The Indian Hospital Industry – on a healthy track...

The Indian healthcare industry is estimated to be valued at Rs2.8tn in size in FY11, growing at a 5-year CAGR of 13.1% p.a. CARE Research estimates healthcare industry has the potential to almost double to Rs5.0tn over the next five years, implying a CAGR of 12%. This will be mainly driven by rise in per capita spending on healthcare, change in demographic profile, transition in disease profile, increase in health insurance penetration, and fast growing medical tourism market.

According to CARE Research estimates, hospital industry accounts for roughly 70% of total healthcare market. The hospital industry is classified into three segments – namely, primary, secondary and tertiary. The Indian hospital industry can be broadly categorized as 1) highly fragmented in nature due to large presence of unorganized players, 2) capital intensive with long gestation period, 3) positive supply demand fundamentals, 4) favourable government policies and 4) attractive business model for long term investors with project IRR of 15-17%.

Government of India targets to increase the share of public expenditure on health to at least 2.0%-2.5% of GDP by the end of 12th five year plan (FY13-17) from the current level of 1.26% of GDP, which is well below the emerging market average of 3.0%. However, CARE Research believes it would be difficult for the government to achieve the target considering the worsening fiscal deficit scenario. Given limited room for significant increase in public spending and low faith in the public health system, private institutions will be the major beneficiary of the growing healthcare market – says Mr. Divyesh Shah, Team Leader - CARE Research, CARE Ltd.

Solo practice clinics and small nursing homes mostly run by entrepreneur doctors (with < 30 beds) forms more than 90% of private hospitals whereas large corporate hospitals (with 100 or more beds) account for the remaining. The large share of unorganized and unregulated players has impacted quality of healthcare services due to presence of inadequate infrastructure, which has resulted in gross geographical inequities. This in turn has forced people in rural and tier 2/3 cities to travel to metro cities to get the quality healthcare treatment. According to Ms. Revati Kasture, Head - CARE Research, CARE Ltd, "the share of organized large corporate hospital players is expected to increase in the coming years due to huge imbalance between the demand and supply of quality healthcare services."

Hospital cash flow from operations are generally found to be negative in the first 2-3 years of operation due to low operating rate and commitment of high fixed costs by hiring doctors, paramedical staff and administrative team and incurring heavy advertisement expenditure. However, as the hospital gains traction by providing quality service and starts operating well above breakeven level, ROCE and ROE improves sharply due to benefit of high operating leverage. As a result of negative cash flow in the initial period of operation and high capital intensive nature of the business, the payback period of a hospital ranges from 8-12 years.

Among the metro cities in India, Chennai ranks the highest with 4.2 beds per 1,000 population whereas Kolkata ranks the lowest with 2.5 beds. In comparison to global average, hospital beds supply in all the metro cities in India is in-line with the world average of 3 beds per 1,000 persons. Based on capacity expansion plans of large corporate hospital players, we note that Mumbai is expected to witness the highest supply of hospital beds during FY12-FY14 with 4,632 beds, followed by Kolkata, Delhi and Chennai.

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