

Healthcare Industry

Challenges and Opportunities

Short Bio

Badri Krishnaswami – A Chartered Accountant and a Company Secretary – twenty six (26) years of extensive post qualification experience in all facets of corporate strategy, financing, refinancing stressed assets, deal structuring, accounting, tax, legal and secretarial with emphasis on corporate governance and general management in green field Power, Renewable Energy, real estate, healthcare and health insurance industries.

Quick Overview of Healthcare in India

- Corporate / private Healthcare in India just about two decade old;
- Upto early 1990, healthcare in India was confined to government, trust hospitals and small private nursing homes
- The 1990 onwards, India has seen very rapid progress in corporate / private healthcare delivery – particularly in secondary and tertiary care
- Government delivery of healthcare is not bad at all – the Pulse Polio campaign – an eye opener to the world on the reach of the Government Program
- Vast majority of Indian still depend on government healthcare system for meeting their health care needs

Quick Overview of Healthcare in India

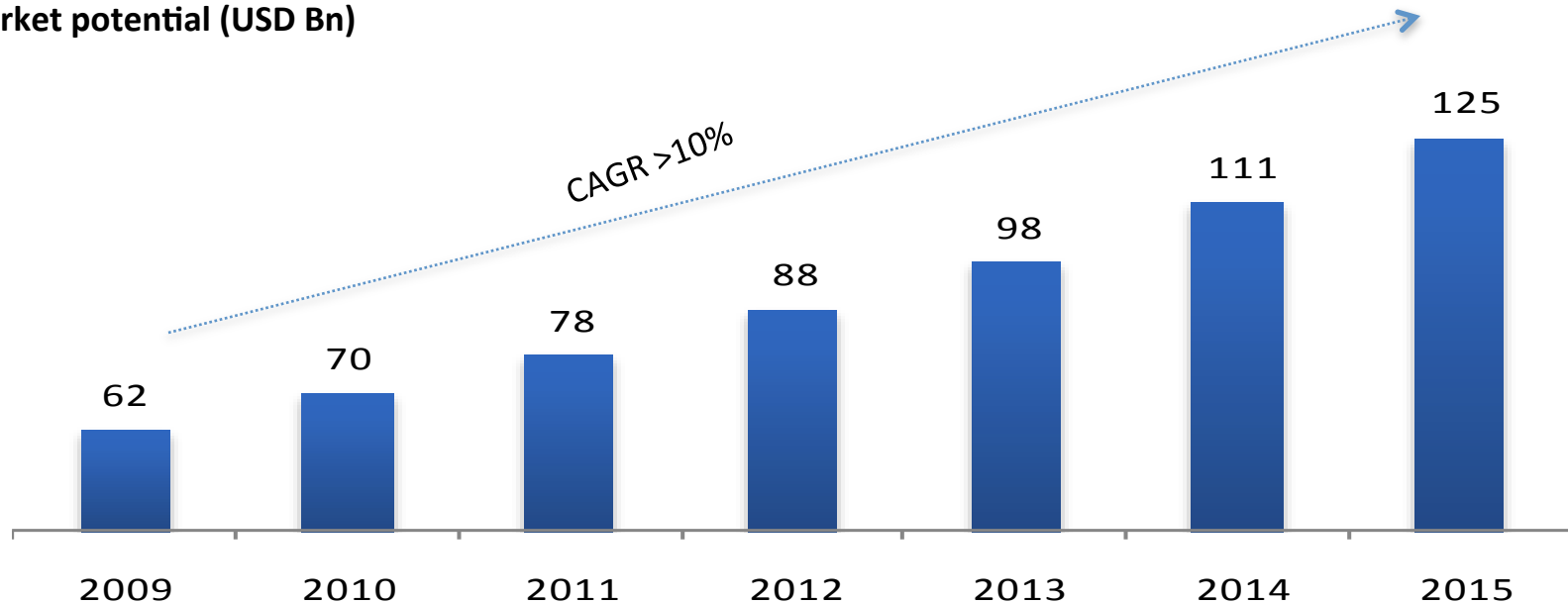
- Healthcare spend in India by Government - lowest amongst the world – healthy nation a wealthy nation
- Is government doing enough?
- Yes some State Governments are and some very well state / central government run hospitals
- Arogya Shree scheme in AP
- Arogya Bhadrata of AP Polic
- Yashasvini Scheme of Karnataka
- Vajpayee Arogyashree Scheme
- Central Government Health Scheme
- Ex-Servicemen Central Health Scheme
- ESI

Where does thus the private sector fit in and what is its role – where do the Chartered Accountants fit in and how can they contribute?

