

HEALTHCARE INDUSTRY IN INDIA

~Impact of Economic Downturn and Opportunities

India's rapid growth has brought about a 'health transition' in terms of shifting demographics, socio-economic transformations and changes in disease patterns.

Healthcare, which is a US\$ 35 billion industry in India, is expected to reach over US\$ 75 billion by 2012 and US\$ 150 billion by 2017 according to Technopak Advisors in their report 'India Healthcare Trends 2008'. Private Healthcare is estimated to be the largest component of this sector by 2012 and is expected to double to US\$ 38 billion by 2012.

Insulated from the Economy

Most analysts believe that the healthcare industry is relatively insulated from the current economic crisis. The industry should be able to weather the current economic storm because healthcare is a necessity and is therefore not likely to be sacrificed, unlike luxuries like certain consumer goods or services. **Ill health always prompts people to seek medical care, irrespective of the state of the economy.**

As Suyash Borar, COO, BM Birla Heart and Research Centre, Kolkata, points out, "When someone needs cardiac care, they would not worry about recession or market conditions. In fact, due to rise in stress levels, the need for immediate healthcare would escalate further." **However, many experts are still in the wait and watch mode.** "Healthcare is a recession-proof industry and hence the impact is limited in this segment. Having said that, one cannot overlook the fact that the nature of this slowdown is due to a financial crisis which can impact all sectors, including healthcare, at the corporate level," avers Dimple Sanghi, Executive Director, IndiVision India Partners— a private equity fund of Future Capital Holdings, which invested in Hyderabad-based Global Hospitals through convertibles.

Vishal Bali, CEO and MD, Wockhardt Hospitals Group, says, "We will have to wait for the future to see how and where the financial funding and banking process takes us." However, the 'insulated' healthcare industry is also facing the heat. The impact is mainly noticed in a funds crunch in new projects or expansion plans. Reportedly, many hospital groups have either postponed or put their expansion plans on hold. Except for ones which are 75 per cent complete, projects have definitely slowed down.

IT has a Problem

IT in healthcare is at a nascent stage, hence opportunities in the future will be huge. Healthcare provider market is highly fragmented [94% unorganized] and dominated by largely small players. Hence, IT uptake is limited to custom developed software for areas like billing and patient scheduling. Dependence of IT is big for insurance segment. In pharmaceutical, it is prevalent in the manufacturing space as ERP is an important component of supply chain management and is expected to enter the contract research space.

Computerization of healthcare record keeping remains both a need and a challenge in India. It is important to remember that in India, healthcare is largely paid by out of pocket expenses [except those from the corporate areas], as compared to some of the developed countries, which has third party payment mechanism firmly in space. Hence, consumers are highly conscious, which also makes provider very sensitive towards the cost of medical procedures.

Healthcare IT (HIT) companies dependent on VC funding are drying up. This is likely to lead to greater consolidation among the smaller players. Those HIT companies that are targeting physician practice are

likely to be wiped out because physicians will not consider buying IT solutions when there are no patients to manage.

Seema Gupta, Managing Director, ARYA Hospital Management Solutions, muses, "For every new equipment or IT implementation, hospitals are asking for [Return on Investment] RoI. We have to prove our RoI for even the smallest thing." Larger HIT companies with existing big clients will have to be satisfied with service and maintenance earnings on products already sold.

Medical Tourism/Dollar Tours

'First World treatment' at Third World prices' is how industry sources define medical tourism in India. Although India is a recent entrant into medical tourism, it is fast catching up. According to a study by McKinsey and the Confederation of Indian Industry - CII, medical tourism in India could become a US\$ 2 billion industry by 2012 (from US\$ 350 million in 2006). Credit Suisse estimates medical tourism to be growing at between 25-30 per cent annually.

However, the current market for medical tourism in India is mainly limited to patients from the Middle East and South Asian economies. Indian hospitals are now trying to attract patients from Afro-Asian countries. Afro-Asian people spend as much as US\$ 20 billion a year on health care outside their countries - Nigerians alone spend an estimated US\$ 1 billion a year. Most of this money is spent in Europe and America, but it is hoped that this would now be increasingly directed to India.

