

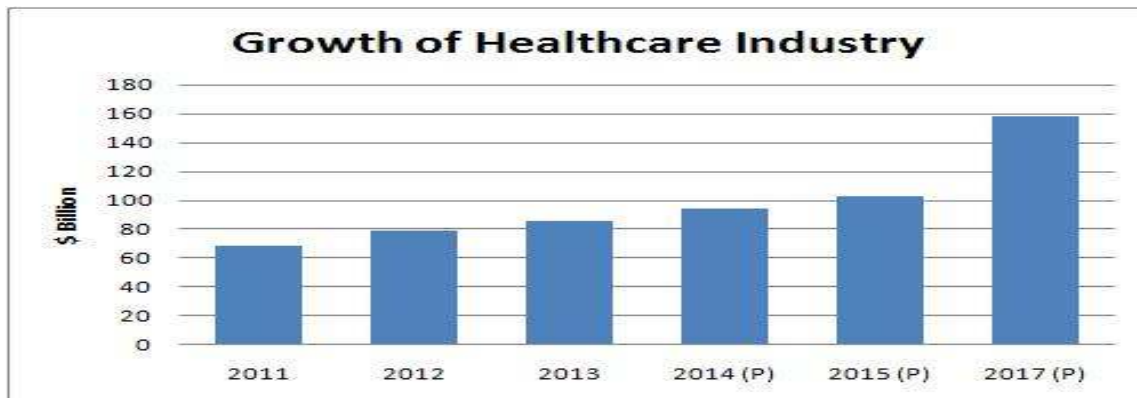
**Healthcare Sector's outlook remains positive owing to high growth rate in all segments**

Healthcare has become one of India's largest sectors - both in terms of revenue and employment. The industry comprising - hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment - is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well private players. Moreover, the industry is projected to continue its rapid expansion, with an estimated market value of \$280 billion by 2020, increased population growth in India's low-income communities has resulted in a lack of affordable and easily accessible quality healthcare for millions of people.

The Indian healthcare delivery system is characterized by two major components public and private. The Government i.e. public healthcare system comprises of limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of Primary Healthcare Centers (PHCs) in rural areas. The private sector provides majority of secondary, tertiary and quaternary care institutions with a major concentration in metros, tier II and tier I cities. Large investments by private sector players are likely to contribute significantly to the development of India's hospital industry and the sector is poised to grow to \$100 billion by the year 2015 and further to \$280 billion by 2020. Private sector's share in healthcare delivery is expected to increase from 66 per cent in 2005 to 81 per cent by 2015. Private sector's share in hospitals and hospital beds is estimated at 74 per cent and 40 per cent, respectively.

**Performance of healthcare industry**

The Healthcare Industry has witnessed a sudden paradigm shift in last five year. Though, this change was inevitable and the Industry has been working towards it for a decade now, but this has been visible only in last two years. All sectors in India are undergoing a change from unorganized to an organized structure and so are also seen in healthcare. Till few years ago healthcare delivery was sole responsibility of Private practitioners and Doctor owned and run hospitals. Since it was also considered as a social sector only, so almost all the large hospitals were either Government owned or charitable hospitals. Meanwhile, the healthcare sector is growing at a CAGR of 15 per cent and expected to touch \$158.2 billion by 2017 from about \$85.92 billion in 2013.

