



# EMERGING TRENDS: INDIAN HEALTHCARE INDUSTRY

December-2013

Hospital Services Industry: Riding on the back of growing  
healthcare demand

## Contents

Executive Summary	2
Growing Healthcare Demand	3
Emerging Trends in Indian Healthcare Sector	5
Government Initiatives Still Insufficient	7
A Significant and Viable Demand- Supply Gap	11
Onicra's Outlook on SME's in Hospital Services Industry	13
External References	16
Disclaimer	17
Contact Us	18

## Executive Summary

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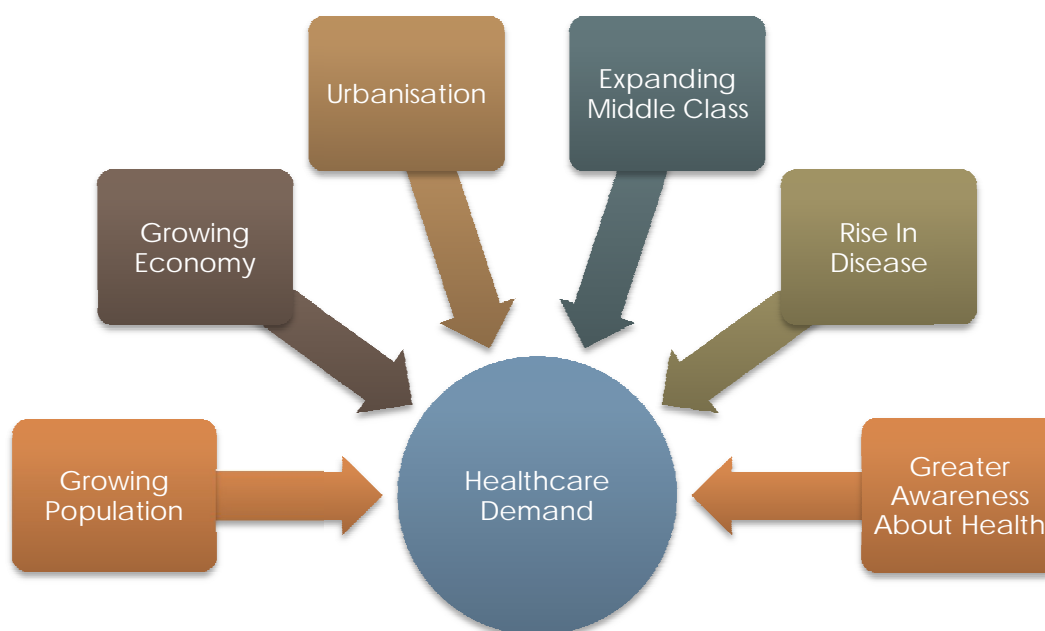
Healthcare sector is considered one of the largest sector in terms of both revenue and workforce employment. The estimated valuation of the sector was close to USD 74 billion as at financial year 2011-12.

A large and growing population, a booming economy, rapid urbanisation which has expanded the middle class, rising diseases and increased awareness level has enable the sector to grow at much higher rate.

The sector is dominated by private players capturing about 70% of the total market delivery in India. Leading from the front is the Hospital industry which is estimated to be around USD 54.7 billion by 2012 and contributes around 82% of the total revenue generated by healthcare industry as a whole. However, there remains a significant gap in terms of number of beds or number of doctors available which is far below the World Health Organization's (WHO) requirement of 1:250. Apart from this the sector is currently surrounded with multiple issues in regards to infrastructure, availability of adequate investment, skilled human resources.

Although the government has taken several steps in eliminating healthcare related issues but it still remains insufficient and a lot is needed to be done. Giving due importance to the sector the share of healthcare in 12<sup>th</sup> five year plan allocation of total funds is increased to 2.5% of the GDP. The current plan is a step ahead in the journey towards quality healthcare for all.

