TATA CAPITAL

Healthcare Fund

# Single Speciality Hospitals

where are we

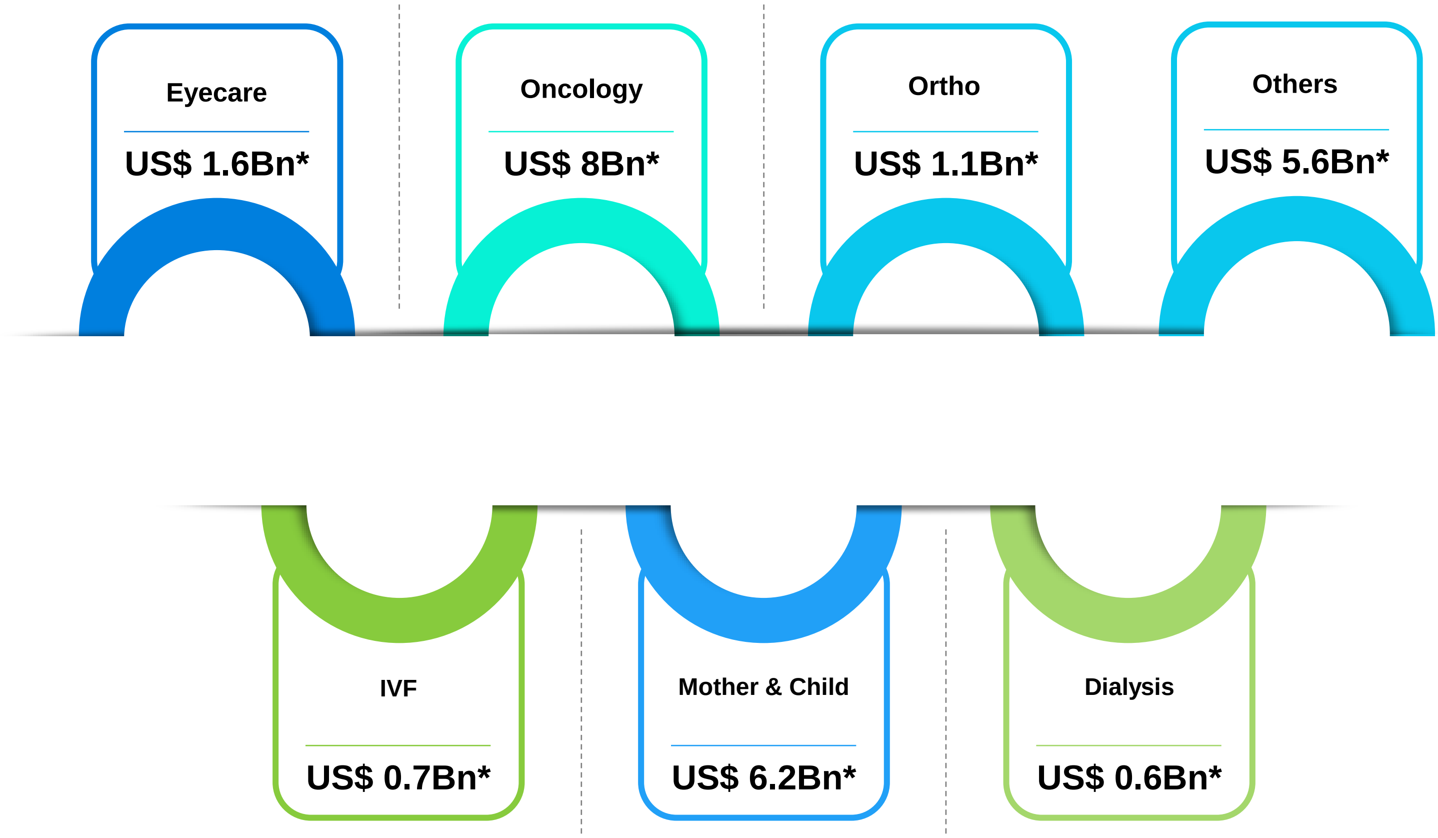
# TCHF Industry Spotlight Series

## Single Speciality Hospitals – Where We Are

The single speciality healthcare delivery market in India is ~15% of overall healthcare market (~USD 24Bn market size as of H12022; over 12% projected CAGR) and has a huge headroom for growth. Initially, under single speciality healthcare, we largely witnessed categories such as eye care, dental care gaining traction. Now, with the success of model itself, other categories like fertility, dialysis and oncology are seeing increased traction and investments. These asset light and private investment-friendly business models have led to a spur in funding in these business in recent years. In the past 12 years, India has