Size of Healthcare Opportunity in India

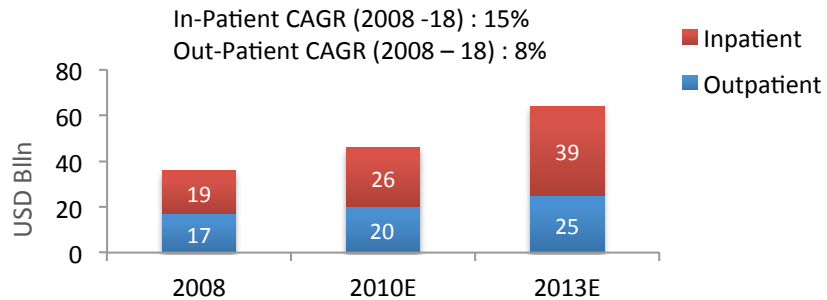
HEALTHCARE MARKET SET TO DOUBLE BY 2015

Market potential (USD Bn)



- Indian population growing at 2% last few years. Expected to sustain
- Per capita spends USD 58 in 2009; amongst lowest in middle income countries an. Expected to grow 10% annually
- Market estimated to reach USD 125 Bn by 2015
 - Driven by better access to healthcare, growing population and innovative models
 - Health Insurance penetration on the rise

IN-PATIENT vs OUT-PATIENT MARKET SIZE



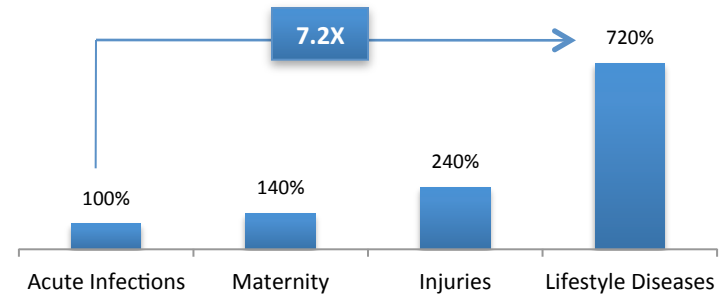
Market size of Indian Healthcare Delivery Space

INPATIENT NEEDS EXPECTED TO GROW ALMOST TWICE AS FAST COMPARED TO OUT-PATIENT SPENDS DUE TO CHANGING DISEASE PROFILE TOWARDS LIFE STYLE DISEASES

Source: Mckinsey, CII, J P Morgan

- Huge stress on high quality In-Patient services
- Increased affordability & Insurance penetration pushing demand further

RELATIVE COST OF DIFFERENT TREATMENTS

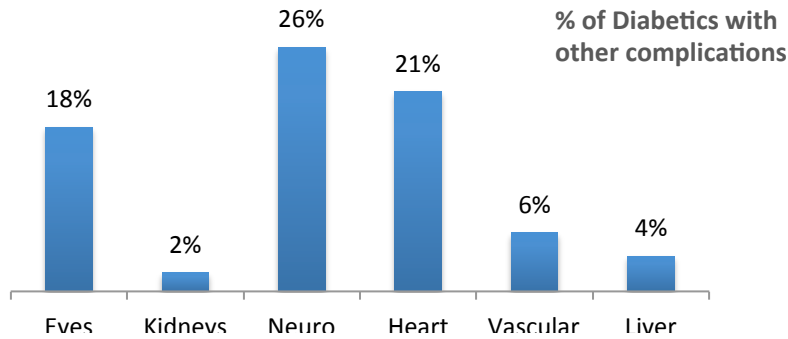


RISE IN LIFESTYLE DISEASES EXPECTED TO INCREASE NO OF HIGH VALUE TREATMENTS, SPURRING GROWTH IN TERTIARY CARE HOSPITALS – COST OF LIFESTYLE DISEASES IS ~7X COMPARED TO ACUTE DISEASES

