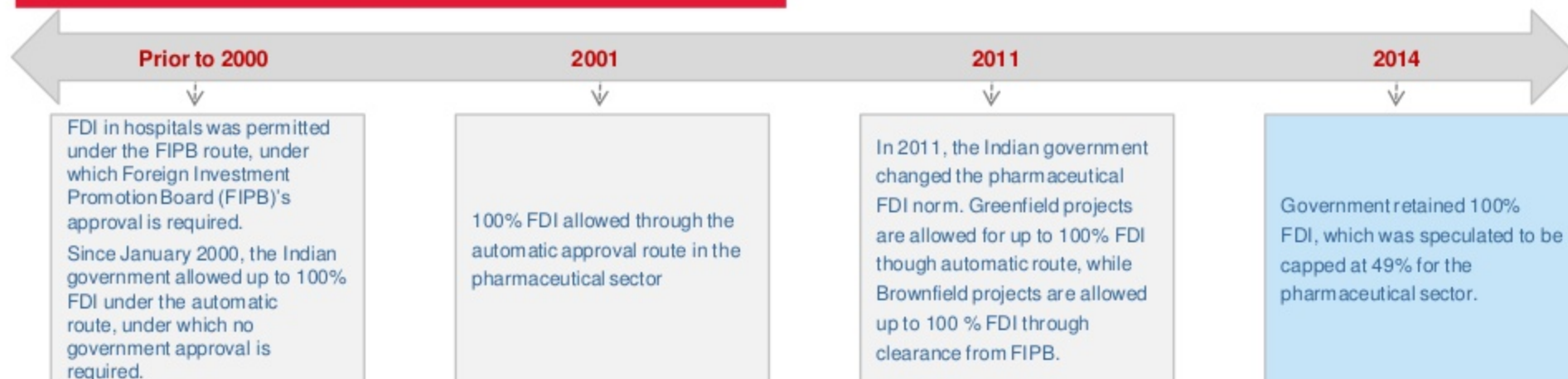**Source:** *Business Standard*

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Growth in Indian healthcare sector is supported by the 100% FDI policy; total FDI in healthcare sector was USD14 billion during April 2000–July 2013

Evolution of FDI in Indian Healthcare

Prior to 2000	2001	2011	2014
FDI in hospitals was permitted under the FIPB route, under which Foreign Investment Promotion Board (FIPB)'s approval is required. Since January 2000, the Indian government allowed up to 100% FDI under the automatic route, under which no government approval is required.	100% FDI allowed through the automatic approval route in the pharmaceutical sector	In 2011, the Indian government changed the pharmaceutical FDI norm. Greenfield projects are allowed for up to 100% FDI though automatic route, while Brownfield projects are allowed up to 100% FDI through clearance from FIPB.	Government retained 100% FDI, which was speculated to be capped at 49% for the pharmaceutical sector.

FDI IN HEALTHCARE SECTOR (Apr 2000 – July 2013)

(in USD million)

Drug and Pharmaceuticals	Hospital and Diagnostic Centers	Medical and Surgical Appliances
11,320	**2,008**	**702**

- Increase in healthcare demand, cost advantages, and favorable government policies have attracted the inflow of FDI.

- The Indian government encourages foreign investment in the automobile sector and allows 100% FDI under the automatic route for all health-related services.

- The Indian government is promoting FDI in healthcare to further enhance healthcare facilities in India, which are still at par with the global level.

Source: *Business Today, Planning Commission, Department of Industrial Policy and Promotion (DIPP)*

Indian government extends support through rural and urban programs as well as reduction in customs duty and policy formulations

GOVERNMENT SUPPORT (1/2)

National Rural Health Mission (NRHM)

- The Government of India set up a National Rural Health Mission (NHRM) in 2005 (the mission ran until 2012) to ensure provision of effective healthcare to the country's rural population.
- This initiative has helped in reduction of the maternal mortality rate (MMR), infant mortality rate (IMR), and total fertility rate (TFR) across the country.

National Urban Health Mission (NUHM)

- To cater to the healthcare needs of slum dwellers across urban India, the government set up a National Urban Health Mission (NUHM) in 2005.
- This initiative caters to nearly 42.6 million slum dwellers spread across 640 towns and cities in India.

Encouraging policies

- To encourage growth of the healthcare sector, the government has introduced supporting policies such as reduction in import duties on medical equipment, high depreciation on prices of life-saving medical equipment (40%, up from 25%), and a number of other tax incentives.

Reduction in customs duty

- The government has reduced customs duty on life-saving equipment to 5% from 25%, and exempted it from countervailing duty.
- Import duty on medical equipment has been reduced to 7.5%.

Rise in funding for the sector

- In the 12th five year plan, the Planning Commission allotted USD83 billion for healthcare spending, USD60 billion more compared with the 11th plan.
- The Ministry of Human Resource Development has been allocated USD11.05 billion and Ministry of Health and Family Welfare has been allocated USD5.53 billion under the Union budget 2014–15.

Source: *Business Today, Planning Commission, InvestIndia, RBI, Deloitte, Livemint*

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GOVERNMENT SUPPORT *(2/2)*

International co-operation

Indian government is affiliating with other countries to drive growth in the healthcare sector:

- In January 2014, the government signed three agreements with the Maldives government to promote healthy relations between the healthcare industries of the countries.

- According to the Director of Scottish Development International, Scotland is extending assistance to Indian pharmaceutical and biotech companies. The country intends to partner with India in stem cell research, clinical trials, regenerative medicine, and affordable healthcare.

Establishment of facilities

- Indian government has extended support for improving the quality of healthcare delivery. In line with this, the Union Cabinet approved USD333.61 million to set up the National Cancer Institute. The institute would be build in the Jhajjar campus of All India Institute of Medical Sciences, Haryana.

Source: *Indian Business*