

Healthcare Sector Overview

India's economic growth and rapid urbanization is bringing with it an expected health transition in terms of shifting demographics, increasing ability to afford quality healthcare, changes in morbidity pattern with growing degenerative and lifestyle diseases, and increasing penetration of health insurance.

By 2021, over 143 million population in the country will be above 60 years of age; close to 16 million households will fall in the category of high-income (annual income more than INR 500,000); towns with million plus population will increase from 35 to 65; heart diseases, diabetes, and cancer will show a combined average decadal growth of 47%; health insurance market will grow at an average 42% CAGR. Such factors have caught the interest and attention of investors, big and small; and have necessitated our healthcare landscape to constantly evolve and mature.

Riding on the wave of these positive drivers, Indian healthcare industry is poised to double from USD 60 bn to USD 120 bn by 2015, growing at a 15% CAGR. While public spend in the sector is likely to be limited to ~ 20% of annual healthcare spend, most of the expansion would be propelled by organized private players, especially hospitals. What makes this growth story even more attractive for patients and investors alike is the unprecedented growth that allied sectors like pharmaceuticals, wellness, medical technology, medical tourism, medical education, and health insurance, will witness in the coming decade. This would be largely fuelled by frugal innovation in technology and delivery mechanisms.

However, successfully meeting the expected level of infrastructure and manpower requirements is going to be a daunting task. So far, the industry has largely been shaped by 'market forces' instead of a planned growth based on an 'inclusive approach'. India's total health spending at 4.2% of GDP is way below most developed, and some developing countries. Over 80% of healthcare spend is in the private sector, predominantly unorganized & fragmented. Less than 16% of Indian population has any form of health insurance at present. Bed to population ratio (1.1) is still short of developing economies, with an additional requirement of 1.1 Mn hospital beds. The country has an additional requirement of 0.8 Mn doctors and 1.7 Mn Nurses, apart from facing a significant shortage of paramedics. 45% of the population travels more than 100 Kms to access tertiary level of medical care. **Poor accessibility, accountability, affordability, and availability of healthcare services are key constraints that make the idea of 'Health for all' a seemingly impossible accomplishment.**

Besides, the sector is largely dominated by unorganized private players, mostly comprising of clinics and nursing homes. These facilities offer limited range of services and operate with minimal standards of quality. Moreover, the public sector focus is mainly on primary care with a program based approach. Other issues restricting growth of the sector are high capital expenditure, high dependence on imported medical equipment's, long gestation period for the business to turn profitable, archaic norms for medical education, and absence of any central governing authority for paramedical education.

Overcoming such mammoth challenges calls for an integrated effort and investment across the entire value-chain of healthcare spectrum. Three broad components of this spectrum are healthcare delivery, pharmaceuticals, and medical equipment's. Healthcare delivery, comprising of primary, secondary and tertiary care facilities, constitutes a major chunk i.e. 77% of the total market. Pharma and medical equipment segments constitute 14% and 5% of the total market, respectively. **While sustained expansion of healthcare delivery facilities like neighborhood clinics, day-care surgery centers, single and multi-specialty hospitals etc. is expected, it is also vital that support sectors and sub-sectors like pharma retail, wellness, medical technology, medical tourism, medical education and health insurance grow alongside and with equal vigor.**

Though the role of private sector is going to get extremely crucial, Government's contribution towards achievement of above mentioned expected growth in the healthcare sector cannot be undermined. The Governments focus on healthcare has seen a positive upswing in the last few years, and this momentum is likely to sustain in the coming decade, with the implementation of a slew of measures proposed by the government.

Work is already underway in the setting-up of six world-class institutes of medical education, training and healthcare delivery along the lines of All India Institute of Medical Sciences (AIIMS), Delhi. Also, a total of nine under-graduate and post-graduate medical colleges and hospitals are being established by the Employee State Insurance Corporation (ESIC) not only in metros, but many tier-2 and 3 towns of the country. These two measures will greatly improve accessibility and affordability of healthcare services in non-metro cities, apart from providing quality medical education to many doctors and paramedical professionals.

Even at present, Government's role in the area of medical education is commendable. **Government run medical, nursing and dental colleges provide excellent academic learning, practical exposure and hands-on training at extremely subsidized fee. Healthcare professionals who graduate from these colleges are highly skilled**

and in tremendous demand not only in India, but across the world. Many of these doctors have pioneered innovative, path-breaking research and treatment programs in the past, and continue to do so.

However, despite investing heavily in medical education and producing the maximum number of specialist and super-specialist doctors in the country, **government is finding it increasingly difficult to retain them in the public healthcare delivery system. This is primarily because of the lucrative remuneration packages and better work environment and facilities offered by private corporate hospitals. These hospitals, though aggressively growing on the delivery side of healthcare supply chain, have so far shied away from entering the field of medical education.** With the government having relaxed the rules and regulations guiding the setting up of medical colleges, this space offers good business opportunities for private players and more activity is expected from them in the coming years. Nonetheless, government would continue to provide the country some of its best healthcare experts.