Dollar Tours – current situation

Experts view the global meltdown as a considerable threat to the booming medical tourism industry in India. Mr. Verma, Vice President of the Medical Tourism Council of Maharashtra, feels that as a consequence of recession many people in the West will no longer be able to afford insurance, and thus medical tourism will also take a beating as people will try and prioritise their healthcare needs and wait for economic conditions to get better. However, Dr Hari Prasad, CEO, Apollo Hospitals, Hyderabad feels that medical tourism will not have any negative impact on Indian healthcare. "We believe that there will be no impact in the Indian environment and on the global platform, the impact will be positive. With the dollar strengthening against the rupee we see more patients coming into the country for advanced healthcare," he predicts.

The Impact on Medical Equipment

The lack of liquidity may affect the market for medical devices (particularly those that are very expensive) because hospitals may not wish to commit large funds which could be better utilised in creating patient-pull. However, the effect hasn't percolated yet as most medical equipment companies deny feeling any recession blues.

K Mohanlal, Managing Director, Esaote India, a leading manufacturer of ultrasound imaging, insists, "We have not seen the impact yet. But if this recession period continues then there will be some impact in this industry." However, the company does admit to strategically changing its growth plans wherein it will now focus on cost-sensitive products instead of high-end products. "As we have been growing by almost 30 per cent per year, probably there will be a drop of 10 per cent. However, this is not merely because of recession, but because of Indian consumer needs. Nevertheless, subconsciously it has made the company more focused about targeting lower premium products.

Maquet also denies any dramatic change, but does admit delays in sales of its new projects. Says Ashim Purohit, CEO, Maquet, "Though there is no immediate setback on our sales at the moment, we definitely

foresee delays in some projects. However, it is likely to be a passing phase. Knowing the grit and determination of the Indian industry, it's not hard to visualise an even stronger rebound. But for sure, it's going to be a different marketplace from now on." For being seemingly unaffected by the current tide, Michael Rieder, Getinge Medical Systems, Vice President, Sales and Marketing, reasons, "Maquet is interacting with acute care hospitals on a global scale with more than 30 subsidiaries and over 200 distributors. We do see a high potential for growth for medical device companies, especially in emerging markets, such as India. In addition, we have established ourselves in new market segments. By honouring our origins in surgical infrastructure, we develop Maquet systematically into a therapeutic medical company."

Experts feel that healthcare companies that are not likely to be affected greatly are those that deal in inexpensive devices and supplies that are used in hospitals. "For example, high profit gains for the last quarter were reported by Becton Dickinson & Co and Baxter International Inc, and they even increased their full-year earnings estimates. That is because Baxter sells drugs for treatment of blood and immune disorders, while Becton Dickinson specialises in syringes and surgical tools which are considered essentials in a hospital.

The medical technology market was billed to be worth about \$2.7 billion in 2006 and is likely to cross \$10 billion by 2012 with a growth rate of over 20 per cent. It is estimated that over 85 per cent of medical devices and equipment are imported and the market is primarily dominated by MNCs. Most MNCs currently source their products from China through OEM arrangements, joint ventures or own manufacturing facilities. With the Indian software and hardware strengths, and the overall increase in prices in China, India could become a potential alternate sourcing centre for such MNCs.

"We continue to be bullish on the healthcare industry - especially the medical technology space. With the costs of imports going up, we believe that a number of domestic companies would evolve, as Indian consumers would look for low-cost devices / equipment. We also believe that there could be consolidation of smaller players through acquisition by larger players who have a strong sales, distribution and support network. Foreign companies would also look to acquire smaller niche companies for product diversification and lower pricing advantages," believes Kandasamy of ePlanet Ventures. **Given the rise in the value of the dollar, the cost of purchases is expected to increase, which may increase the capital expenditure or the margins of companies engaged in healthcare.** As such, the opportunities for the Indian healthcare manufacturing industry will increase, as more companies like Trivitron and others would get into local manufacturing of devices or equipment.