seen over USD 2 Bn private capital funding in single speciality healthcare delivery *(Source: Venture Intelligence)*. There is a growing interest in this space from buyout funds with a few segments like Eye-care already seeing PE-backed assets leading to a wave of consolidation. We expect the investor interest in this space to continue to be robust and attract ~ US$5 Bn *(TCHF estimate)* over the next 5 years. In this paper we have evaluated the eight main sub-sectors that have seen high investor activity.

## India – Single Speciality Hospitals

* Numbers indicate market size




***Source:*** *TCHF analysis*

# Executive Summary

**Current Estimated Market Size**

**~US$ 24Bn**

(CAGR 12%)

**Estimated Funding Since 2016**

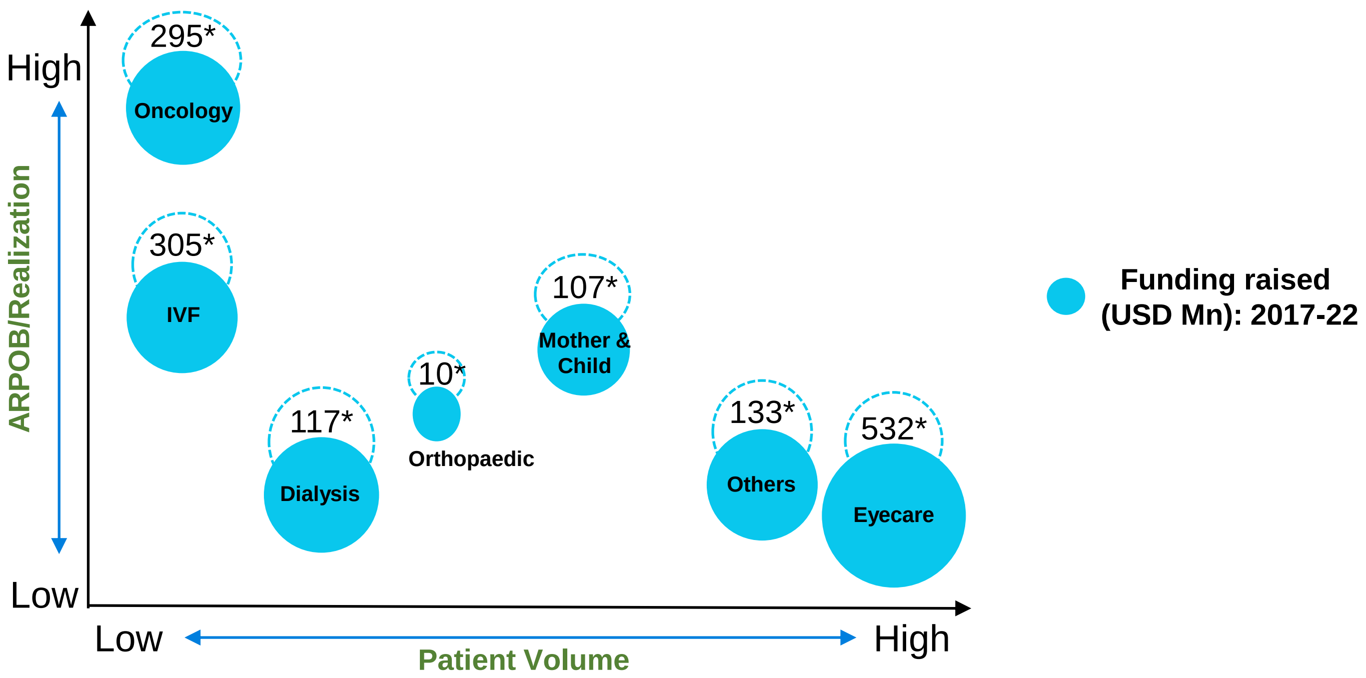
**~US$ 1.5Bn**

(vs.USD500Mn 2010-2015 )