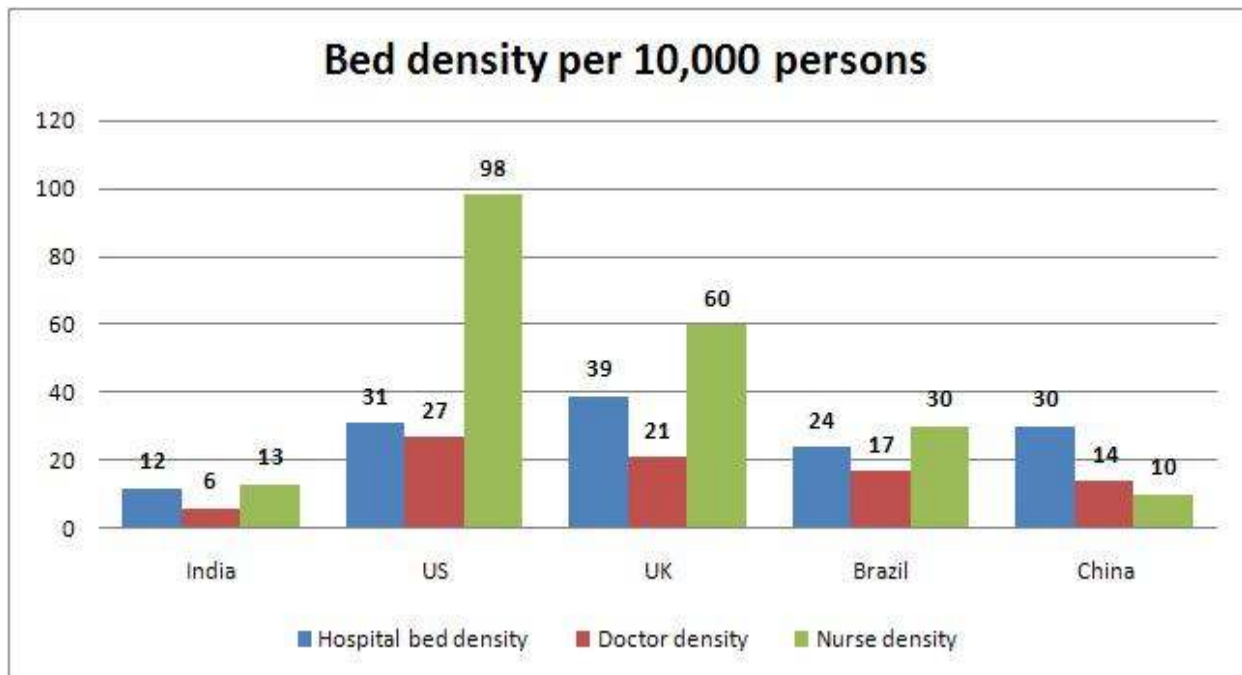


India being a country with growing population, country's per capita healthcare expenditure has increased at a CAGR of 10.3 per cent to \$57.9 in 2011 and going forward this figure is expected to rise to \$88.7 by 2015. The factors behind the growth is rising incomes, easier access to high-quality healthcare facilities and greater awareness of personal health and hygiene. The country's healthcare system is developing rapidly and it continues to expand its coverage, services and spending in both the public as well as private sectors.

The private sector has emerged as a vibrant force in India's healthcare industry, lending it both national and international repute. Private sector's share in healthcare delivery is expected to increase to 81 per cent by 2015. Private sector's share in hospitals and hospital beds is estimated at 74 per cent and 40 per cent, respectively. There is substantial demand for high-quality and speciality healthcare services in tier-II and tier-III cities. To encourage the private sector to establish hospitals in these cities, government has relaxed the taxes on these hospitals for the first 5 years.

**India lags behind China and Brazil on key healthcare matrix**

In comparison with other countries, India is lagging behind China and Brazil on many key healthcare parameters. China has 30 hospital beds every 10,000 people, whereas India has only 12. The figures are even more alarming for nurses. In the United States there are 98 nurses per 10,000 people and in India there are only 13.



India has the lowest rates of institutional delivery due to acute shortage of hospital beds. India will need another 1.7 million beds to reach the world average of 2.6 beds per 1,000 population and should double the number of doctors, triple the number of nurses and quadruple the number of paramedics to meet the World Health Organisation's mandate of population to medical personnel recommendations.

**Growth of medical tourism in India**

The cost of medical treatments in India is quite less, when compared to the west and the country has a number of top rated hospital chains/medical staff. India has the most number of US FDA approved drug manufacturing units and its healthcare system is based on western medicine (predominantly). The country also offers a large number of wellness tourism options like yoga, ayurveda, naturopathy, acupuncture, spa/massages, etc. Most of the traditional medicine systems in India focus largely on prevention.

However, the country needs to work on increasing efficiency at the immigration to make the travelling experience hassle free for patients and also better infrastructure in terms of highways and roads would add to the overall satisfaction of medical tourists. Affordable hotels, availability of language interpreters are a few areas which also need to be given significant consideration to increase medical tourism in India.

