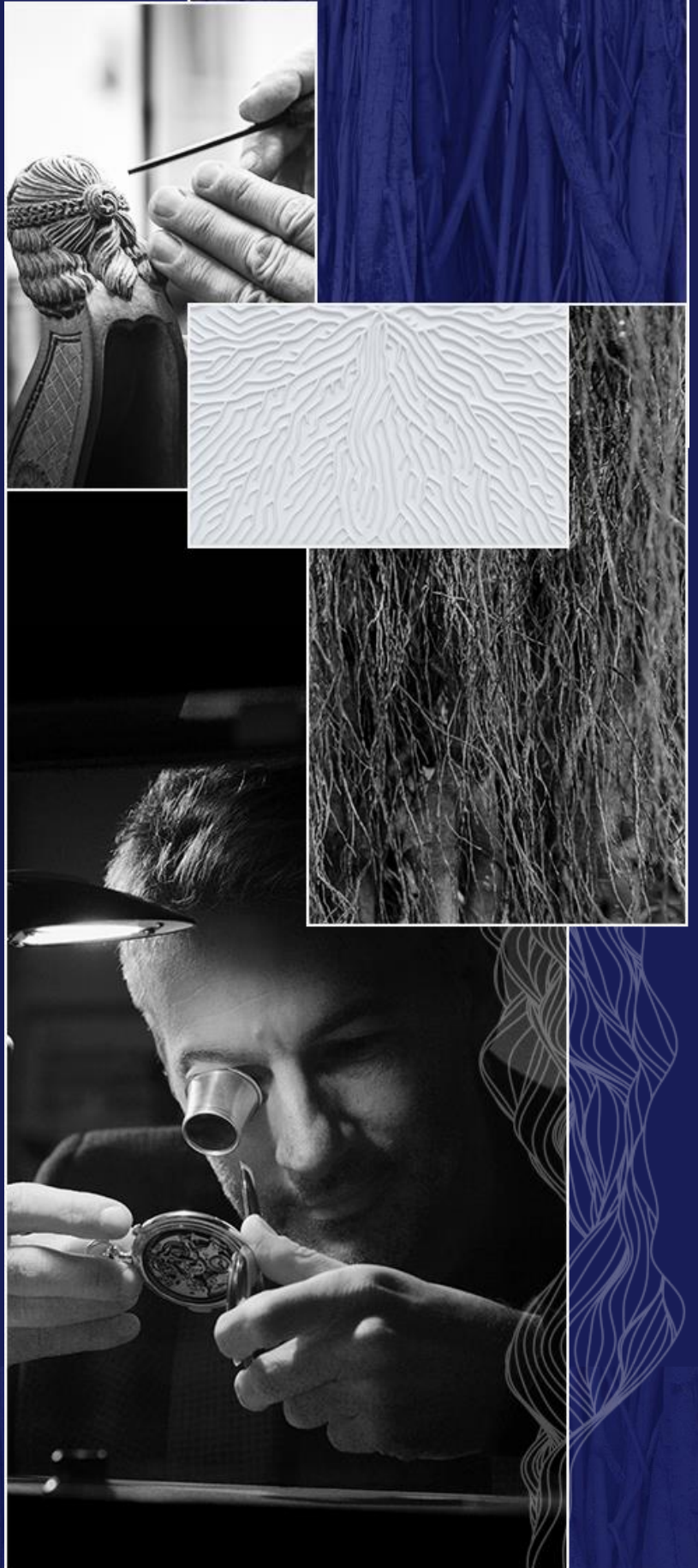


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NEWSLETTER  
August 2024





## Indian Hospital Industry

### Brief Overview and Background

Healthcare has emerged as one of the largest sectors in the Indian economy, recording significant contributions in terms of revenue and employment. Several factors such as an aging population, a growing middle class, rising proportion of lifestyle diseases, increasing demand for healthcare services, an increased emphasis on public-private partnerships, advancements in medical technology, rising investment in healthcare infrastructure, and enhanced investor interests and increased FDI inflows over the past two decades are driving the growth of the sector.

Over the past decade, India has achieved significant milestones in the realm of public health, making notable progress in enhancing life expectancy and reducing maternal and child mortality rates. The country has made focused efforts to meet the targets set under the Sustainable Development Goals (SDGs).

### Hospital Industry Landscape in India

Hospitals are the largest component and the biggest beneficiaries (~70%) of the total healthcare market in India. The hospital industry in India was valued at \$108 Bn in 2024 and is estimated to reach \$200 Bn by 2030, growing at a CAGR of ~11%.