## Growing Healthcare Demand



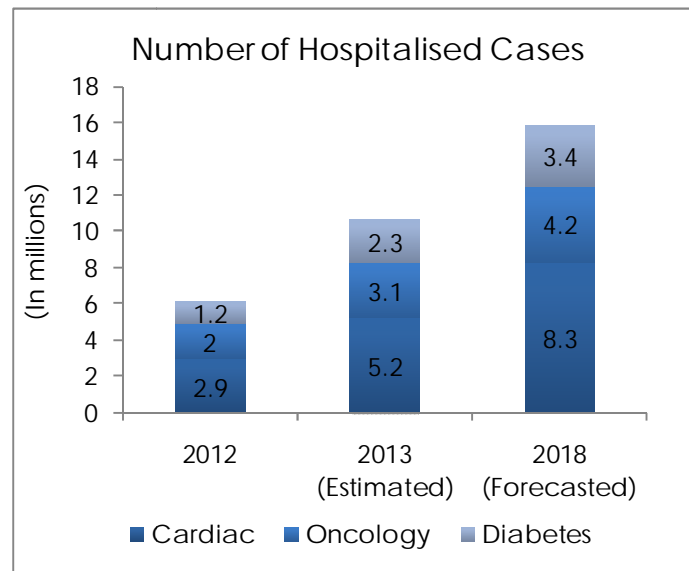
India is second largest populous country (after China) in the world having a population 1.21 billion<sup>1</sup>. The overall population grew at a rate of 1.76% per annum during the period 2001-2011 a decline from 2.13% per annum in the previous decade 1991-2001. The human sex ratio has shown a marginal improvement from 926 in the year 1991 to 940 in the 2011. Similarly, the birth rate has declined from 26.10 in the year 1999 to 22.50 in the year 2009. The Infant Mortality Rate (IMR) has decline significantly from 70 in 1999 to 50 in 2009 (per 1000 person) though there is a significant difference between rural and urban IMR of 55 and 34 respectively (per 1000 person).

With the globalization of Indian economy there was a significant change observed in the demographics of urban and rural population. The recent decade has seen the urban population to grow at a higher rate with respect to the rural population as people are migrating to urban areas for better livelihood opportunities with regards to education, health and other modern facilities. A rise in urban population has resulted in an enlarged middle class which has a higher disposable income for their healthcare expenditure.

With a rise in population, both infectious and chronic diseases have also increased in the recent decade. While the country has made significant advancement in reduction of diseases like polio, leprosy and tetanus other diseases like flu, malaria, dengue, hepatitis are becoming more malicious. Similarly life style diseases like diabetes, cancer and heart related diseases are also on the rise.

<sup>1</sup> 2011 provisional census, Ministry of Home Affairs, GoI

According to National Commission on Macroeconomics and Health (NCMH) there will be a significant rise in both communicable and non-communicable diseases in the coming years. On the other hand growing awareness about health prevention and other precautionary measures along with proper diagnosis is resulting in higher hospitalization.



Source: Health Ministry





## Emerging Trends in Indian Healthcare Sector

**Rise in lifestyle related diseases:** As discussed earlier in the report though the country has been able to control diseases like polio, leprosy and tetanus but it has to now face a new breed of lifestyle related diseases like diabetes, obesity and cardiovascular ailments has cropped up. The present generation which is accustomed to sedentary work, alcohol consumption and smoking are more prone to such lifestyle related diseases. According to World Health Statistics 2012 about 61.3 million people in India are diabetic amongst whom about 11% of the male population (adult) and 10.8% of the female population have shown a significant rise in blood glucose. Similarly, as per National Family Health Survey (NFHS) about 13% of the women population and 11% of the men population in India is obese.

**Demand of good quality and specialty healthcare facility in Tier-II and Tier-III cities:** There is a significant demand for specialty healthcare facilities like oncology, nephrology and ophthalmology in smaller cities. Some of the major healthcare facilitators are entering into tier II and tier III cities in India.

**Growth in medical tourism:** One of the main external factors which are contributing to the growth of Indian Healthcare sector is the rise in medical tourism. According to a leading research agency the medical tourism market is expected to expand at a CAGR of 27% to reach USD3.9 billion in 2014 from USD1.9 billion in 2011. India as a well educated, English speaking nation offering quality private

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hospitals and medical facilities at a relatively lower cost is able to attract foreigners. According to industry estimates, in some of the cases India provides best in class treatment at one tenth of the cost incurred in the United States of America.