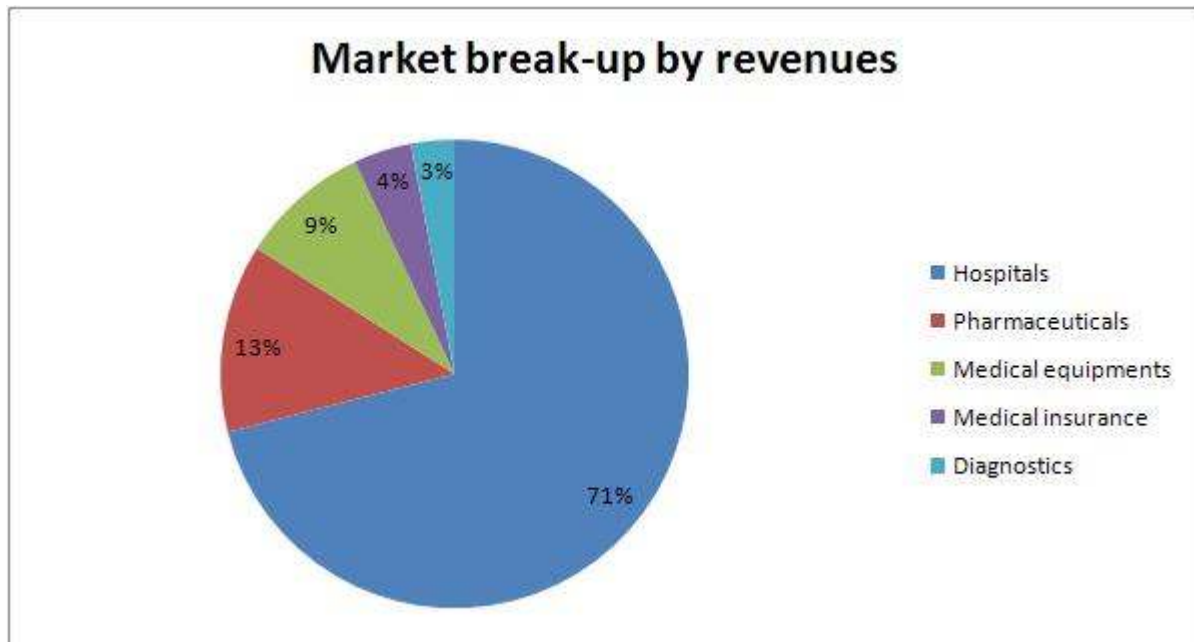
**Comparison of treatment of some surgeries in India and other countries (US Dollar)**

Surgeries	India	USA	Costa Rica	Mexico	Singapore
Heart Bypass	8500	144000	25000	20000	13500
Angioplasty	8500	57000	13000	16000	7500
Heart Valve Replacement	1200	170000	30000	30000	13500
Knee Replacement	7000	50000	11500	10650	10800
Spinal Fusion	12000	100000	15000	7000	18300
Dental Implant	700	2000-10000	1000	910	2900
Lap Band	7500	30000	8500	8430	12000
Rhinoplasty	3500	8000	5500	4165	2700
Face Lift	7000	15000	5900	7200	4000
Hysterectomy	55000	15000	5500	6675	4000

The medical tourism market in India is projected to hit \$3.9 billion mark this year having grown at a compounded annual growth rate of 27 per cent over the last three years. The inflow of medical tourists is expected to cross 320 million by 2015. The medical tourism industry in India gets maximum patients for heart surgery, knee transplant, cosmetic surgery and dental care as the cost of treatment in India is considered to be the lowest in Asia, much lower than Thailand, Indonesia, Singapore and Hong Kong.

### Segment-wise analysis

The healthcare sector is the third largest contributor to the Indian economy in terms of revenue and employment generation potential. The Indian healthcare sector encompasses hospitals, pharmaceuticals, medical equipment and supplies, medical insurance and diagnostics. Among the primary sub-sectors of the healthcare sector, hospitals and pharmaceuticals account for the largest revenue, contributing as much as 71 per cent and 13 per cent of the total revenue, respectively. The hospital services market, which forms one of the largest segments of the Indian healthcare.