The industry is currently undergoing a significant transformation and experiencing remarkable growth, driven by several factors including:

- Enhanced occupancy rates
- Expansion in Average Revenue Per Occupied Bed (ARPOB)
- Reduction in the Average Length of patient Stays (ALOS)
- Increasing medical tourism

This growth has led to an increase in capital expenditure within the industry. Multiple hospital chains are expanding capacities and diversifying geographically to secure larger market share.






While metropolitan cities like Delhi, Mumbai, Chennai and Kolkata boast of world-class hospital groups (Max, Hinduja, Fortis and Apollo) with high-end infrastructure, healthcare companies are now expanding into Tier-2 and Tier-3 cities such as Indore, Surat, Dehradun, Nashik, Mohali, Jaipur, and Visakhapatnam. These cities offer a unique advantage as the competition and real estate cost are considerably lower compared to the metros.

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Currently, a considerable gap exists between the number of beds available and the number of beds required. India's hospital bed density is less than half of the global average of 3 beds per 1,000 people. It is noteworthy that around 65% of hospital beds in India cater to almost 50% of the country's population concentrated in Uttar Pradesh, Maharashtra, Karnataka, Tamil Nadu, Telangana, West Bengal and Kerala. The other 50% of the country's population living in the remaining 21 States and 8 Union Territories has access to only 35% of beds. This indicates that there is tremendous potential to grow hospital beds to ensure equitable access to healthcare for citizens across the country.

**India offers quality services at an affordable rate when compared globally**

					
Hip replacement	\$50,000	\$14,120	\$12,000	\$7,800	\$7,000
Knee replacement	\$50,000	\$19,800	\$13,000	\$12,300	\$6,200
Heart bypass	\$1,44,000	\$28,900	\$18,500	\$12,000	\$5,200
Angioplasty	\$57,000	\$15,200	\$13,000	\$3,800	\$3,300
Heart valve replacement	\$1,70,000	\$43,500	\$12,500	\$21,000	\$5,500
Dental implant	\$2,800	\$4,200	\$1,500	\$3,600	\$1,000

**Operational performance of key hospital chains in India**

Particulars	Apollo	Max	Fortis	Narayana Health	Medanta	KIMS
Revenue (INR cr)	8,677	6,236	5,107	3,642	2,759	2,198
EBITDA Margin	25%	26%	18%	18%	25%	27%
# Hospitals	48	17	29	23	5	12
# Beds	9,957	3,504	4,500	6,076	2,697	3,940

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<b>Operating Beds</b>	7,860	3,282	4,032	5,778	2,049	3,468
<b>EBITDA/ Operating Bed (INR mn)</b>	2.7	4.9	2.3	1.2	3.3	1.7
<b>Occupancy</b>	64.0%	76.0%	67.1%	48.5%	59.0%	69.3%
<b>ALOS</b>	3.4	4.3	3.7	4.5	3.3	4.1
<b>ARPOB per day (INR)</b>	51,668	67,400	55,101	35,482	59,098	29,946
<b>ROCE</b>	8.6%	8.2%	5.7%	18.1%	9.2%	13.9%

Note: Based on FY2023 data. ARPOB–Average Revenue Per Operating Bed, ALOS–Average Length of Stay

### Key factors driving growth

- Rising Demand for Quality Healthcare Services:** The growing middle-class population in India, along with an increase in health awareness and health-conscious consumers, has led to a surge in demand for quality healthcare services. Multi-speciality hospitals, with their state-of-the-art infrastructure and specialized offerings, are well-positioned to meet this rising demand. Additionally, there is a growing preference for private healthcare services, which offer high-quality care and better facilities compared to public hospitals, thus leading to a surge in demand for private hospitals and clinics in India.
- Government Initiatives and Policy Support:** The Government has undertaken several major reforms to strengthen the healthcare sector, including the flagship Ayushman Bharat programme. The government's plan to increase public health spending to 2.5% of GDP by 2025 is also expected to drive growth in the segment. This, in turn, provides more resources for strengthening the overall healthcare infrastructure in the country.
- Emergence of Hospital Chains and Consolidation:** The rise of multi-specialty hospital chains, and consolidation in the industry have led to improved operational efficiencies, economies of scale, and better access to capital.

