

Healthcare

AUGUST
2012



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- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: Apollo Hospitals, Fortis
- ❖ Opportunities
- ❖ Useful information

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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:
USD72 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)

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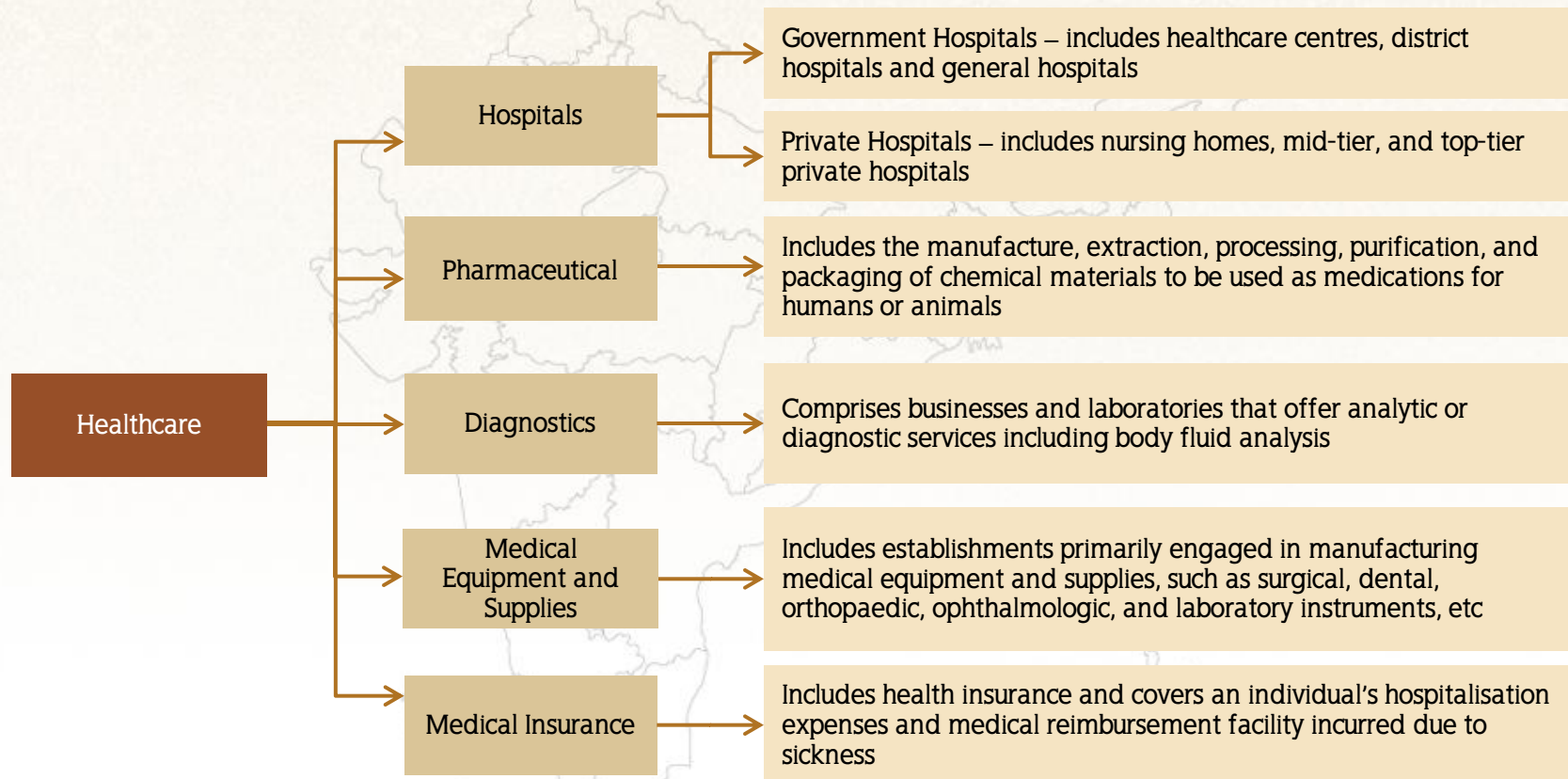
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The healthcare market is split into five segments

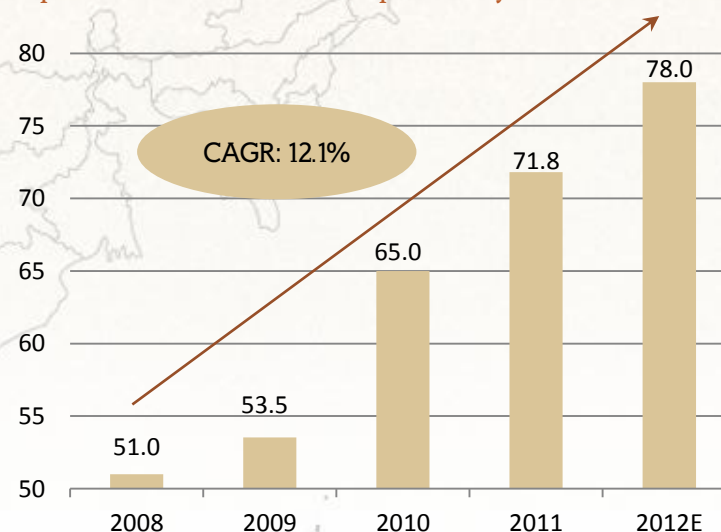


Source: Hospital Market – India by Research on India, Aranca Research

Strong growth in healthcare expenditure over the years

- Healthcare sector expenditure have been rising at an impressive pace over the past few years; over 2008-11 revenues recorded a CAGR of 12.1 per cent
- Total industry size is expected to touch USD78 billion by the calendar year 2012