Increased demand of Health Insurance: There is a limited exposure of health care insurance in India however; an increased awareness level among the people about its need has increased the demand. According to Insurance Regulatory and Development Authority (IRDA) the insurance premium received over the period of 2006 to 2010 has shown a CAGR of 39%.

## Government Initiatives: Still Insufficient

The 11<sup>th</sup> five year plan adopted an inclusive approach towards health care which includes equitable and comprehensive individual health care, improved sanitation, clean drinking water, nutritious food, hygiene, good feeding practices and development of delivery systems responsive to the needs of people<sup>2</sup>. Some of the main goals set by the 11<sup>th</sup> five year plan are given below

- Reducing Infant Mortality Rate (IMR) to 28 per 1000 live births.
- Reducing Maternal Mortality Ratio (MMR) to one per 1000 live births.
- Reducing Total Fertility Rate (TFR) to 2.1.
- Reducing malnutrition among children of age group 0–3 to half its present level.
- Reducing anemia among women and girls by 50 per cent.
- Raising the sex ratio for age group 0–6 to 935 by 2011–12 and 950 by 2016–17.
- Providing clean drinking water for all by 2009 and ensuring no slip-backs.

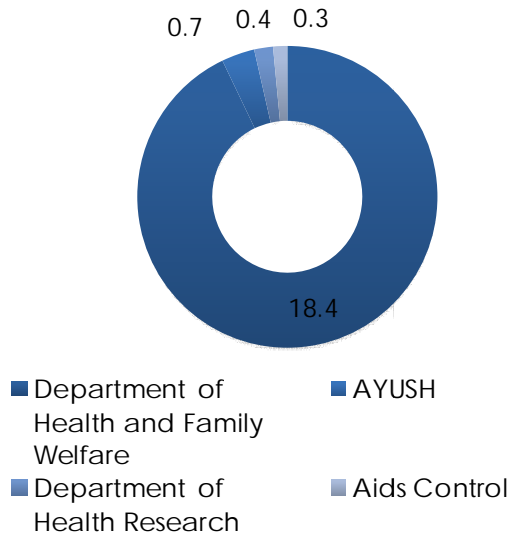
An analysis of 11<sup>th</sup> five year plan depicts that although there is a significant progress made in the area of MMR, IMR and TFR, however, the improvement in child sex ratio is not good enough. MMR which calculates the number of deaths caused due to maternity reduced by 5.8%, IMR which calculate the number of deaths of infant per thousand live births fell by 5%. Similarly, TFR which calculates the number of children born to a woman during her entire reproductive period fell by 2.8%. However, the same cannot be said in the case of child sex ratio. Most of the states except a few showed a decline in child sex ratio.

Looking at the current 11<sup>th</sup> five year plan the Planning Commission of India has increased the expenditure on healthcare by three folds in the 12<sup>th</sup> five year plan. The total allocation of funds stands at USD 55 billion under the plan, as a result the share of healthcare allocation to total plan allocation increased to 2.5% of the GDP as against 1% during the current plan. The 12<sup>th</sup> five year plan will look for a greater public-private partnership in the sector and will focus on providing a sound regulatory environment, promote research and development initiatives, improve infrastructural facility and provision of a universal healthcare.

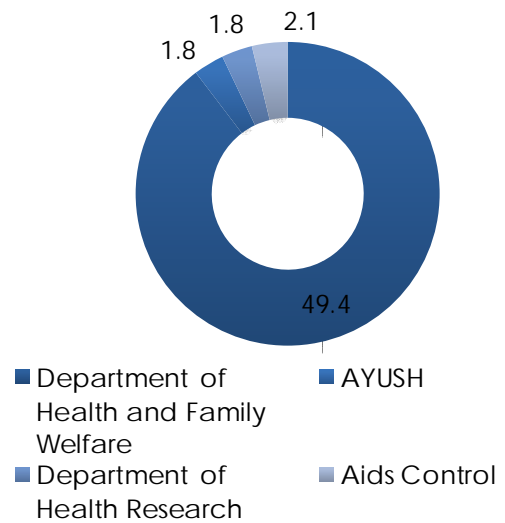
<sup>2</sup> The Planning Commission of India