**Hospitals:** The Indian hospital sector is a key component of Indian healthcare industry with contribution of over 71 per cent of total revenues of the industry. Various incentives at the policy level along with legal clearance for FDI have played a great role in driving private sector participation. Most private hospitals are located in urban India with very low penetration in the semi-urban and rural parts. To reach the goals of 12th Five Year Plan, India has to increase bed capacity by adding at least 650,000 beds by 2017. Demand for services and requirement for increasing beds has created huge opportunities for investment in this sector. Increasing investments in this sector from private investors have increased financial risks and thus, the

returns the investor expects from his portfolio of investments are much high. Thus, financial performance of hospitals is the key factor that motivates and encourages investments into Indian hospital sector.

**Pharmaceuticals:** The Indian Pharmaceutical Industry has shown immense potential and continues to grow consistently. The Indian generic drug sector is robust and is establishing its presence in foreign markets too. The new- drug sector is also expected to record a healthy growth owing to significant industry- wise increase in R&D expenditure and proposed new drug launches. On the concern side, fragmented Indian pharmaceutical market is facing high volatility and uncertainty. Increasing number of drugs in National List of Essential Medicines (NLEM) and price controls, changing FDI Policy, compulsory licensing, aggressive acquisition strategies by MNCs, and declining global generic market opportunity is creating a new normal. Pharmaceutical companies need to re-visit their traditional growth strategies to succeed in a volatile world. With 70 per cent of India's population residing in rural areas, pharma companies have immense opportunities to tap this market. Demand for generic medicines in these regions has seen a sharp growth, and various companies are investing in the distribution network in rural areas. The share of generic drugs is expected to grow and it could represent about 90 per cent of the prescription drug market by 2016. The Indian Pharmaceuticals industry is growing at a healthy pace despite the few challenges in the domestic market. There is continued uncertainty over the New National Drug Pricing policy that will have moderate impact on Indian Pharmaceutical players. Anything on GST will be closely observed by the industry and any minor steps will not have the substantial impact on the industry.

**Medical equipments:** India's medical device and equipment market is currently the fourth largest market in Asia with 700 medical device makers, and ranks among the top 20 in the world. This industry forms a very small part of the total manufacturing industry accounting for only 0.2 per cent of all certified facilities. Collaborative trends across the segment are visible through deals and acquisitions, setting up of local manufacturing by large international players and other technical alliances. The outlook for medical device segment over the next few years remains strong, with more recent trends such as greater adoption of health insurance (private as well as state-funded) likely to further increase the penetration of healthcare across the country. Moreover, the Indian medical device and equipment market is expected to grow to around \$5.8 billion by the end of calendar year 2014 and \$7.8 billion by 2016, growing at a CAGR of 15.5 per cent.

**Medical insurance:** A major part of medical expenses are borne out-of-pocket by the people, thus more people are realising the importance of medical insurance which would incur the costs of world class healthcare treatment in the country. A recent World Bank publication stated that about half of the country's population could be covered with health insurance by 2015, indicating a vast market potential. The awareness about having a health insurance is rapidly increasing due to the rising cost of high end health treatments and thus it has a strong growth potential in the recent years. While, the penetration of the health insurance market is still quite small, it is one of the fastest growing industries in India. The health insurance market in India is growing at a compounded annual growth rate of around 34 per cent. The Government had introduced the

Rashtriya Swasthya Bima Yojna (RSBY) or Government-Sponsored Health Insurance Schemes (GSHISs) to provide the poor with financial coverage. The main objective of the new GSHIS was to offer financial protection against catastrophic health shocks. The scheme has covered more than 120 million poor people and is touted as the largest around the world.

**Diagnostics:** The Indian diagnostics market is expanding at a rate of 18 per cent per annum and the sector has emerged as one of the best segments in the Indian healthcare industry. However, the diagnostic scenario in India is highly fragmented with a large segment of the industry populated by unorganized players. Various factors such as rising prevalence of diseases, improving affordability of patients and increasing penetration of health insurance have contributed substantially to spur the demand for diagnostic services in India. In an effort to match to the increasing demand set by the industry, few organized players, approximately 10 per cent, have taken initiatives to increase their pan-India presence through national networks.

Tier II and Tier III cities are attracting a lot of attention from various industry sectors including IT outsourcing, automotive and healthcare services sector is no exception. For the diagnostic sector, these cities represent an area of underserved need, with a growing opportunity to improve health infrastructure. While there is opportunity in these regions, seeking to establish presence which is largely dominated by local players proving to be a challenge for large organized companies. Hence, it is observed that large players partner with these renowned local players.