The ~USD 24 Bn Single Speciality Healthcare Delivery sector in India has attracted over US$1.5 Bn funding since 2016 and the sector is at the cusp of take-off in terms of consumer adoption. According to TCHF internal estimates the single Speciality sector is estimated to reach ~US$ 37.3Bn (CAGR 12%) by 2026. The investor interest in the single Speciality healthcare delivery in India stems from the large untapped market potential and well-established profitable unit economics in various sub-segments.

The market size at US$ 24Bn appears large, but majority (>50%) of this market is unorganized. The broader macroeconomic trends like growing middle class, increasing insurance penetration, rising urbanization, etc are driving the shift of consumers from unorganized to organized. We expect this trend to continue over the next decade. The sub-segments within the broader industry are at various stages of maturity for e.g. the mother & child sub-segment has companies like Cloud 9, acquired significant market share and are currently planning for an IPO whereas a sub-segment like IVF only began attracting capital post 2018. Similarly, Eye-care market has seen the over $700Mn of private capital investment in the last 10 years with several scaled assets whereas the oncology single speciality is only gaining traction in the last few years. It should be noted that the market characteristics and business model dynamics associated with each sub-segment is unique and has been presented in this paper.

In our view, the industry will continue to experience double-digit growth over the next decade on the back of macroeconomic tailwinds. Investor activity will remain high in this industry with an estimated ~US$ 5Bn investments in the next 5 years. In the long term, we believe each sub-segment to have 2 to 3 large companies with over $100Mn revenue.




**Source:** *TCHF analysis, Venture Intelligence*

*This thematic has been conceptualized and written by the investment team at Tata Capital Healthcare Fund (TCHF), a growth oriented private equity fund primarily focused on the healthcare and life Sciences sector in India. The investment team of TCHF can be contacted at info.tchf@tatacapital.com.*

## Eye-care | ~USD 1.6Bn growing at 15% annually

**Prevalence:** India has a growing eye disorder burden. It is estimated that ~135Mn people (~10% of total population) are suffering from eye disorders like Cataract, Glaucoma, retinal disorders, corneal disorders and squint eye. Cataract contributes to ~50% of the total burden. *(Source: PwC)*

**Drivers**

- Ageing population (60+ age ~139Mn in 2019 to reach ~319Mn in 2050) and rising incidence of diabetes (~77Mn) will increase the number of cataract cases and diabetes induced retinopathy respectively
- Technological advancements and affordable pricing has increased demand for procedures like Lasik

**Trends:**

- Increased use of locally manufactured eye-care products bringing the cost of service down
- Tele-ophthalmology allowing doctors to reach rural parts of the country thereby increasing convenience for patients

**Business Model:** Corporate eye-care chains are organized chains with multiple centres offering a comprehensive range of services – this model benefits from brand recall from customers, SOPs and access to latest technological hardware and software to drive superior outcomes e.g. Dr Agarwal, ASG. These corporate chains have a scalable business model and hence have attracted over ~US$700 Mn capital in the last 10 years. The unorganized part of the industry which accounts for over 50% share are Doctor owned single location clinics which is a neighborhood clinic model with limited scalability offering high volume procedures, however from a cost perspective will be cheaper than corporate chains.

