

IICCI – Short Market Overviews

The Healthcare Industry in India

1. The Healthcare Industry

In India healthcare is delivered through both the public sector and private sector. The public healthcare system consists of healthcare facilities run by central and state government which provide services free of cost or at a subsidized rates to low income group in rural and urban areas. With the Indian economy enjoying a steady growth, the industry is heading towards growth phase. The introduction of product patents in India is expected to boost the industry by encouraging multinational companies to launch specialized life-saving drugs. Attracted by the advantages such as lower costs of production and skilled workforce that India offers, these companies are looking to set up research and development as well as production centers there.

Initially the government imposed high custom duty on imported medical equipment making it difficult for private entrepreneurs to set up hospitals. But in post liberalization the duties have come down and some life saving medicines and equipments can be imported duty free.

Market size

The Indian healthcare sector constitutes:

- Medical care providers: physicians, specialist clinics, nursing homes and hospitals;
- Diagnostic service centers and pathology laboratories;
- Medical equipment manufacturers;
- Contract research organizations (CRO's), pharmaceutical manufacturers;
- Third party support service providers (catering, laundry)

The healthcare industry is expected to increase in size from its current €12.72 billion to €29.6 billion by 2012. India will spend €33.8 billion on healthcare in the next five years as the country, on an economic upsurge, is witnessing changes in its demographic profile accompanied with lifestyle diseases and increasing medical expenses. Revenues from the healthcare sector account for 5.2% of the GDP and it employs over 4 million people. By 2012, revenues can reach 6.5 to 7.2% of GDP and direct and indirect employment can double, it said.

Private healthcare will continue to be the largest component in 2012 and is likely to double to €26.41 billion. It could rise by an additional €6.5 billion if health insurance cover is extended to the rich and middle class.

Coupled with the expected increase in the pharmaceutical sector, the total healthcare market in the country could increase to €39.22 – 54 billion (6.2-8.5% of GDP) in the next five years.

Some of the macro factors for this industry's growth are the following:

- *Emerging private sector* is more focussed on tertiary-level as wells as preventive and diagnostic healthcare and is sensing a huge untapped opportunity in delivery of quality healthcare to the Indian masses.;
- *Public sector* is ramping up prevention and elimination of infectious diseases as accessibility of basic healthcare facilities to the rural masses;
- *Global Private Equity* and *Venture Capitals* are playing a vital and varied role in Indian healthcare delivery to increasing the global footprint of local pharmaceutical companies to aiding the rapidly growing contract research outsourcing industry;

- *Accreditations*: with increased competition for healthcare delivery, growing patient awareness and promotion of medical tourism 'Quality healthcare is the key for survival'. National Accreditation Board for Hospitals and Healthcare Providers (NABH) is the latest Board set-up under the National accreditation structure to establish and operate accreditation programmes for healthcare organizations;
- *Medical Tourism*: perhaps nothing has gained more attention and achieved as much flamboyance as 'Medical Tourism'. Almost 50% of the tertiary hospitals are actively focussing on tapping medical tourists as a significant chunk of their patient-base;
- *Health Insurance*: for a developing nation like India, world-class healthcare is extremely challenging in the absence of a strong health reimbursement infrastructure. The introduction of TPA by the Insurance Regulatory Development Authority (IRDA) in 2002, added a new dimension to Medical Insurance—the availability of 'Cashless Hospitalization';
- *Pharma under WTO regime*: with regulations and patent laws being formalized, the pharmaceutical industry, which relied heavily on reverse engineering skill and generic exports, is now looking towards basic drug discovery, contract services and value added generics as growth drivers. Overseas acquisitions, entry into medical devices and setting-up of hospital chains are some strategic manoeuvres reported by leading pharmaceutical players;
- *Regulations* for implantable medical devices are now in existence to ensure availability of quality devices to the Indian patient, who was until now susceptible to non-standardized and spurious products, both Indian and imported;
- *Telemedicine* has enabled the government to provide basic healthcare facilities in difficult-top-access terrain, as well as in providing emergency services to calamity spots;
- Although imports constitute today 90-95% of the currently consumed medical devices in India, the number of *local medical device manufacturing* is increasing, given the nation's strong engineering and manufacturing base.

2. Areas of Opportunity

Our analysis here tries to highlight various 'pockets of opportunity' within the Indian healthcare sector. The key areas of opportunity within the Indian Healthcare sector are:

- Medical Infrastructure
- Telemedicine
- Medical Equipment
- Medical textiles
- Health Insurance
- Clinical Trials
- Health services outsourcing
- Medical value travel
- Training and Education

Medical infrastructure

It forms the largest portion of the healthcare pie. As per the current statistics (2006) bed per thousand population ratio for India stands at 1.03 as against an average 4.3 of comparable countries like China, Korea and Thailand (2002 data). Hence in spite of the phenomenal growth in the healthcare infrastructure, we are 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, out of which about 896,500 beds will be added by the private sector with a total investment of €51 Billion over the next six years. However, the gains are commensurate in this capital intensive industry, since the revenues generated by private hospitals in the year 2012 will be to the tune of €26.5 billion growing at a CAGR of 15%. Despite this investment, the bed to thousand population ratio would be far from comparison with other similar developing countries.