Another area which needs the government's urgent attention and support is Research and Development (R&D) in the field of healthcare. The breadth of R&D should include diverse areas like diagnostics, therapeutics, vaccines, medical devices, regenerative medicine, public engagement, education and the application of research in improving patient care.

For significant breakthroughs to emerge in this field, **it is essential that the government provides researchers, the resources and freedom they need to pursue their studies, and also suitably rewards institutes like ICMR for promoting research activities. Such encouragement will pave the way for development of innovative, low-cost, high quality technology and models of delivery that are specifically suitable to the needs of India.**

In order to effectively address the issues of poor access, high cost of healthcare, and shortage of trained professionals, it is imperative that the government pays due attention to the above measures.

Upcoming Trends in Healthcare

Day Care Surgery Centers

Traditionally, surgery has required the healthcare provider to meet inpatient requirements. However, inpatient facilities are expensive, inconvenient, and less than savory to most patients.

Technological advancements over the last two decades have helped address this **gap. A large number of surgeries, called day-care surgeries, can now be performed without the patient having to be admitted at all. This has become a global trend and is expanding throughout the world.** By 2020, 75% of all surgical operations will be carried out in ambulatory surgery centers/units. The cost advantage of day surgery is best achieved in free-standing centers or totally free-functioning units within hospitals.

At present, in the United Kingdom, 55% of elective surgery is carried out in an ambulatory setting. In US, there are 5000 such centers, with AmSurg Corp. being the leading player with over 150 centers in operation.

In India, the concept is currently in its infancy, with only 20% of all surgical procedures being done on an out-patient basis. 27% of these procedures fall under ophthalmology, 23% under gastroenterology, and 10% under orthopedics, followed by gynecology, plastic surgery, general surgery, podiatry, and dentistry.

However, India is fast catching up with the trend, and ambulatory surgical care market is expected to reach 6 US\$ Billion in 2017, growing at a CAGR of 20%.

Such day care surgery centers, offer better ambience, convenient scheduling, more organized and friendlier staff and more convenient location and parking to the consumer, while also making good business sense to the providers. For the healthcare provider, such centers translate into lower investment in infrastructure, manpower and inventory holding, higher operating margins, lesser incidence of hospital acquired infections, and higher turnover rate due to a more streamlined approach to the surgical episode.

Ideally, treatment in these centers should cost about 47% less than that in hospitals, thereby making them an economically better option. However, this cost-advantage is yet to be proven in the Indian market.

Insurance firms are also increasingly recognizing the importance of this treatment and around 650-700 day-care procedures like cataract, lithotripsy, arthroscopy, haemorrhoidectomy, chemotherapy, dialysis etc. are already being included in the ambit of medical reimbursement. The good news is that this list is only going to grow in future.

Secondary Care Hospitals

In the last decade, most corporate healthcare models were developed keeping in mind the metro markets. But now, metros with developed healthcare infrastructure and rising competition have reached a saturation level serving a certain socio-economic segment of the population. The healthcare providers have now started realizing that they cannot serve all segments of population with high-cost structures. To serve different consumer segments such as lower middle income, urban poor and rural population, they need to develop low capital-intensive models.

One such relatively low-cost model is that of secondary care hospitals. **These are mid-sized (100-150 bedded) hospitals offering upgraded secondary care and basic diagnostic and pharmacy facilities.** Such hospitals are rightly positioned to cater to primary care and can be upgraded to incorporate some elements of tertiary care. They generally focus on specialties like General Medicine, General Surgery, OBG, Pediatrics, Orthopedics & Trauma, Ophthalmology, ENT, Dental Surgery, Endocrinology, and Critical Care. High-end services like Oncology, Cardiology, Neurology, Gastroenterology, Nephrology, Cosmetology, etc. might be present to a small extent, but are not their key focus areas.

Typical Area per bed is around 1000 sq. ft., ALOS ~ 3 days, Average Revenue per bed ~ INR 12,000, and more than 25% patients are insured. Such hospitals are easily replicable, scalable, flexible, and more affordable. **Capital and Overhead costs are lower** than typical multi-specialty hospitals, **workflows are standardized, operational management is easier, and outreach, penetration and patient loyalty higher.** In some cases, these centers also function as feeders to the tertiary care hospitals of the same corporate group.

The total market for secondary care services in India currently stands at INR 42,000 Cr, and is expected to reach INR 261,000 Cr by 2020. One of the main driving forces for this market is the fact that 80% of ailments can be catered by secondary care.

India is likely to see aggressive activity and investment in this market by corporate groups, especially in tier 2 and 3 cities.

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