Expenditure trends over the past few years in USD billion

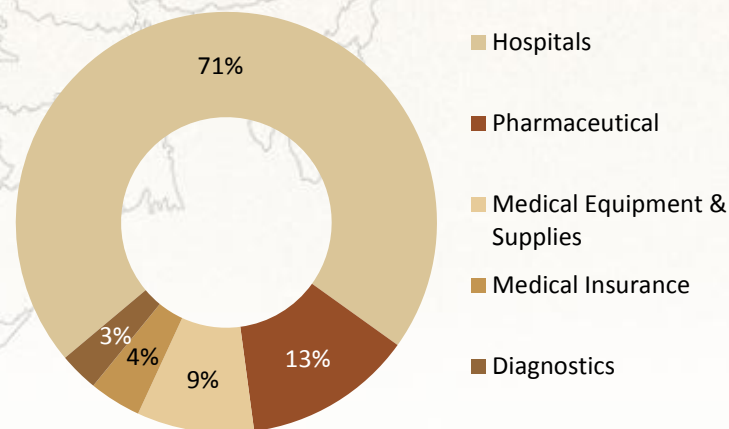


Source: BMI, Hospital Market – India by Research on India, OIFC, Aranca Research
Notes- 2012E- Estimates for 2012
Estimated figure for 2012 is from BMI

Hospitals account for the major share of total healthcare revenues in India

- Of total healthcare revenues in the country–
- Hospitals account for 71 per cent
- Pharmaceuticals for 13 per cent, and
- Medical equipment and supplies for 9 per cent

Market break-up by revenues (2012E)

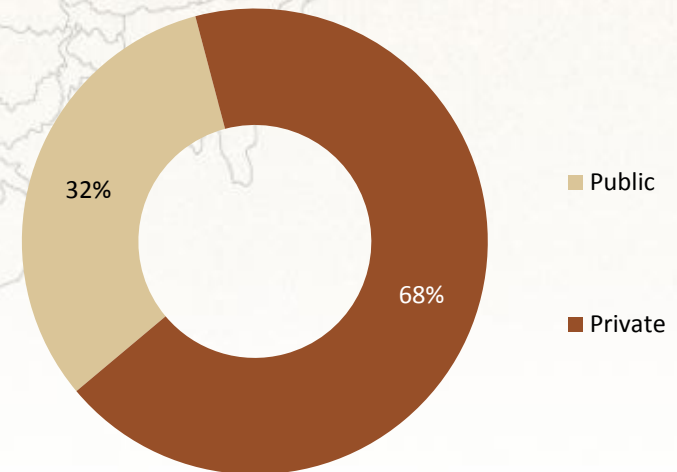


Source: Hospital Market – India by Research on India, Aranca Research
Notes: 2012E – Estimates for 2012

Private sector has a strong presence in India's healthcare sector

- The private sector has emerged as a vibrant force in India's healthcare industry, lending it both national and international repute
- Of total healthcare spending in the country in 2011, private sector contributed 68 per cent
- In fact, the private sector accounts for more than 65 per cent of primary care centres and more than 40 per cent of hospitals in the country

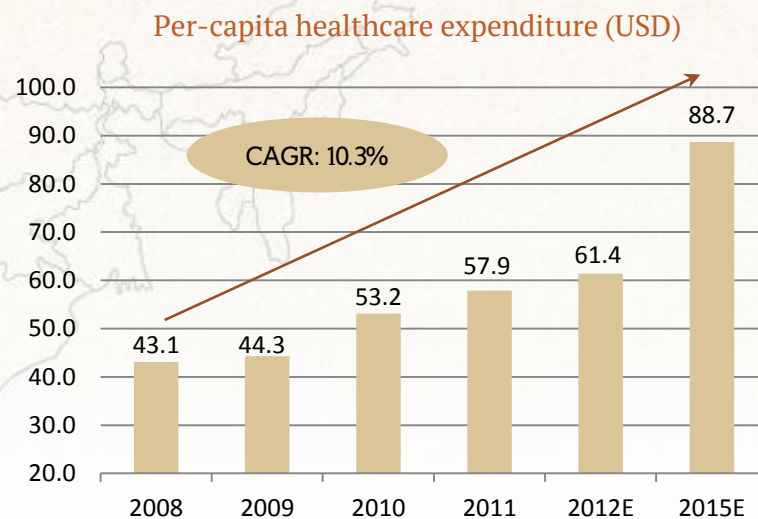
Shares in healthcare spending in India in 2011



Source: Business Monitor Report, WHO World Health Statistics 2011, Aranca Research







Per-capita healthcare expenditure has been growing at a fast pace

- Per-capita healthcare expenditure increased at a CAGR of 10.3 per cent over the period for calendar year 2008-11 to USD57.9; the figures is set to touch USD88.7 by 2015
- This is on account of given rising incomes, easier access to high quality healthcare facilities, and greater awareness about personal health and hygiene
- Greater penetration of health insurance has also aided the growth in healthcare spending, a trend that is likely to intensify in the coming decade



Source: BMI Report, Aranca research
Notes: E- Estimates; 2015E – estimates for 2015 (by BMI); CAGR mentioned in graph is up to 2011

Key players in the market

	Company	No of beds*	Presence
	Apollo Hospitals Enterprise Ltd	8717	Chennai, Madurai, Hyderabad, Karur, Karim Nagar, Mysore, Visakhapatnam, Bilaspur, Aragonda, Kakinada, Bengaluru, Delhi, Noida, Kolkata, Ahmedabad, Mauritius, Pune , Raichur, Ranipet, Ranchi, Ludhiana, Indore, Bhubaneswar, Dhaka
	Aravind Eye Hospitals	3,649	Theni, Tirunelveli, Coimbatore, Puducherry, Madurai, Amethi, Kolkata
	CARE Hospitals	1912	Hyderabad, Vijayawada, Nagpur, Raipur, Bhubaneswar, Surat, Pune, Visakhapatnam
	Fortis Healthcare Ltd	10,307	Mumbai, Bengaluru, Kolkata, Mohali, Noida, Delhi, Amritsar, Raipur, Jaipur, Chennai, Kota
	Max Hospitals	1100	Delhi and NCR
	Manipal Group of Hospitals	4400	Udupi, Bengaluru, Manipal, Attavar, Mangalore, Goa, Tumkur, Vijaywada, Kasaragod, Visakhapatnam