Areas of Opportunity

The fast growth in the Indian healthcare sector has created various pockets of opportunities for investors. A recent FICCI-Ernst and Young (E&Y) report titled 'Opportunities in Healthcare "Destination India"' highlights several such areas within the healthcare sector.

I. Medical infrastructure forms the largest portion of the healthcare pie, and according to the report, the bed per thousand population ratio for India in 2006 stood at 1.03 as against an average 4.3 of comparable countries (like China, Korea and Thailand). The report points out that India is likely to reach a bed to thousand population ratio of 1.85 and, in a best case scenario, a ratio of 2 by 2012. Beds in excess of 1 million need to be added to reach a ratio of 1.85 per thousand at an investment of US\$ 77.9 billion.

II. Another area of opportunity is medical equipment. Currently the medical equipment industry is around US\$ 2.17 billion and is growing at 15 per cent per year. It is estimated to reach US\$ 4.97 billion by 2012. Since almost 65 per cent of the medical equipment is imported, it is a key area for forging

partnerships across borders. In addition to this, engineering excellence, cost-effective labour, increasing emphasis on intellectual property rights and most importantly a fast growing domestic market makes India an ideal manufacturing base. This opportunity has attracted foreign medical equipment makers to float Indian subsidiaries -- 30 of them received import clearances in 2007 alone.

III. The growth in medical infrastructure will be complimented by a demand for associated products and services, for example, **the medical textiles industry which is projected to double to reach US\$ 753 million by 2012.**

IV. The report further states that **clinical trials** have the potential to become a US\$ 1 billion industry by 2010 and the health services outsourcing sector has the potential to grow to grow to US\$ 7.4 billion by 2012, from US\$ 3.7 billion in 2006, at a compound annual growth rate (CAGR) of 11 per cent.

V. Opportunity in Hospital Pneumatic Tube Systems in India

An estimate indicates that healthcare spending could be 8% of GDP by 2012 and an estimated US\$ 1.5 billion is spent on medical equipments of which over 80% is spent on high-tech medical equipments, devices and automation. India is one of the few locations in the world with the latest in healthcare technologies including automation, surgical robotics, modular operating theatres, minimal access surgery systems, telemedicine, radiology, etc.

Although Indian hospitals and healthcare providers excel in the above mentioned fields, however, the intrafacility logistics and materials management remains untouched by the latest innovations in automation in healthcare logistics, materials transportation and supply chain. Merely US\$ 1 million is spent on intra-facility [less than 0.006 % of total spending]. In India, logistics comprise almost 90% of a healthcare facility's operations, but very small amounts are spent and considered as least important in the list of hospital procurements. Sometimes, end-up procuring out-dated and obsolete products and are not procured at all.

Of the total transport requirements within the hospital facility, 95% of these transports are spontaneous in nature – Transport of drugs, Blood samples, Organ & Tissue Samples, Other Samples, Imaging Documents, Discharge Summary Documents, Billing Documents, Prescription Documents, Standard Errands, Analysis Reports, Surgical materials [instruments, etc.] and others.

In-efficient and inadequate intra facility logistics may increase human resources costs, healthcare delivery costs, energy costs apart from various factors. This in turn increases risks and reduces the quality of patient care. Current methods used by hospitals in India for such spontaneous transports are Human Based Transport [HBT] viz using ward boys, orderlies, patients attendants, relatives in some cases who are with the patient. There are thus several risks that entail HBT logistics – delays, theft, exposure, bio-hazard, personnel and energy.

In order to overcome these difficulties and to incorporate Automation and Logistics Optimization Hospital Pneumatic Tube Systems offer unique solutions – which are economical, hi-tech, swift, secure and a safe solution. Several leading hospitals in India have already adopted this systems and there are several more to be brought under this influence – a market for manufacturers indeed.

Source:

IBEF report, updated Oct-Dec 2008

Express Healthcare, January 2009