Source: Mckinsey, CII, J P Morgan

- Tertiary care facilities better equipped to address rise in demand for high value treatments

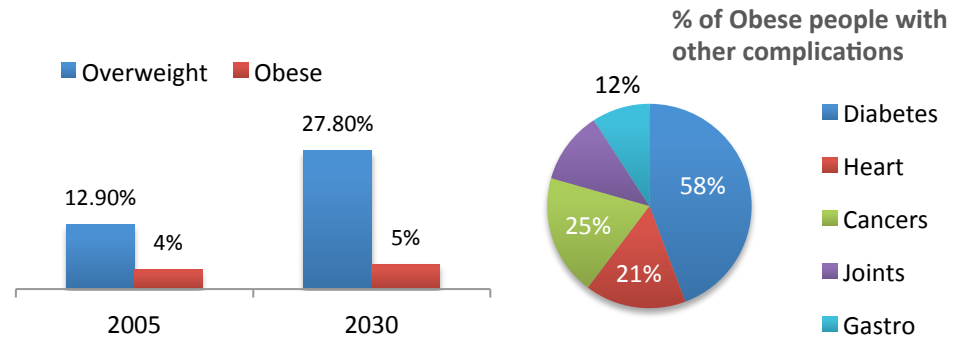
DIABETES MAJOR CAUSE OF HEALTH COMPLICATIONS



HIGH INCIDENCE OF DIABETES AMONGST MIDDLE AGED LEADING TO HEALTH COMPLICATIONS IMPACTING HEART, KIDNEY, LIVER, NERVES, EYES ETC.

Source: CII, Mckinsey, JP Morgan

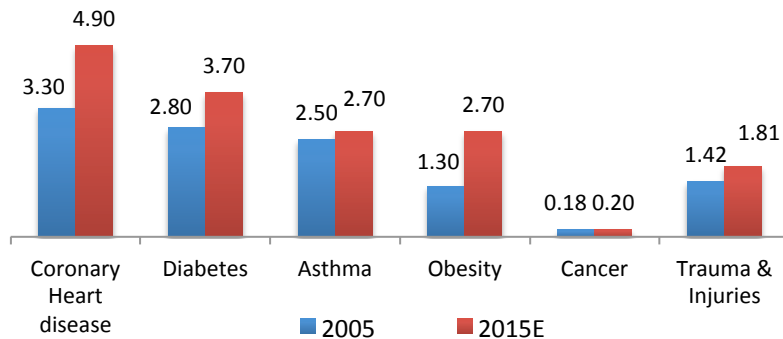
RISE IN OBESITY CASES– HEALTH COMPLICATIONS



% OF POPULATION CATEGORIZED AS OVERWEIGHT/OBESE SET TO INCREASE ALARMINGLY. OBESITY LEADS TO SEVERAL CO-MORBID HEALTH COMPLICATIONS

Source: CII, Mckinsey, JP Morgan

CHRONIC DISEASES IN INDIA (% of population)

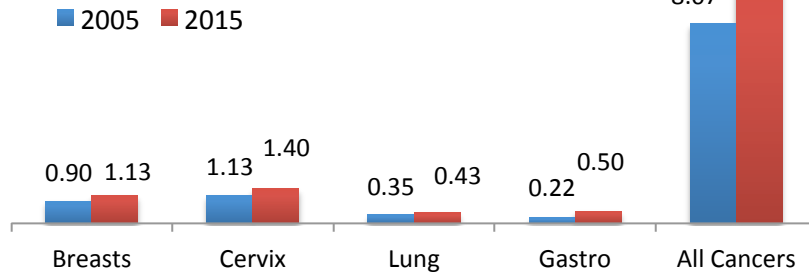


Source: CII, Mckinsey, JP Morgan, IDFC

- Spiraling demand for complex & comprehensive medical solutions
- Large population. Lifestyle disorders
- High incidence of Diabetes, Obesity with severe Health complications