Source: Company websites, Aranca Research

Note: *No of beds include owned, subsidiaries, joint ventures and affiliations

Notable trends in the Indian healthcare sector

Shift from communicable to lifestyle diseases

- With increasing urbanisation and the problems related to modern day living in urban settings, 50 per cent of spending on in-patient beds currently is for lifestyle-related diseases; this has resulted in increased demand for specialised care

Expansion to tier-II and tier-III cities

- There is substantial demand for high-quality and specialty healthcare services in tier-II and tier-III cities
- In order to encourage the private sector to establish hospitals in these cities, Government has relaxed the tax burden on these hospitals for the first five years

Management contracts

- Many healthcare players such as Fortis and Manipal Group are entering management contract to provide an additional revenue stream to hospitals

Emergence of telemedicine

- Telemedicine is a fast-emerging sector in India; a number of major hospitals (Apollo, AIIMS, Narayana Hrudayalaya) have adopted telemedicine services and have entered into a number of PPPs

Increasing penetration of health insurance

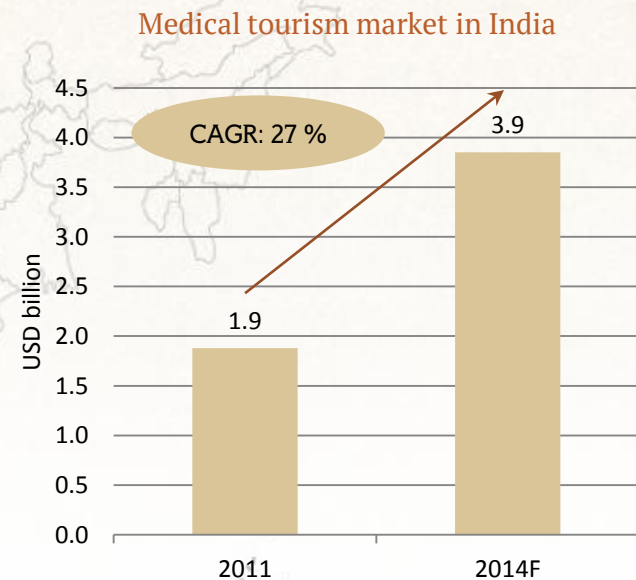
- Health insurance is gaining momentum in India; gross healthcare insurance premium expanding at a CAGR of 39 per cent over FY06-10
- This trend is likely to continue, thereby benefitting the country's healthcare industry

Source: IRDA, Aranca Research

Note: PPP is Public – Private Partnerships; GOI is Government of India; ICT is Information and Communications Technology; Management contracts: an arrangement under which operational control of an enterprise is given to a separate entity for a fee

Medical tourism: A new growth factor for India's healthcare sector

- Presence of world-class hospitals and skilled medical professionals has strengthened India's position as a preferred destination for medical tourism
- The growth in the sector is underscored by the cost advantage that India provides to the patients from developed countries. Notably, India also attracts medical tourists from developing nations due to lack of advanced medical facilities in a number of developing countries
- 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
- The major service offerings that attract medical tourists from European nations and the Middle East to India include yoga, meditation, ayurveda, allopathy, and other traditional systems of medicines.



Source: Ministry of Health ,RNCOS, KPMG, Aranca Research

Re-emergence of traditional medical care

Market size

- The traditional (ayurvedic) medical care market in India was estimated to be worth USD1 billion in 2009

Services offered

- Ayurvedic medicines offer traditional Indian health remedies based on natural and herbal ingredients
- The sector has broadened the offering which now includes services on diet & nutrition, yoga, herbal medicine, humour therapy and spa

Leading brands and players

- Vicks VapoRub, Amrutanjan Balm, Zandu Balm, Moov Pain Cream and Halls Lozenges are among the leading ayurvedic brands in India
- Many big players such as Apollo, VLCC and Manipal Group are also setting up wellness centres across India with traditional healthcare remedies as the focus of their offerings

Notable trends

- Traditional Knowledge Digital Library is being developed by the traditional medical sector to prevent companies from claiming patents on such remedies
- There is a growing interest from a number of private equity firms in the traditional healthcare sector in India