### **Positives for the industry**

**Capacity Addition to Continue:** In view of the strong demand drivers, the industry is attracting investments towards health services (hospital beds) and allied industries such as medical technologies, diagnostics, etc. The majority of the investments in FY15 will continue to come from the private sector.

**Regulatory Benefits:** The government has made important contribution to incentivise the investments in the sector through its insurance schemes, encouraging investments in public private partnership and also qualifying hospitals (including medical colleges, paramedical training institutes and diagnostics centres) for infrastructure lending. These initiatives are likely to positively impact the occupancy levels and could also mean better lending terms in the form of concessional interest rates, longer moratorium and maturity aiding in the capex plans of health care players. The initiatives could also enhance the credit profiles of entities, especially in the initial years of the capex when optimum utilisation is yet to be achieved.

**New Business Models:** The investments by large private sector entities in the healthcare industry were primarily restricted to high-cost, multi-specialty tertiary care facilities. Increasing competitive intensity and high real estate costs involved in the Tier I cities have shifted the investors' focus towards relatively lower cost, underpenetrated Tier II and Tier III cities and also towards asset-light, less capital intensive business models. The certain business models such as single specialty, hub-and-spoke, health mall and day care/ambulatory services centre will attract investors in FY15.

## Outlook

The outlook for Indian healthcare industry looks positive owing to high growth rate in almost all its segments, whether its primary healthcare, secondary and tertiary healthcare, medical equipment, diagnostics, health insurance or medical tourism. The ever growing population, increasing government expenditure on health and growing per capita income will increase the size of this industry in the years to come. Per capita income is expected to increase at a CAGR of 5.7 per cent over 2012-18. Rising incomes mean a steady growth in the ability to access healthcare and related services. Moreover, changing demographics will also contribute to greater healthcare spending; this is likely to continue with the size of the elderly population set to rise from the current 96 million to about 168 million by 2026. However, growing health awareness and precautionary treatments coupled with improved diagnostics will result in decreasing hospitalisation.

## Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Kovai Medical Center & Hospital Ltd.	380.00	415.81	101.02	0.39	25.41	14.95
Apollo Hospitals Enterprise Ltd.	1078.80	15008.82	219.04	0.53	24.04	44.87
Dr Agarwals Eye Hospital Ltd.	111.00	52.17	44.28	1.08	6.51	17.05
NG Industries Ltd.	84.00	28.14	44.15	4.17	4.76	17.65
Fortis Malar Hospitals Ltd.	39.45	73.35	46.29	1.27	4.69	8.42
Indraprastha Medical Corporation Ltd.	50.90	466.62	21.32	3.54	3.73	13.64
Dhanvantri Jeevan Rekha Ltd.	14.70	6.02	17.08	0.00	2.37	6.21
Choksi Laboratories Ltd.	13.02	9.07	29.31	0.00	1.61	8.09
Chennai Meenakshi Multispeciality Hospital Ltd.	7.15	5.34	11.38	0.00	0.70	10.27
Fortis Healthcare Ltd.	116.10	5372.98	79.89	0.00	0.09	0.00
Lotus Eye Hospital And Institute Ltd.	9.43	19.61	24.80	0.00	0.03	311.28

KMC Speciality Hospitals (India) Ltd.	2.67	43.54	0.61	0.00	0.02	147.11
Secunderabad Healthcare Ltd.	8.93	74.80	18.74	0.00	0.01	971.39
Emed.Com Technologies Ltd.	62.50	21.15	11.95	0.00	-0.02	0.00
Socrus Bio Sciences Ltd.	1.17	3.74	0.43	0.00	-0.05	0.00
Medinova Diagnostic Services Ltd.	19.85	18.82	-3.68	0.00	-0.30	0.00
Dolphin Medical Services Ltd.	1.29	1.95	8.72	0.00	-0.58	0.00
Birla Pacific Medspa Ltd.	0.44	4.93	8.81	0.00	-0.75	0.00
Transgene Biotek Ltd.	4.82	36.52	43.20	0.00	-2.84	0.00
Noida Medicare Centre Ltd.	9.10	13.16	20.75	0.00	-5.15	0.00

Source – Ace Equity

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