CANCERS

No of Cases (Lakhs)



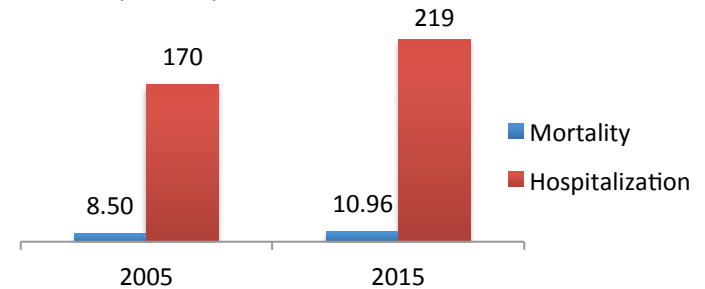
FROM 8.07 LAKHS DIAGNOSED CASES IN 2004 SET TO INCREASE TO NEARLY 10 LAKHS CASES BY 2015

Source: CII, Mckinsey, JP Morgan

- Demand for comprehensive Cancer treatments growing fast
- Increase in facilities will address demand

TRAUMA CASES

No of Cases (Lakhs)

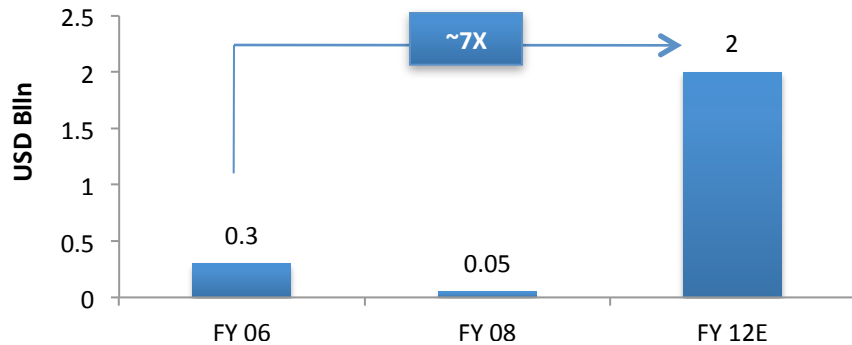


URBANIZATION & ROAD NETWORK LED TO INCREASE IN ROAD TRAFFIC ACCIDENTS APART FROM THE HIGH NUMBER OF OTHER INJURY CASES

Source: Analyst Report, Mckinsey, IDFC

- Growing affluence driving high demand for automobile. Incidence of trauma high
- Huge need for strong multi-disciplinary set-ups. Mortality will rise unless addressed

MARKET

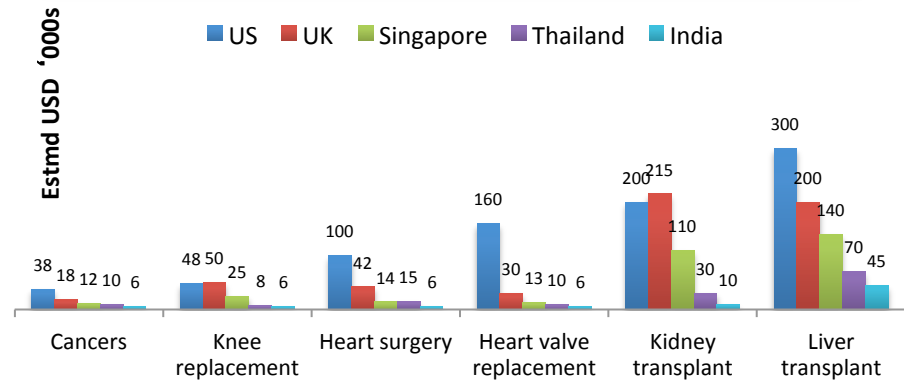


**ESTIMATED GROWTH OF CAGR 40%. TO REACH USD 2BLLN BY 2012
EVOLVING AS A LOW COST-HIGH QUALITY DESTINATION FOR COMPLEX
MEDICAL PROCEDURES – TRANSPLANTS, BYPASS, CANCER TREATMENTS**