Source: Ministry of Health ,RNCOS, KPMG, Aranca Research

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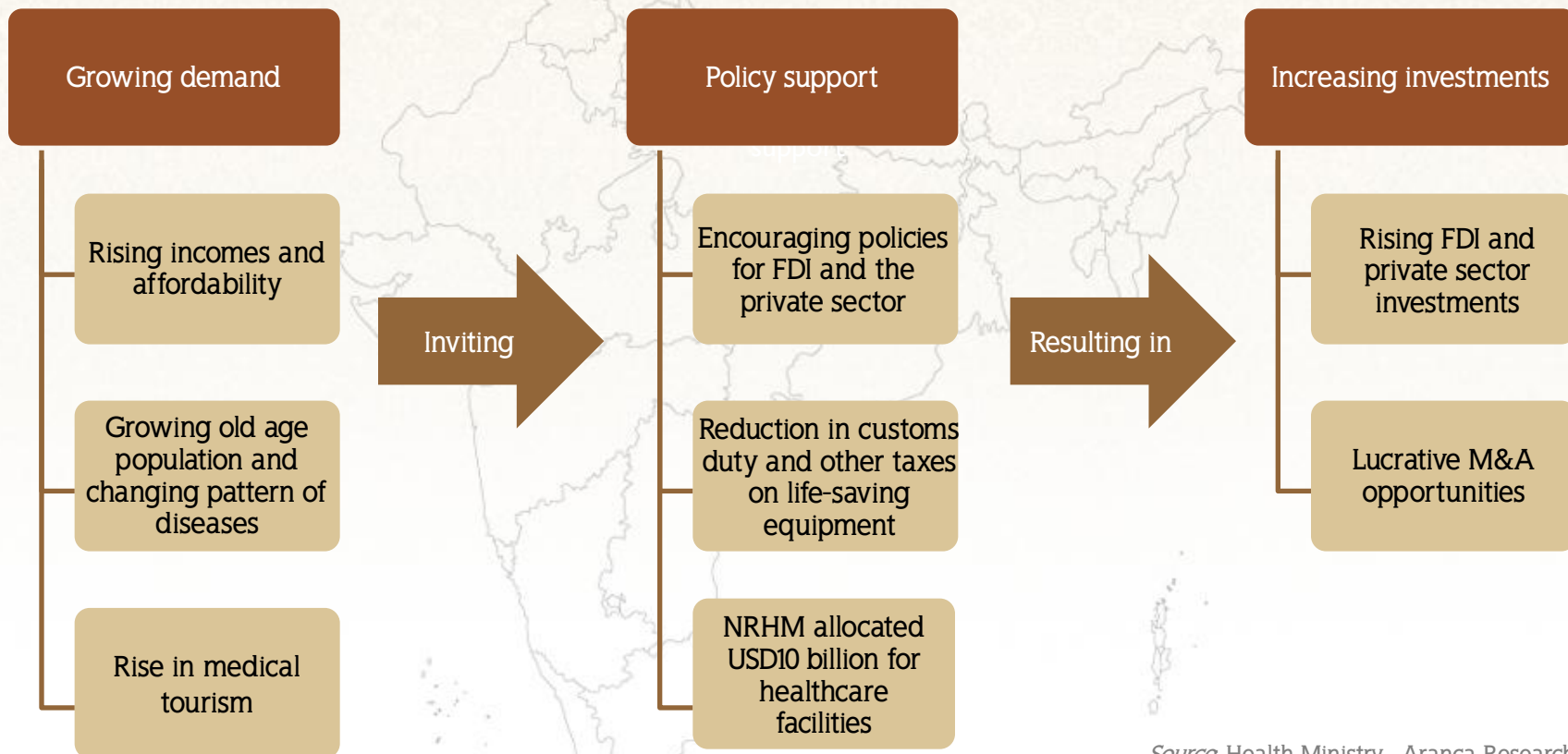
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Sectors benefits from rising income, lifestyle-related diseases

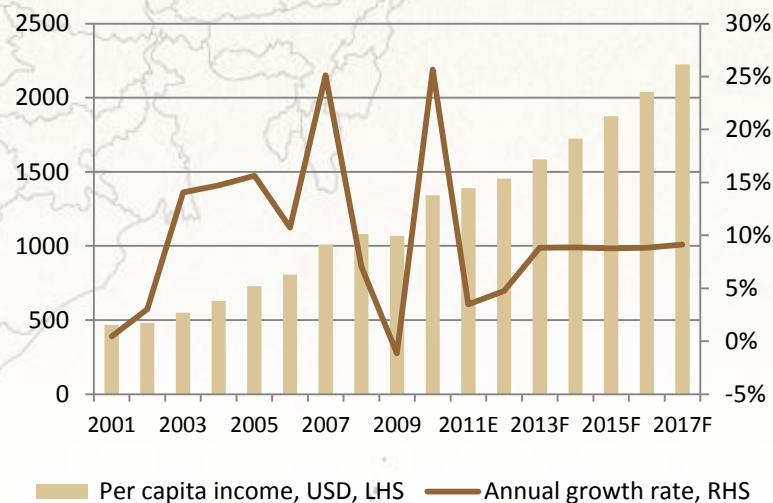


Source: Health Ministry , Aranca Research
Notes: FDI – Foreign Direct Investment,
M&A: Mergers & Acquisitions
NRHM: National Rural Health Mission

Rising incomes has been a key driver of demand growth in healthcare

- Rising incomes has meant a steady growth in ability to access healthcare and related services
- Changing demographics has also been contributing to greater healthcare spending; this is likely to continue with the size of the aged population set to rise from the current 96 million to about 168 million by 2026
- Increase in incidence of lifestyle related diseases such as heart disease, obesity and diabetes have also contributed to rising healthcare spending by individuals
- Greater awareness is increasing demand for specialised and better quality healthcare facilities

Trends in per-capita income in India

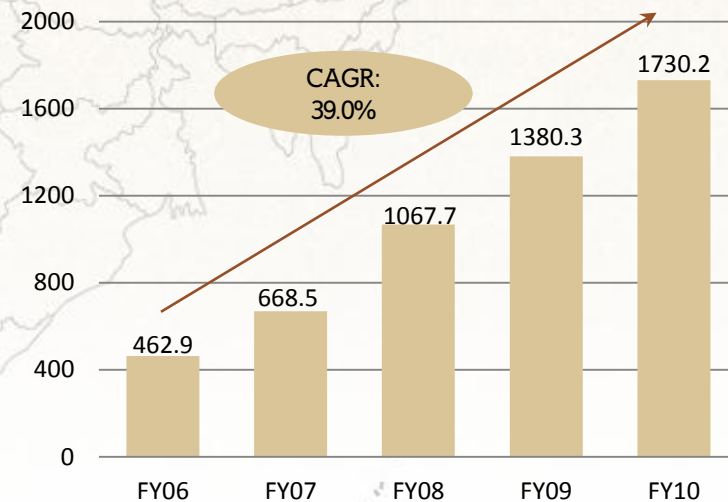


Source: IMF, Aranca Research
Notes: E – estimates; F – forecasts

Increasing penetration of health insurance

- The health insurance industry grew at a CAGR of 39 per cent between FY06-10; the pace of growth is expected to continue in the coming years as well
- The share of population having medical insurance is likely to rise to 20 per cent by 2015 from the present 2 per cent
- With increasing number of companies offering insurance cover to their employees, the healthcare insurance business in India is set to expand further