Telemedicine

It allows even the interiors to access quality healthcare and at the same time, according to the model proposed by us, significantly improves the productivity of medical personnel. In a country of over 1.1 Billion people, the Healthcare system will have to innovate to double the utilization of its existing resources just to reach a stage at which comparable developing countries were in 2002. Telemedicine is one such innovative technology, if used effectively can double utilization of scarce human resources. Standalone telemedicine models may not be feasible, but if telemedicine models are integrated in a Healthcare model, such models can become viable. One important reason is that Telemedicine shall increase the patient base, which in turn will increase occupancy rates of hospitals in the integrated telemedicine model.

The biggest challenge for the healthcare industry today is an acute shortage of trained personnel, ranging from doctors, nurses, technicians and even healthcare administrators. There could be a shortfall of over 450,000 doctors in the year 2012. Such challenges present an opportunity for both domestic and foreign players in the form of 'training & education'. Foreign players can enter the market to take a two-fold advantage. One, they get a piece of the booming education sector and two, they can source some of the talent for their own countries as human resources shortage in healthcare will be a global phenomenon.

Medical equipment

This is another promising opportunity within healthcare. Analysis pegged the medical equipment industry at €1.6 billion in 2006 growing at 15% per year and estimated that it would reach €3.6 billion by 2012. Currently over 65% of the medical equipments are imported and thus lies a key area for forging partnerships across borders. Engineering excellence, cost-effective labor, increasing emphasis on intellectual property rights and most importantly a fast growing domestic market makes India an ideal manufacturing base.

Medical textiles

Growth in medical infrastructure will be accompanied by demand for associated products and services. One such important industry is medical textiles, which shall almost double to a €557 Million (industry by 2012 from the current €299 million).

Medical value travel

It is poised to grow at 22% annually. With hospitals moving in for quality accreditations like JCI, NABH & ISO and tie-ups between insurance players and hospitals, this sector has the potential to be a latent growth driver. A percentage of high end beds will provide treatment to medical tourists and the estimated value of the industry will reach €€1.09 billion by 2012 from its current size of €333 Million.

Health insurance

This has the potential to show fantastic top line growth. Premiums grew 133% for private players and for the overall industry premiums grew at 47% in Q1 of 2006. The Health insurance sector will grow to €2.8 billion in collected premiums by 2012 as compared to €526 million in 2006.

Clinical trials has the potential of becoming a €740 million industry by 2010, even though the advantages of trials in India is well known, the industry needs a boost in terms of effective government policies and active interest by the government including effective utilization of established government infrastructure.

Services outsourcing

This sector has real potential as most of the key components needed for success are present in India and the total size of the industry is set to grow to €5.4 billion by 2012 growing at 11% per year.

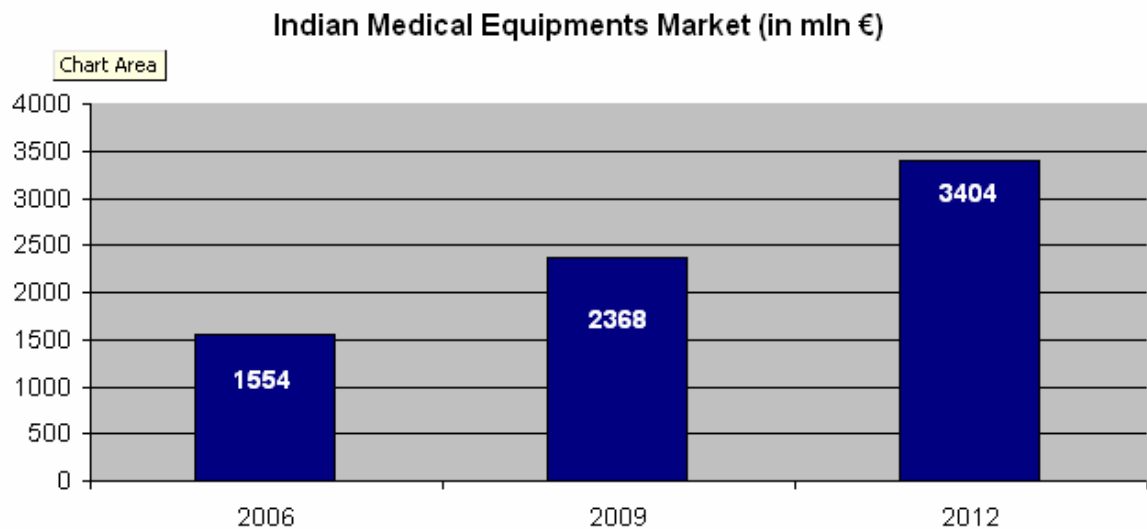
In the end there is a need for stronger partnerships in healthcare, between the government and private sector. Even a realistic targets of 1.85 beds per thousand population by 2012 needs an investment of €57.6 billion and hence the government and private players need to focus on their core competencies/responsibilities and work together to reduce inefficiencies and complement each others effort.