**Metrics/Economics**: Eye-care business has low realizations but has high volume e.g. a cataract surgery has an average realisation of INR 30k.. A typical centre of 3000 sqft with a setup of cost of INR 2-3 crore and one or two doctors practicing can generate INR 5 crore and an EBITDA of 25% - 30%. This can be observed from the ebitda margins of the players listed below *(the reported EBITDA accounts for corporate expenses which can be between 5%-10% of sales).*

**Outlook:** The segment is currently seeing significant investor activity with over $500Mn private capital investment in the past 5 years. The private equity backed corporate chains are flush with cash and are expected to not just focus on organic expansion but actively scout M&A opportunities. We believe growth will be led by expansion of the corporate chains in Tier-2 and Tier-3 cities. We expect the sector to continue growing at a CAGR of 15% and reach a size of US$ 2.7Bn by 2026.

| Key Players FY 22 (USD Mn) | Dr. Agarwals Eye Hospital | asg | Centre for Sight | Disha Eye Hospitals | Eye Q |
|---|---|---|---|---|---|
| Revenue | 94 | 29 | 24 *(FY21)* | 24 *(FY21)* | 14 |
| EBITDA | 16 | 4 | 5 | 4 | 2 |
| Funding | 243 | 256 | 48 | 0 | 27 |
| Investors | TPG, Temasek, ADV | GA, Kedaara, Foundation | Mahindra Partners, Matrix | Bootstrapped | Nexus, Helion |

## Mother & Child Hospitals | ~ USD 6.2 Bn growing at 10% annually

**Incidence:** India reports around 36-37 million pregnancies every year and roughly 70,000 live births every day representing one sixth of the world's child births. This translates to 25-26 million live births every year. *(Source: Kids Clinic DRHP)*

**Drivers:**

- Rising urbanization (40% urban by 2030 from 31% in 2010) and income levels in the economy (per capita income rose by 50% in 8 years to INR 94k in 2020) leading to shift towards organized market
- Drop in the number of children per couple allowing for spend on superior care (Private consumption expenditure on healthcare increased by 10% CAGR vs overall growth of 7%)

**Trends:**

- Increased focus on women and child health promoted by both the government and private players using latest technologies like mobile apps (for information dissemination) and Tele-medicine (improve access)
- Emergence of super-speciality maternity care hospitals delivering high quality care in pregnancy and neo-natal care

**Business Model:** Historically, the mother and child segment was dominated (>80% in 2010, 65% in 2020) by Standalone Doctor clinic/Nursing home, a neighborhood clinic model offering with limited scalability offering basic and affordable maternity care. Given the rising insurance penetration, improved affordability, the Super Speciality Mother and Child hospitals which are end-to-end organized high quality care providers like Cloud Nine, Motherhood, etc and multispeciality hospitals like Fortis, Apollo etc are gaining market share.

**Metrics/Economics**: The unit economics of mother and child super Speciality chains is very similar to a typical hospital as the investment required is between INR 15-25 crore for a full-fledged centre and the ARPOB is between INR 25k-50k. On average and at scale, a typical centre 30k sqft can generate INR 10 crore (Mother and Child) with a 15%-20% EBITDA margin and ROCE of 15%-20%.

**Outlook:** The investor activity in the segment has cooled off due to the large players like Cloud 9, Rainbow and Motherhood having established their foothold. Given the high capital required to setup new centres, lower returns (ROE and ROCE) when compared with other single speciality segments, the private market investor interest is currently low. However, the segment is expected to continue to grow at a CAGR of 10% to reach ~$9 Bn by 2026.

| **Key Players FY 22 (USD Mn)** | Rainbow | cloudnine | motherhood | SURYA Hospitals | ovum |
|---|---|---|---|---|---|
| Revenue | 124 | 71 *(FY21)* | 49 *(FY21)* | 17 *(FY21)* | 6 *(FY21)* |
| EBITDA | 41 | 11 | 7 | - 0.3 | -0.4 |
| Funding | 34 | 131 | 47 | 39 | 5 |
| Investors | BII | Truenorth, Matrix, Sequoia | TPG, Peepul capital | Orbimed, Sealink | Norwest |

## IVF Clinics — ~ USD 0.7 Bn growing at 13% annually

**Prevalence:** India has around 33-34Mn infertile couples which is between 10%-15% of the total couples in reproductive age. It is estimated that there are 250k IVF cycles currently happening across India which translates to a treatment penetration of 2%. *(Source: EY)*