Indian health insurance market size (USD million)

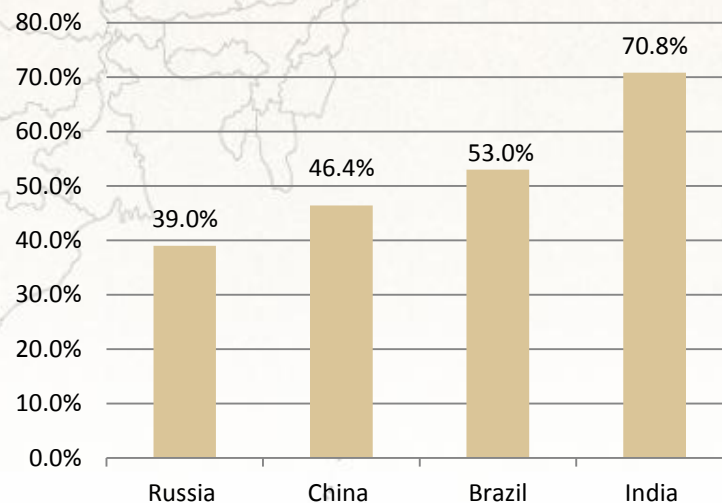


Source: IRDA, Aranca Research
Note: CAGR – Compounded annual growth rate

Growing preference for private healthcare in India

- In India, private healthcare accounts for almost 68 per cent of the country's total healthcare expenditure
- Rising incomes have led to greater affordability of superior quality private sector healthcare facilities
- Private players have also been constantly innovating in their efforts to provide better healthcare services to a wider customer base
 - Some have been trying to combine traditional healthcare practices with conventional systems in a bid to offer a new avenue of growth for their business

Share of private sector in total health expenditure (2011)

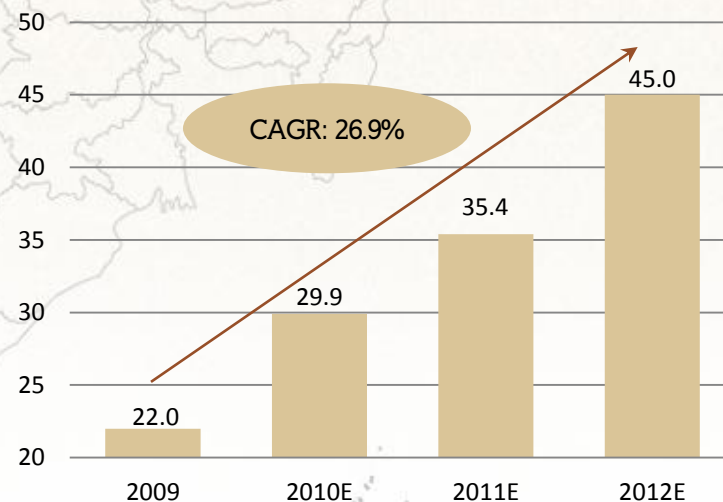


Source: WHO, Aranca Research

Private players have been key contributors to growth in hospitals

- The hospital market in India is expected to reach USD54.7 billion by end-2012, with the private sector accounting for 82 per cent
- Over 2009-12, the market size of private hospitals is likely to rise at a CAGR of 26.9 per cent
- Private sector growth has been fuelled by increase in the number of hospitals in Tier II and Tier III cities

Market size of private hospitals (USD billion)



Source: WHO Statistical Information System,
Yes Bank, Aranca Research
Note: E-estimates

India has a competitive advantage in healthcare over peers

- India's primary comparative advantage lies in its -
 - Large pool of well-trained medical professionals in the country
 - Cost advantages compared to peers in Asia and Western countries
 - Cost of surgery in India is one-tenth of that in the US or Western Europe
- Consequently, the country offers vast opportunities in R&D as well as medical tourism

Opportunities for investments in Healthcare	
Diagnostic & Pathology Services	High cost differential in India allows for outsourcing of Pathology and Laboratory tests by foreign hospital chains
Clinical Trials	India offers both a huge patient pool, favourable regulatory environment and a cost advantage to conduct clinical trials
Health Insurance	Less than 15 per cent of the Indian population is covered by any kind of health insurance, providing significant opportunity to a new player in the health insurance market
Telemedicine	Provides access to better quality healthcare in rural areas

Source: Healthcare Outlook "A Quarterly Report By Technopak" Feb 2007, Aranca Research

Strong policy support has been crucial in developing the sector

Encouraging the private sector

- The benefit of section 10 (23 G) of the IT-Act has been extended to financial institutions that provide long-term capital to hospitals with 100 beds or more
- Government is encouraging the PPP model to improve availability of healthcare services and provide healthcare financing

Encouraging investments in rural areas

- The benefit of section 80-IB has been extended to new hospitals with 100 beds or more that are set up in rural areas; such hospitals are entitled to a 100 per cent deduction on profits for five years

Tax incentives

- Custom duty on life-saving equipment has been reduced to 5 per cent from 25 per cent and exempted from countervailing duty
- Import duty on medical equipment has been reduced to 7.5 per cent

Incentives in the medical travel industry

- Incentives and tax holidays are being offered to hospitals and dispensaries providing health travel facilities