Source: IDFC, J P Morgan,

- Growing quality of healthcare attracting patients other countries
- SAARC, Gulf, Africas – markets with huge potential for medical tourism

COST OF PROCEDURES – INDIA MOST ECONOMICAL



COSTS IN INDIA SIGNIFICANTLY LOWER. COST SAVINGS IN ABSOLUTE TERMS IN CASE OF TRANSPLANTS MAKES CASE FOR MEDICAL TOURISM STRONGEST FOR THE CATEGORY

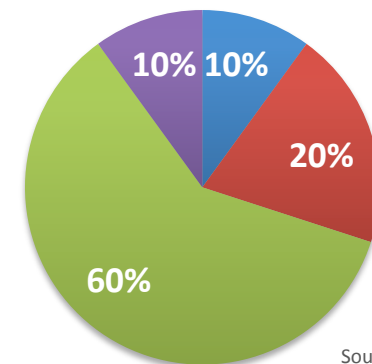
Source: IDFC, J P Morgan,

- High quality – Low cost services for complex procedures & outcomes on par with the best driving demand further
- Increased Hospitality in Hospital services & India as a tourist destination pushing demand further

- Transplant activity in India among lowest globally due to expensive procedures & inadequate infrastructure
- Transplant segment presents a large growth opportunity for India
- More centres for Joints & Kidney replacements as procedures not as complex as for Heart, Lung, Liver
- Very few Centres in India with mature Liver, Heart & Lung transplant programs
- Organ donation landscape changing – number of cadaver procedures will rise

INDICATIVE SPLIT OF TRANSPLANTS BY TYPE OF ORGAN

■ Heart ■ Liver ■ Kidney ■ Others



Source: WHO, Literature search

- **Over 80% of annual transplant numbers globally constitute kidney & liver**
- **India requires Liver 20000 transplants per year. Only 200-300 performed annually**

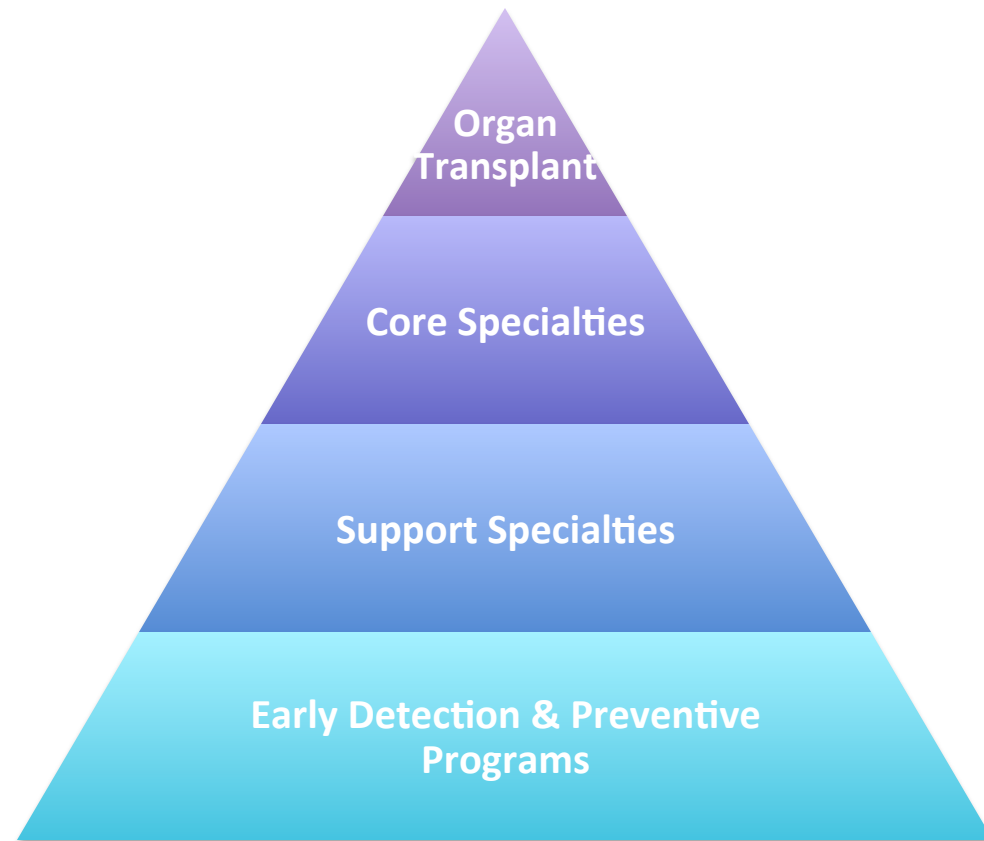
TERTIARY CARE SERVICES ALIGNED TO ADDRESS THE ENTIRE SPECTRUM OF CURE & CARE – FROM PREVENTION TO TRANSPLANTATION