11th five year plan (USD billion)



12th five year plan (USD billion)

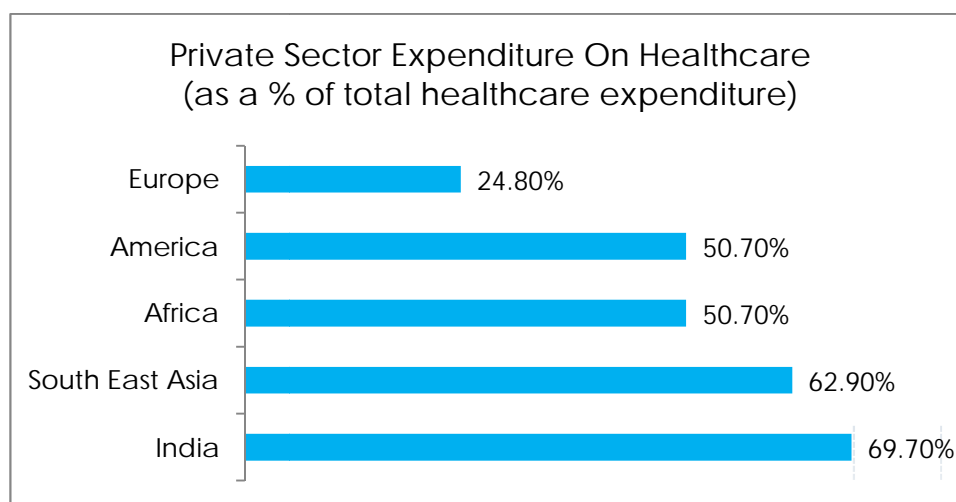


Source: Planning Commission, Ministry of Health & Family Welfare

## Hospitals Driving the Growth

While a significant advancement has been made by the government to provide quality healthcare in urban area, a lot is needed to be done for availability of quality services in rural areas as majority (72%) of the Indian population resides in the rural areas.

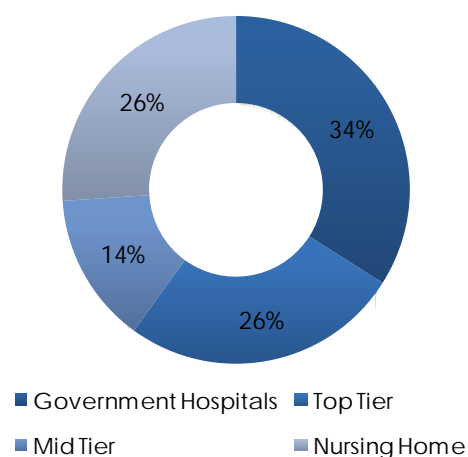
A sound planning and implementation of health care related policy by the government is required for such a large and diverse population. According to census 2011 28.3% of the rural population and 25.7% of the urban population lives below poverty line who are more prone to unhealthy environment.



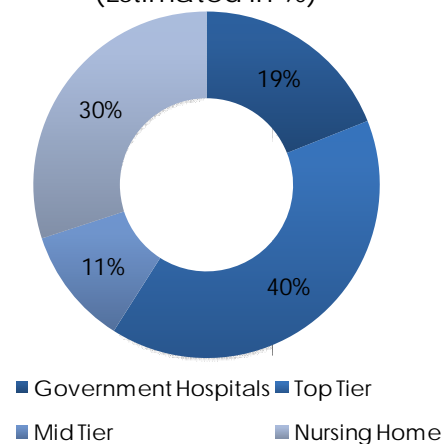
Source: World Health Statistics 2012, published by World Health Organisation (WHO)

The private sector on the other hand which consists of both 'not for profit' and 'for profit' organisation has gained a prominent presence in the healthcare sector which includes, medical services (hospitals), pharmaceuticals, medical equipments and supplies and diagnostics. There are no consistent estimates or proper information on the contribution of private sector in health care delivery, however, according to World Health Statistics, 2012, the share of private sector in Indian healthcare delivery is around 69.7% which is far greater than other developed or developing nations. As per World Bank estimates at present 64% of hospital beds, 80-85% of the doctors, 80% of outpatients and 57% of the inpatients are in the private sector. Further the contribution of private sector in healthcare delivery is expected to increase to 81% by 2015.