**Drivers:**

- Delayed marriages - 32% of births were by women between the age of 25-29 in 2010-15 vs 28% in 2000-2005. Based on a research study, it has been concluded that the ovarian age of a 30 year old Indian women is same as the ovarian age of a 36 year old Caucasian women
- Increased prevalence of PCOS (infertility risk factor) in women in India estimated between 9.3% - 22.5% vs global range of 5.5% - 12.6%. Rising incidence of lifestyle factors like Tobacco use, alcohol consumption and STI among men also contributing to infertility

**Trends:**

- The passing of ART bill which sets the regulatory guidelines and minimum operating standards for the industry allowing for the growth of the organized market (33% of overall market) . The guidelines associated with donors and surrogacy could be a dampener for the industry.
- The stigma associated with IVF in the country is reducing with increased awareness and the outreach by corporate chains in Tier-2 and beyond

**Business Model:** IVF industry has proven effective as a single speciality sitting outside a typical tertiary care hospital. Given the specialized nature of the service and cost associated with the service – large hospitals are not eager to enter this segment. The business model differentiation among IVF chains is based on their customer acquisition approach which could be doctor referral (10%-25% of revenue share) or IVF camps where in-house doctors run free camps in various towns/villages to acquire couples suitable for treatment. Typically, IVF chains adopt a hybrid approach towards patient acquisition.

**Metrics/Economics**: A typical centre of 5000 sqft with 2 doctors can be setup with a capital expenditure of INR 2.5Cr – 4 Cr. Within 18 months, the centre can generate INR 6-10 Crore with average realizations of INR 2.5-3L per IVF cycle. The centre gross margins and EBITDA margins are 60%-75% and 20%-35% typically. Depending the pace of opening new centres – a steady state corporate IVF chain can generate 15%-20% EBITDA margin. Market leaders listed below like Indira, Nova and Oasis are expected to achieve these margins as their new centres achieve scale and profitability.

**Outlook:** The segment has attracted over US$ 300Mn over the last 5 years. We expect the investor interest in the segment to continue in the near term and consolidation to take place as buyout funds have entered the space and are actively looking for acquisitions. Given the macro tailwinds for the sector and the passing of ART bill, the organized corporate chains will gain market share. While there could be temporary headwinds for the industry due to the regulatory changes, we believe the industry reach US$ 1.1Bn by 2026.

| **Key Players FY 22 (USD Mn)** | INDIRA IVF FERTILITY & IVF CENTRE | NOVA IVF FERTILITY | oasis FERTILITY | arc International Fertility & Research Centre | WINGS |
|---|---|---|---|---|---|
| Revenue | 100 | 71 | 15 | 17 | 5 |
| EBITDA | 4 | 11 | 2 | 1 | 1 |
| Funding | 150 | 100 | 55 | 0 | 0 |
| Investors | TA Associates | TPG | Kedaara, Invascent | Bootstrapped | Bootstrap ped |

## Dialysis Centres ~ USD 0.6 Bn growing at 13% annually

**Prevalence:** India has 1.1Mn (0.08% of population) suffering from ESRD (End Stage Renal Disease) - only 0.17 Mn are on Dialysis treatment which is 15% of the ESRD prevalence. India has one of the lowest dialysis penetration in the world (Japan 95%, Malaysia 91%, Mexico 58%, China 18%) *(Source: PwC)*

**Drivers:**

- India has an increasing prevalence of Diabetes (72Mn+, expected to reach 98Mn by 2030) and Hypertension (220Mn+) which are often precursors to ESRD
- Limited number of transplants (~6000 per year in India) leads to continued need for dialysis

**Trends:**

- Home Dialysis is being offered by players to improve the convenience for patients and improve compliance
- Made in India dialysis machines are reducing costs of machines thereby reducing costs of procedures (Imported machine cost : US$14k vs Indian machine : US$ 5.8k)

**Business Model:** Corporate dialysis chains are multi location small centres exclusively offering dialysis to patients promising quality and convenience at a competitive price. In a Shop in Shop model, typically tertiary care hospitals outsource their dialysis department to a corporate chain player – they benefit from a readymade pool of patients and lower fixed costs – e.g. Nephroplus has a tie-up with Max for this model. In a PPP model - the private player is required to provide manpower and CAPEX and state provides space, power and water. All corporate chains have a significant reliance on the PPP model as enabling access to dialysis services is high on the government agenda.