**MULTI-LOCATIONAL MULTI-ORGAN
TRANSPLANT CENTRE – LIVER, PANCREAS
HEART, LUNG, KIDNEYS**

**CORE SPECIALITY SERVICES TO TREAT ALL
MAJOR DISEASES WITH MEDICAL &
SURGICAL SOLUTIONS**

**SUPPORT SPECIALITIES COMPLEMENT A
STRONG MULTI-DISCIPLINARY TREATMENT
MODEL**

**EARLY DETECTION & PREVENTIVE
HEALTHCARE SERVICES WITH ADVANCED
DIAGNOSTICS**



Where is the opportunity

- Private Sector is predominantly unorganized - 90%
- Primary care and preventing care for the mass is best addressed by Government
- Secondary and Tertiary care – clearly there is a need for private sector role
- Model has to be cost effective

What are the constraints today

- Real Estate as a cost of hospital – keep it asset lite
- Equipment cost – catching up – Rupee Dollar parity not doing any good to the sector
- Cost of borrowing in rupees is upwards of 13%
- Service tax on all ancillary services – Food, Security, any consultancy (other than doctors and lawyers)
- Cost of medicines and consumables linked to USD for high end tertiary care – making it costly
- Manpower – Doctors – clearly need to take a business decision – link their remuneration to their revenues
- Healthcare Industry has not attracted the best talent for non core – administration, finance, HR etc.,
- Payor – cost of healthcare – mechanism to distribute the burden

What are the constraints today

- During 2012-13 healthcare sector saw active investment by PE
- There is interest amongst banks to lend to healthcare sector
- The number of listed players as well as number of hospital chains / groups in India very small and scatter
- Listed Healthcare paper trading – poor
- Issues the banks face – no consistency in accounting and hence the ratios that are put out
- For example Working Capital is done on CMA – while it should be done on cashflow gap
- Term Lending done with one year moratorium – a new hospital is very much like infrastructure business – needs three years to start making EBIDTA – interest also needs to be funded
- Banks need to give comfort to the promoters (Doctors Promoters) that the banks are with them – setting unrealistic repayments and hounding does not work

Opportunities

- Clearly Healthcare is the sunrise sector
- ICAI and its Members have a crucial role to play
- We need to be thought leaders in innovating financing – long term lending by banks
- Assist in creating a more depth in the debt market listing for this sector
- Facilitate listing of more healthcare companies
- High skill sector – generally promoted by Doctors – who are not commercially oriented – we have to be their conscience keepers
- Set realistic benchmarks – this sector is not a 25% IRR sector – every rupee is paid by a sick patient

Opportunities

- Health Insurance as a sector has to grow
- FDI in health insurance has to be liberalized
- Harmonious relationship between Health Insurance and Healthcare providers – we have to avoid a high cost healthcare system
- India has to be the healthcare tourism hub – sops for export revenues – 100% exemption like earlier 80IA for power – will help contain costs
- Take out MAT for healthcare companies – every rupee is paid by the patients
- Help Healthcare grow in a organized manner