Union Budget FY13

- Allocation of USD5.6 billion, an increase of 20 per cent from FY12
- Hospitals with at least 100 beds are eligible for 150 per cent deduction for capital expenditure; other measures include exemption of service tax

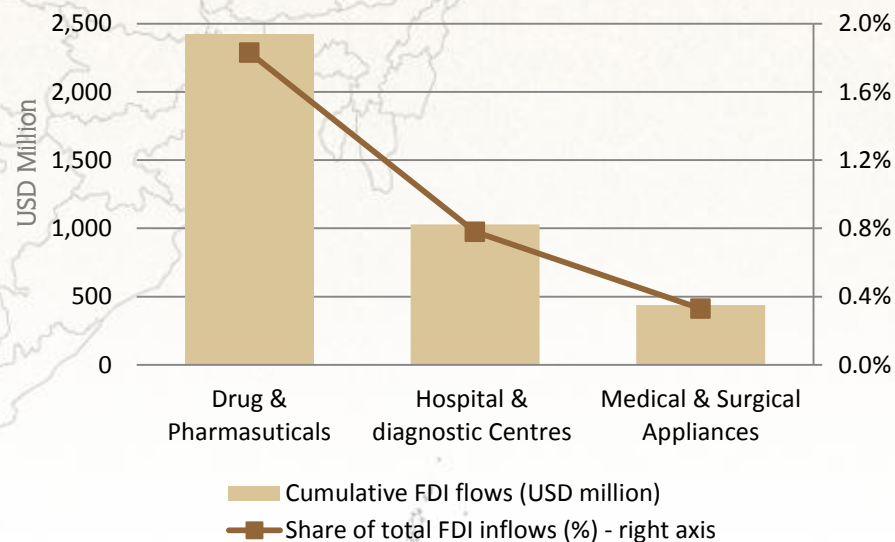
Source: Union Budget FY13, Health Ministry, Aranca Research

Supportive policy driving FDI inflows

- 100 per cent FDI is permitted for all health related services under the automatic route
- Demand growth, cost advantages, and policy support have been instrumental in attracting FDI

Notes: FDI – Foreign direct investment

FDI inflows (Apr 2000 – Jan 2012) into the healthcare sector

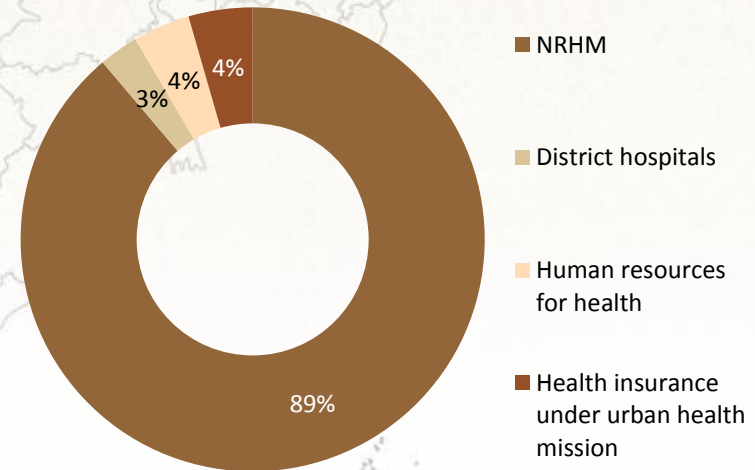


Source: Department of Industrial Policy & Promotion, Aranca Research

Healthcare is a key focus area under the 12th Five Year Plan (2012-17)

- The Planning Commission has allotted USD83 billion under the 12th Five Year Plan for healthcare spending; this is about USD60 billion more compared to the 11th Plan
 - As a result the share of healthcare in total plan allocation is set to rise to 2.5 per cent of GDP in the 12th Plan from 0.9 per cent in the 11th Plan
- The National Rural Health Mission (NRHM), introduction of district wise pilots and setting up of more medical institutions reflect the seriousness of policy focus on healthcare

Shares in 11th Five Year Plan (2007-12) healthcare outlay



Source: Planning commission, Ministry of health & Family Welfare, Aranca Research

Notes: FDI – Foreign Direct Investment, NRHM – National Rural Health Mission

Sector has been attracting lucrative M&A deals

- Pharma, healthcare and biotech have witnessed significant increases in M&A deals in the last four years
- In FY11, the M&A deal value in healthcare stood at USD4.2 billion, an increase of more than 230 per cent compared to deals in FY10
- Established players are extending their global JVs to India
 - Gulf-based healthcare group Dr Moopen is investing over USD200 million for setting up hospitals and eye-care centres across India
 - Fortis Hospitals plans to invest USD55 million to expand its facilities across India in the near term

Indian Partner	Foreign Players	Type of business	Stake (%)	Year
Strides Acrolab	Watson Pharma	Pharmaceutical	--	2012
DM Healthcare	Olympus Capital	Hospital	--	2012
India Health Organisational Pvt Ltd	Aetna Inc	Pharma, healthcare and biotech	100.0	2011
Fortis Global Healthcare	Lanka Hospitals Corporation Plc	Pharma, healthcare and biotech	28.6	2011

Source: Dealtracker Annual Issue 2010, Aranca Research
Notes : M&A – Mergers and Acquisitions