Healthcare Spending 2005 (in %)



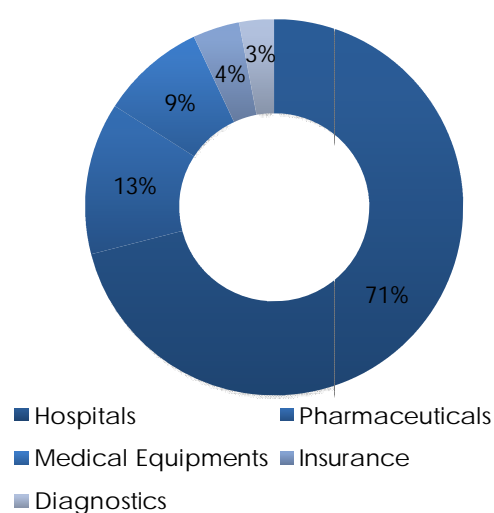
Healthcare Spending 2015 (Estimated in %)



Source: Grand Thornton, LSI Financial Services

Hospitals emerging as major contributor to revenue generated by healthcare industry in India: The hospital industry has emerged as one of the prominent component of the Indian healthcare industry. Of the total Indian healthcare market size of USD 74 billion which is expected to be at USD 84 billion by the financial year end 2015 nearly about 71% was contributed by hospital industry followed by pharmaceuticals and medical equipment supplies. The hospital industry which is estimated to be around USD 54.7 billion by 2012 is facilitated by private sector which contributed around 82% of its total revenue. The overall market size of the hospitals is estimated to have increased at a CAGR of 26.9% over the period of 2009-12 driven by higher contribution from Tier-I and Tier-II cities.

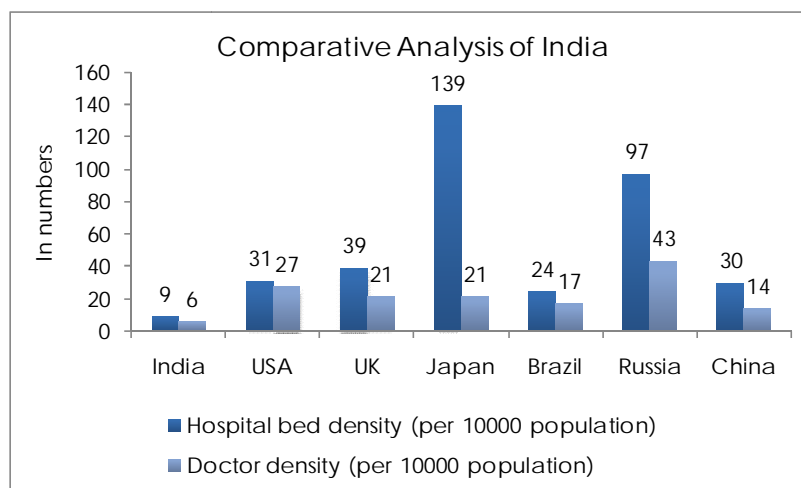
Revenue Break-up 2012 (% Estimated)



Source: Hospital Market – India by Research on India

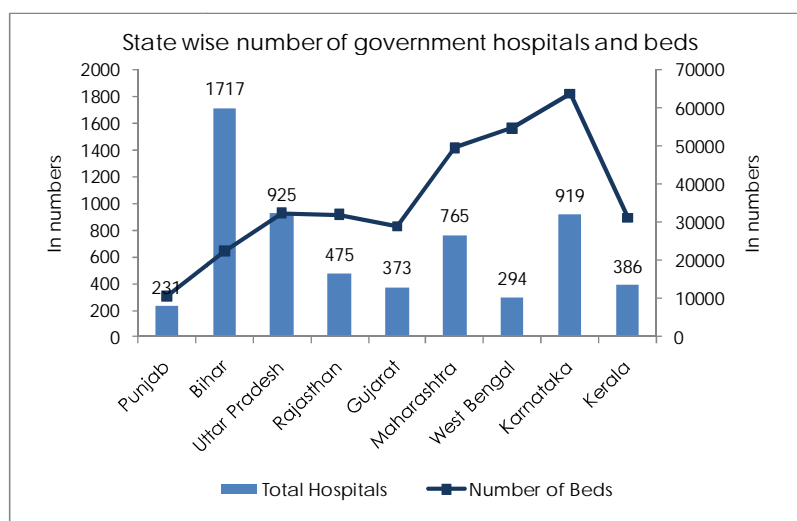
## A Significant and Viable Demand- Supply Gap