3. Medical Equipments

According to official statistics, the number of clinics and hospitals have increased almost four times than in the 1950's. This has also increased the demand for medical equipments which has made the medical device sector as one of the most promising markets in India. Even more alluring than the size of the market is its projected growth. The demand for medical equipments is rising annually at an impressive rate of 15 %. The Indian Healthcare sector has seen progressive increase in investments in healthcare infrastructure and facilities, especially hi-tech medical devices.

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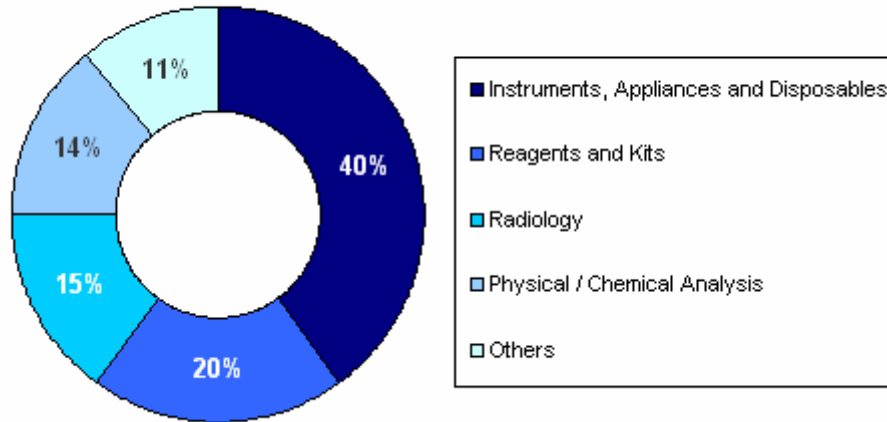
The Medical Device Market is becoming too big to ignore. It is full of opportunities for investment in high quality, specialized medical equipments. Foreign participation is required, especially in high-tech devices that account for roughly 45-55 % of the entire market. Most Indian healthcare institutes use foreign medical equipments for the purpose of surgery, diagnosis of cancer and medical imaging.



Source: Ernst & Young Analysis

Imports account for more than 65% of the medical devices, of which 85% are imported from US, Germany and Japan. The growth in demand is consistent and industry is expected to touch €3.67billion by 2012.

Medical Equipments Segments in India



Source: Industry Government steps in the right direction: need for more

According to estimates, 65% of the Indian manufacturers in this sector can be classified as belonging to the SME sector, which means that their average annual sale volume is not above €90,909

The government has identified healthcare as a priority section and hence have taken some measures to promote one of its most important segment **“Medical Device Market”**. The conditions for exporting to India have significantly improved since the economic reforms started in the middle of the nineties. Import license requirements have been cancelled, majority-owned subsidiaries are possible, and dividends can be paid out abroad.

Some other measures are:

- Reduction in import duty on medical equipment from 25% to 5%;
- Depreciation limit on such equipment rose to 40% from 25%, to encourage medical equipment imports;
- Customs duty reduced to 8% from 16% for medical, surgical, dental and veterinary furniture;
- Customs duty on as many as 24 medical equipments, which include X-ray, goniometry and teletherapy stimulator machines, has been reduced to 5%.

Also the Union Health Ministry has mooted a proposal to set up a series of **‘Medical Parks’** all over the country to enable domestic health industry to manufacture health equipment at large scale. 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. To further make India a competitive player in the medical equipment manufacturing space, Special Economic Zones (SEZs) should be encouraged by the government. Also the government needs

to bring in stringent quality standards for the industry so that Indian medical devices can be globally competitive and regulate the industry.

Some of the best sales prospects in the Indian medical device market include

- cancer diagnostic,
- medical imaging,
- ultrasonic scanning,
- plastic surgery equipment,
- polymerase chain reaction technologies

Medical device suppliers seeking to enter India's market typically arrange joint ventures or licensing agreements to manufacture their products within India, or employ local agents to distribute them. The Indian government encourages all of these options. Foreign firms often participate in the Indian medical market by teaming up with a domestic partner, who manufactures or assembles and packages the device, and these arrangements are typically structured as licensing agreements or equity joint venture. Another option is to hire a domestic distributor or agent to market, sell, and service the product within India. An Indian partner can better monitor the market and competitors and is usually better equipped to navigate India's regulatory system. The choice of an agent or joint venture partner will go a long way toward determining the outcome of the investment.