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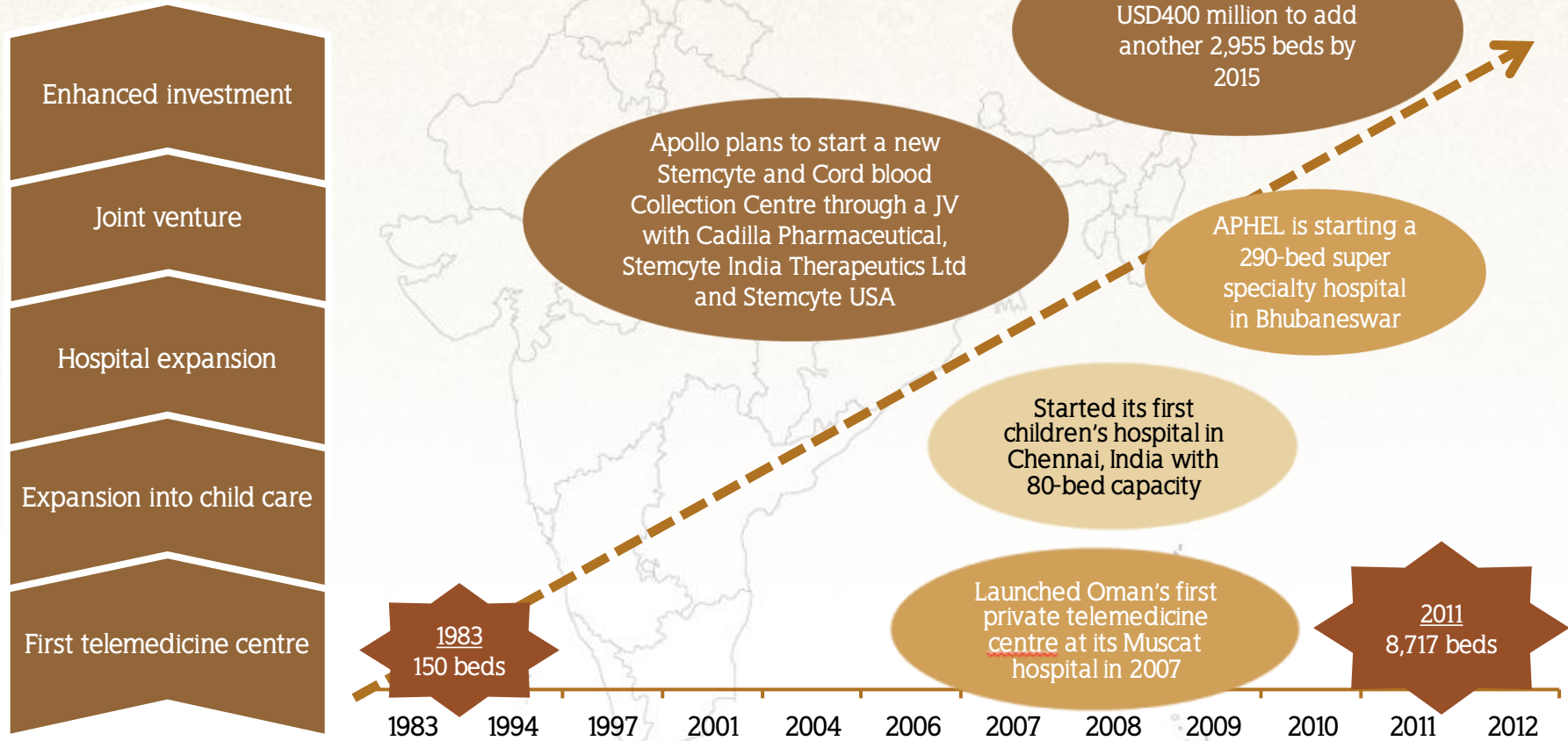
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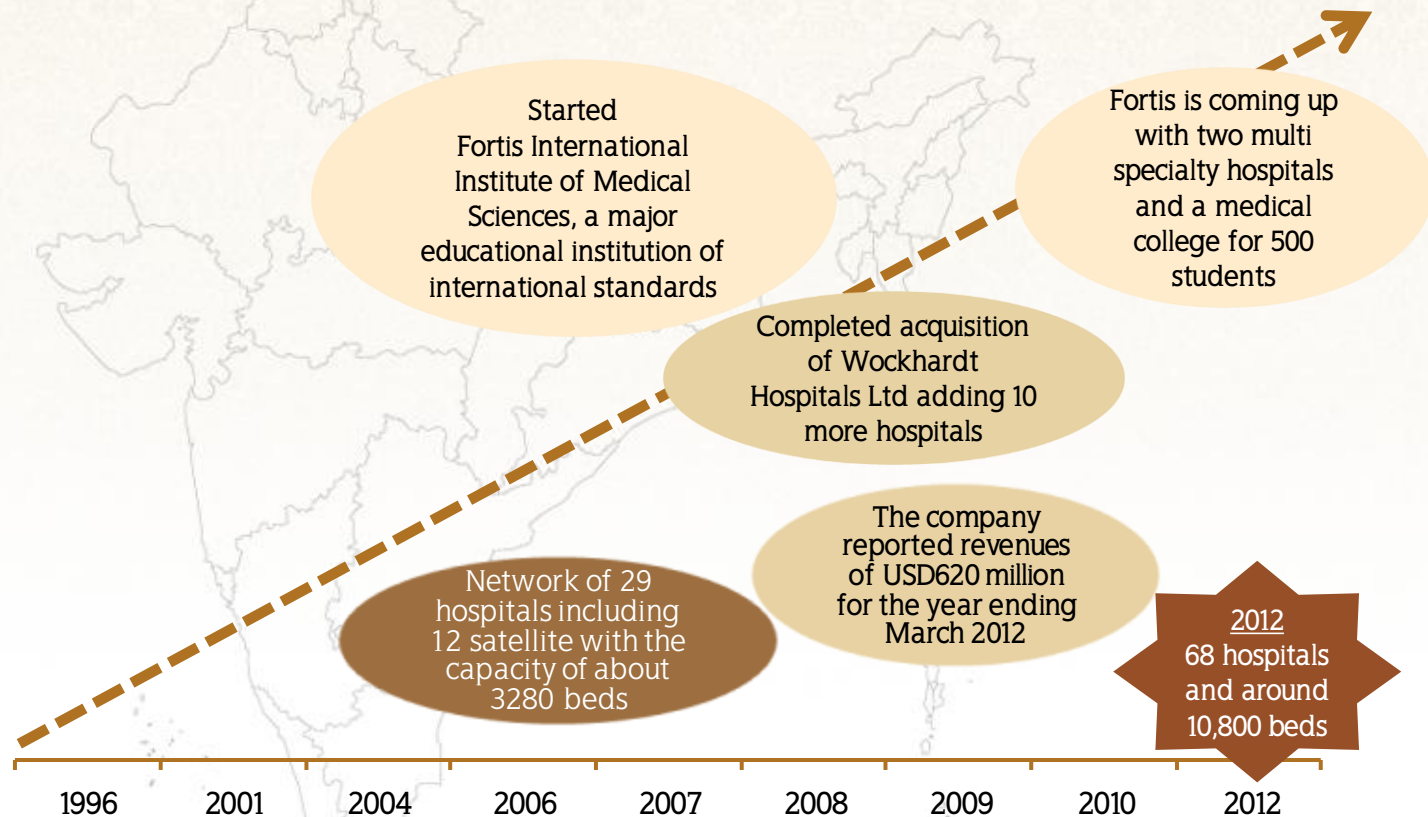
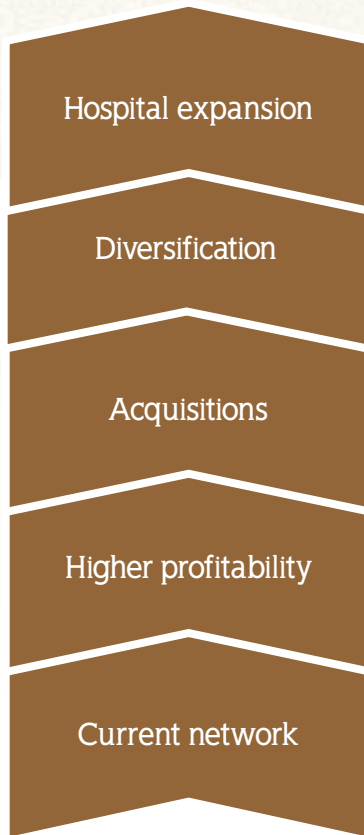
Apollo Hospitals: Leader in super speciality healthcare