Although there is a significant demand of healthcare facilities there is a viable gap in supply. India fares weak among other developing and developed nations on performance related to health care parameters like life expectancy at birth, Infant Mortality Rate, Maternal Mortality Rate which can be primarily attributed to availability of health care facilities reflected by a low bed and doctor density ratio. According to the World Health Statistics, India has a bed density ratio of 9:10000.



Source: World Health Statistics – 2010

Similarly, India having a vast geography has different living conditions, literacy levels, socio-economic status and political situations. All these factors play a significant role in availability of healthcare facilities. The table below represents the state wise availability of number of government hospitals and beds as on year ending 2009.



Source: National Health Profile 2009



While we know that majority of the India's population resides in rural area there is a significant disparity in provision of health care related facilities in urban and rural India. It is alarming to note that the doctor patient ratio in rural India is 1:20,000 as against the urban ratio of 1:2,000 which itself is far below the WHO requirement of 1:250. According to industry estimates India still requires an additional pool of around 6 Lac doctors.

Other alarming facts:

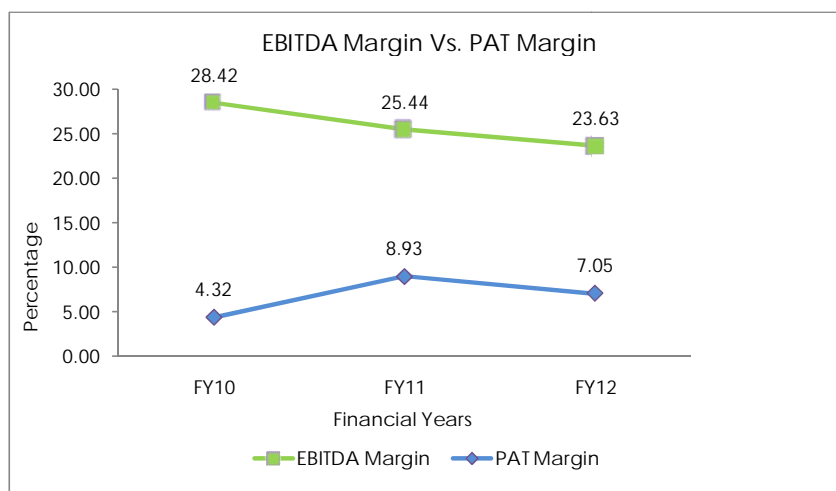
- Bed to population ratio in rural India is lower by 15 times than Urban India
- Almost 70% of the medicines available in rural area are substandard or counterfeit
- Six out of ten person in rural area do not have adequate access to critical medicines

## Onicra's Outlook on SMEs in Hospital Services Industry

### Financial Outlook<sup>3</sup>

Revenue growth remained strong driven by increased demand and population growth; the margins showed a good sign: Out of the total sample, 85% of the units have posted an increase in revenue during all the financial years under study which depicts an increase in demand. However, EBITDA margin dipped as most of the units were

unable to control their fixed overcosts. The EBITDA margin has declined to 23.63% for FY12 as against 28.42% for FY10. However, it was satisfactory throughout the period under study.