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- **Increasing Investments and Private Equity Funding:** The multi-speciality hospital segment in India has seen significant investments and private equity funding, especially since the early 2000s when India allowed 100% FDI in the hospital sector.
- **Medical Tourism:** Patients from various countries travel to India to access high-quality healthcare services at affordable costs. This growth in medical tourism has also led to an increase in the number of private hospitals and clinics that specifically cater to medical tourists, thereby making India a popular destination.
- **Other Factors:** Other important growth factors include the emergence of PPP models in healthcare to focus on expanding coverage and access, large private hospital chains increasingly expanding beyond the metropolitan cities to Tier-2 and Tier-3 cities, the enhanced adoption of telemedicine, and other digital technologies. More and more private players are seeking accreditation and developing new healthcare models.

## Key challenges in the Indian market

### High Operational Costs

- The cost of maintaining advanced medical equipment, high-quality infrastructure and skilled healthcare professionals can be significant, accounting for up to 60-70% of a hospital's total expenses.
- This high-cost structure puts pressure on hospital margins, affecting their profitability.

### Shortage of Skilled Workforce

- India faces a significant shortage of trained healthcare professionals, with only 1.1 doctors and 1.7 nurses per 1,000 population, which is below the WHO recommended norm.
- Shortage of surgeons, physicians, gynaecologists and paediatricians in rural areas.

### Access to Quality Healthcare

- Providing access to quality healthcare services in rural and remote areas remains a challenge due to inadequate infrastructure, lack of healthcare professionals and poor connectivity.
- Patient care quality is also affected by a lesser proportion of the country's hospitals being located in rural areas.

### Technological Integration











- Integrating advanced healthcare technologies such as electronic health records (EHRs), telemedicine, and AI-based diagnostics requires substantial investment and technical expertise.
- Many smaller hospitals struggle to keep pace with the rapid technological advancements.

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### Recent Marquee Private Equity investments

The hospital industry in India is witnessing huge demand from both global and domestic investors. Several leading hospital chains are also aggressively raising funds to fuel their growth and expansion. The segment has seen big-ticket investments by some of the largest global funds in recent times.

Date	Company	Investor	Deal Value (INR Cr)
Jul-2024		KKR	2,000
Jun-2024		Morgan Stanley Private Equity Asia	500
Apr-2024		International Finance Corporation	330
Apr-2024		General Atlantic	1,600
Nov-2023		Norwest Venture Partners	450
Sep-2023		India Resurgence Fund	525
Apr-2023		Temasek	16,300
Jul-2023		Quadria Capital	1,300
Mar-2023		360 One Asset Management	573
Jun-2022		Arpwood Partners, Somerset Indus, Siguler Gulf, Clermont	654

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## Mergers & Acquisitions

M&A activity has increased significantly in the past decade, with buyers and sellers looking to create operational, strategic, and financial value. Some of the key drivers of M&A activity within the segment are:

- **Economies of Scale:** Consolidation helps reduce costs and improve operational efficiencies through shared resources and centralized operations
- **Market Expansion:** Hospitals are acquiring or merging with other hospitals to enter new geographic markets, especially in the underserved regions
- **Enhanced Capabilities:** Mergers and acquisitions enable hospitals to integrate new specialities, technologies, and services
- **Access to Capital:** Smaller hospitals seek partnerships with larger entities to access better financing and investment opportunities

### Recent M&A deals in India

Date	Target	Acquirer	Deal Value (INR Cr)
Jul-2024			171
Jun-2024			414
Apr-2024			~1,400
Mar-2024			104
Feb-2024			116
Feb-2024			412
Jan-2024			102

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Sep-2023			2,400
Sep-2023			3,336
Aug-2023			740
Jun-2023	Fortis Hospitals - Vadapalani		152
Apr-2023			225

### Road ahead

From an India perspective, there is a significant opportunity in the single-speciality and multi-speciality hospital space. Apart from the metropolitan cities, demand for health services is rising in Tier-2 and Tier-3 cities across the country. Consolidation by larger hospital chains, deepening presence, improving occupancy, and margin expansion will be key growth factors that improve earnings. Scaling up of ancillary businesses like third-party diagnostics, retail pharmacy, and digital business for future growth could be a huge value unlocking opportunity.

Sources:

- Industry Report
- News Articles
- WCA Proprietary Analysis

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## How can Wodehouse Capital Advisors help?

Wodehouse Capital Advisors has extensive network and prior experience across each of the service vertical



### Family Office Services

- Investment Management
- Succession Planning
- Real Estate Advisory
- Business Consulting
- India Entry Strategy



### Merger & Acquisitions

- Buy Side Representation
- Sell Side Representation
- Bolt- On- Acquisitions



### Debt

- Structured Finance
- Refinancing
- Additional Funds for Set-up



### Equity

- Growth Capital
- Strategic Capital

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