Source: Research on India, Aranca Research

Note: JV – Joint venture

Fortis: Leading the way through diversification



Source: Research on India, Aranca Research

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Opportunities in healthcare

Healthcare infrastructure

- An additional 1.8 million beds are needed for India to achieve the target of 2 beds per 1,000 people by 2025
- An additional 700,000 doctors will be required by 2025 to reach a ratio of one medical doctor per 1,000 individuals
- To achieve these targets an investment of USD86 billion will be required

Research

- Contract research is a fast growing segment in the Indian health care industry
- Foreign players are entering into contract research to reduce their operational and clinical cost
- About 60 per cent of the global clinical trials is outsourced to developing countries

Medical tourism

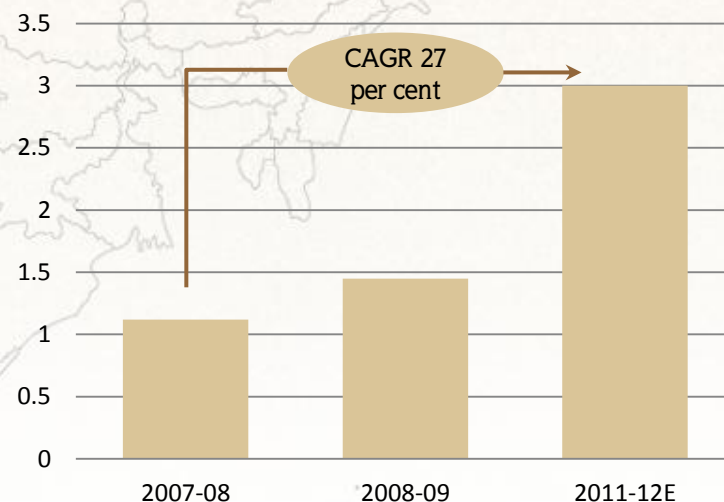
- The Indian medical tourism industry is poised to grow at 30 per cent annually into a USD2 billion business by end-2012
- The cost of surgery in India is nearly one-tenth of the cost in developed countries

Notes: Industry estimates

Opportunities in health insurance

- Less than 15 per cent of the Indian population is covered through health insurance
- Increasing healthcare cost and burden of new diseases along with low government funding is raising demand for health insurance coverage
- Many companies are offering health insurance coverage to employees, driving market penetration of insurance players
- The share of population having medical insurance is likely to rise to 20 per cent by 2015 from the present 2 per cent

Health insurance premium collection (USD billion)



Source: Hospital Market India – by research on India, Aranca Research

- With increasing demand for affordable quality healthcare, the penetration of health insurance is poised to grow exponentially in the coming years
- Health insurance premium collection is expected to grow at a CAGR of over 28 per cent for the period spanning from FY09 to FY13
- It is estimated that medical insurance would be a USD3 billion industry by end-2012

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Glossary

- **CAGR** : Compound Annual Growth Rate
- **EPA**: Externally Aided Projects
- **FDI**: Foreign Direct Investment
- **FY**: Indian financial year (April to March)
 - So FY10 implies April 2009 to March 2010
- **GOI**: Government of India
- **ICT** : Information and communications technology
- **IMF**: International Monetary Fund
- **INR**: Indian Rupee
- **M&A**: Mergers and Acquisitions
- **NHRM**: National Rural Health Mission
- **PPP**: Public Private Partnerships
- **R&D**: Research and development
- **USD**: US Dollar
 - Conversion rate used: USD1 = INR 48
- **WHO**: World Health Statistics
- Wherever applicable, numbers have been rounded off to the nearest whole number

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