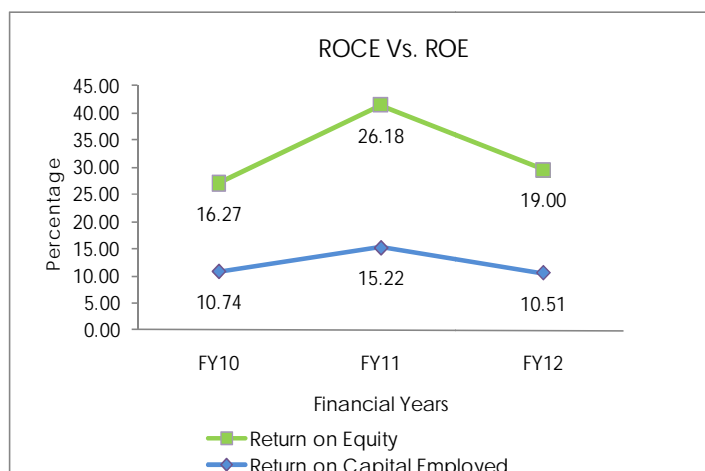


The PAT margin has shown an increase on account of decrease in proportion of interest payments made for short and long term borrowings of the units. The interest service coverage ratio of the units has fluctuated in the period under study and was moderate showing that the units are constrained a bit on part of paying its interest obligations. Onicra expects that the overall profitability of the SMEs involved in healthcare industry will remain satisfactory in future due to increasing demand and increasing awareness among common mass for health and hygiene.

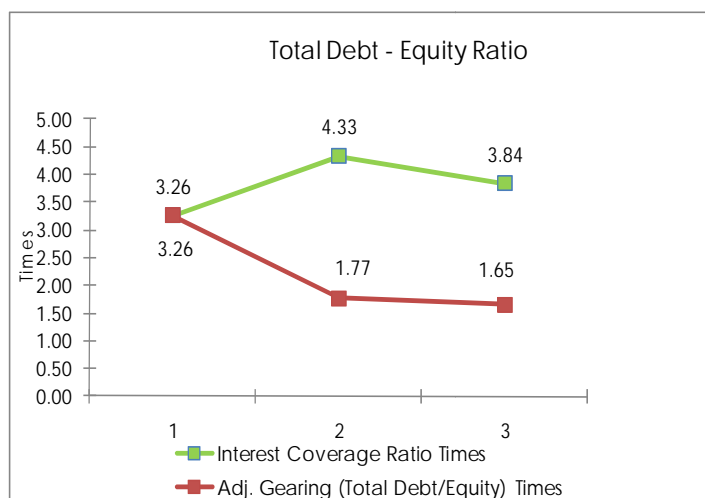
<sup>3</sup> A sample data of 20 companies across India was chosen from the entities that have been rated by Onicra during the period January' 2013 to November' 2013 as a representative of the SME units. These entities are involved in Healthcare industry.



The returns generated by the rated sample has shown a mixed trend in the financial years under study. The return on capital employed (ROCE) was moderate in FY12 and the return on equity (ROE) was satisfactory. A moderate profit margin along with a moderate capital employed has resulted a moderate return ratio.



The business units rated by Onicra has exposure to debt which is more than one and half times of equity invested in the business. The major portion of debt (69.96% of total borrowing outstanding as on 31 March 2012) comprised of long term secured loans primarily taken to improve the infrastucture of the unit.





#### Major Challenges that Onicra foresee:

- SMEs can concentrate only in few cities and towns as they lack the infrastructure & funds for registering themselves at national level.
- Healthcare industry requires high initial investment and the entrepreneurs are unable to arrange such amount of capital investment hence this sector is not growing at a fast pace.
- Due to limited capacity restriction these SMEs cannot operate beyond a certain level.
- Changing economic scenario is putting pressure on investors as sophisticated machinery needs to be imported and rupee devaluation is digging deeper hole in the pocket of investors.
- Lack of information on market segmentation and demand makes SMEs handicapped in terms of planning and targeting the profitable market.
- Lack of skilled human resources is one of the major challenges faced by SMEs as the skilled resources are hired by big corporate at a lucrative pay package and the SMEs are left with no other option than compromising on quality.
- The Public Private Partnership (PPP) model is lacking in the SME sector, if PPP model is implemented intensively it can enhance the quality of health care services as funds required for improving the infrastructure will be provided by government and management skill can be given by the SME unit. This initiative will make healthcare facilities affordable for the middle and lower strata of the society.
- One of the major challenges which the industry as whole is facing is paucity of bed. India currently has 1 bed per 1050 people as compared to 1 bed per 250 people. Due to lack of infrastructure and investment the SMEs are unable to bridge this gap.

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