

## Private Healthcare Sector



**>60%**  
of beds ~8.5-9 lac



**> 60%**  
of inpatients



**80%**  
of doctors



Amongst India's  
**Top 5**  
Employers

Source: FICCI and E&Y Study

Private healthcare sector is the bedrock of capacity and capability in India particularly in higher secondary and tertiary care

**₹2.4L crore**  
Revenue

**₹31k crore**  
(13%) EBITDA

**₹7k crore**  
(3%) PAT

Source: FICCI and E&Y Study

- Private healthcare sector includes the private hospitals, Diagnostic Centers and service providers. The hospital and diagnostic centers attracted Foreign Direct Investment (FDI) worth US\$ 6.625 billion between April 2000 and December 2019, according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT).
- The value of merger and acquisition (M&A) deals in hospital sector jumped by record 155 percent at ₹7,615 crore (US\$ 1.09 billion) in FY19

## Impact of COVID-19

### A Dire Prognosis

The decline in outpatient consultation, elective surgeries, and emergency cases such as accidents has adversely affected Indian nursing homes

**68,000**

Total number of  
Hospitals in India

run by doctor-entrepreneurs with  
**under 30 beds**

**40,000**

**30 to 100** beds

**25,000**

tertiary care hospitals with  
**over 100 beds**

**3,000**

Source: The Ken

With strict lockdown measures being imposed to contain the outbreak of COVID 19, hospitals are witnessing a drop in both domestic and international patient footfalls and elective surgeries

- Outpatient consultations are practically non-existent, resulting in occupancy levels to fall to a mere 40% vis-à-vis pre-COVID occupancy levels of ~65-70%.
- The Impact on diagnostic labs also resulted in a 80% fall in patient visits and revenue



**OPDs down 70%**



**Inpatient occupancy  
ratio down 80%**



**Diagnostics Revenue  
and Visits down 80%**

## Liquidity Crisis

With the stipulation of stringent lockdown measures to contain the outbreak of COVID 19 in India, private healthcare sector is witnessing a dual challenge of significant drop in patient footfalls, elective surgeries and international patients as well as facing the need to continue operations and invest in additional materials, equipment and manpower to ensure preparedness for eventual treatment of COVID patients if required.

The sector is also constrained severely in terms of liquidity with cash balances available to cover up to 19 days of operating costs and government receivables to the tune of 7-8% of revenue

Limited options for containing fixed costs due to need for continuing operations coupled with focus on preparedness for eventual treatment of COVID patients, has resulted in EBITDA margins witnessing a sharp fall to a level lower than -40% by end-April/early-May with the sharp decline in revenues

## Operational Impact

### FY 21 Healthcare Sector Estimated ROCE – (5%) to (15%)

- The sector is also expected to be lower by 20-35% in terms of revenue (compared to FY 20) and have early single digit or negative EBITDA in FY 21
- The medical devices industry has also taken a hit. The country imports consumables, disposables and capital equipment including orthopaedic implants, gloves, syringes, bandages, computed tomography and magnetic resonance imaging devices from China.
- Due to the current crisis in China, the medical device manufacturers across India are finding it difficult to source important raw materials and electronic components from Chinese factories.

Private healthcare delivery enterprises both hospitals and diagnostics will face heavy liquidity issue as compared to public ones which will find support from the Govt.

Diagnostic sector Operating losses expected to be  
**₹200-800 crore** for a **month** and  
**₹600- 2,200 crore** for a **quarter**



- This is a capex intensive industry where 1.5-2% of annual revenues goes back in refurbishment of technology and infrastructure besides new capex which costs more than Rs 1 crore/bed.
- COVID-19 has also unleashed additional costs of keeping patients, doctors and nurses safe at all the times, thus adding another layer to the cost of operations.

## Government Policy

### Healthcare spending in 2020-21

(% change in US\$)



\*60 biggest economies only | Source: The Economist Intelligence Unit.



Government outlay of  
**₹69,000 crore**  
**(US\$ 9.87 billion)**  
in Union Budget 2020-2021

- The Government of India aims to increase healthcare spending to three percent of the Gross Domestic Product (GDP) by 2022.
- Prevention and treatment services for noncommunicable diseases (NCDs) have been severely disrupted since the COVID-19 pandemic began, according to a WHO survey.
- The survey, which was completed by 155 countries during a 3-week period in May, confirmed that the impact is global, but that low-income countries are most affected.
- The Indian government owes private hospitals nearly ₹2,000 crore (\$264 million) for treating patients under schemes such as the Central Government Health Scheme (CGHS) and the Ex-servicemen Contributory Health Scheme (ECHS)
- In Union Budget 2020-21, ₹35,600 crore (US\$ 5.09 billion) has been allocated for nutrition-related programs.

## Our Recommendation

The Healthcare Industry in the short term will suffer from liquidity issues resulting in consolidation across smaller hospitals. However, the quality of care will increase in the long term with hospitals focusing on control of infectious diseases. The performance for FY 21 will be affected but in the long term the hospital industry is expected to do well

## About Think Capital

Think Capital is a mid-market investment bank focusing on M&A, Private Equity, Restructurings and Turnaround Advisory. Our Healthcare Consultancy Service is an important component of our service profile and acts as a core activity module where we develop business strategies for companies to enhance their intrinsic value.

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