**Metrics/Economics**: A centre with 10 dialysis machines setup at a cost of INR 1 crore will have a breakeven of operations with 60 patients doing 600 dialysis sessions a month resulting in a revenue of INR 8L per month with per dialysis sessions costing patients between INR 1k-1.5k. At 85% utilization, a centre can generate a revenue of INR 1-1.5 crore per annum with an EBITDA margin of 15%-20%.

**Outlook:** We expect the dialysis market to grow at 13% and reach US$ 1.1 Bn by 2026 due to the growing awareness and government support seen towards this segment. Under the National Dialysis Programme the government has allocated funds to 29 states/UT to develop dialysis centres under PPP models. Multispeciality hospitals as well as trust-based setups are outsourcing their dialysis units to corporate chains to achieve better cost efficiencies and/ or for expertise. Challenges like lack of nephrologists is getting addressed as India is expected to produce 250 nephrologists every year which is a boost for the segment.

| **Key Players FY 22 (USD Mn)** | nephroplus dialysis made easy | AKC | DCDC KIDNEY CARE | RAHI Care |
|---|---|---|---|---|
| Revenue | 36 *(FY21)* | 13 | 8 *(FY21)* | 3 *(FY21)* |
| EBITDA | 5 | 2 | 1 | 1 |
| Funding | 97 | 0 | 34 | 3 |
| Investors | Investcorp, IIFL, Bessemer | Bootstrapped | ADB, IFU, Pragati | SBICaps |

## Orthopaedic Hospitals ~ USD 1.2 Bn growing at 15% annually

**Prevalence:** There are ~220k joint replacement surgeries taking place in India and given the growing prevalence of osteoarthritis in the country, this number is expected to reach ~400k by 2026. *(Source: PwC)*

**Drivers:**

- Ageing population (60+ age ~139Mn in 2019 to reach ~319Mn in 2050) coupled with rising affordability
- Surgeries are taking place even in Tier-3 and Tier-4 cities as only an OT with laminar flow is required to conduct a surgery

**Trends:**

- Most surgeries can be conducted through use of robotic surgeries to minimise errors and increase accuracy.
- Ortho procedures like hip replacement are widely availed by medical tourists in India thereby boosting demand

**Business Model:** Orthopaedic care is offered in all multispeciality Tertiary Care hospitals which directly competes with the single speciality orthopaedic hospitals. However, the single speciality hospitals have higher capacity, latest equipment, quicker TAT while offering high quality care usually at a discount to multispeciality hospitals. The Shop in Shop business model is a recent phenomenon in this segment – e.g. Shalby is focusing on this model where it send its doctors to do OPDs and surgeries.

**Metrics/Economics**: There are a wide range of orthopaedic surgeries from Trauma (low ticket – between 5k to 30k per surgery) to joint replacements (upto INR 5 Lakh per joint). The economics are very similar to a typical secondary care hospital as the investment required is between INR 20-25 crore for a full-fledged centre (80-100 beds with pharmacy and laboratory) and the ARPOB up to 30k per day. On average and at scale, a typical centre with 100 beds can generate 20% EBITDA margins, and ROCE of 20-25%.

**Outlook:** The market is growing and is expected to reach US$2.1Bn by 2026 given the low procedure cost, insurance penetration and incidence of osteoarthritis. Most players in the business often have star doctor dependency which is a challenge for an investor from a scalability and exit standpoint. Single speciality orthopaedic chains continue to face competition from multi-speciality hospitals, and in order to improve realizations and margins – many are exploring adding other adjacent specialties and newer business models like Shop in Shop.

| Key Players FY 22 (USD Mn) | SHALBY MULTI-SPECIALTY HOSPITALS | MIOT International | SUNSHINE HOSPITALS | LOKMANYA ORTHOPEDICS | GANGA MEDICAL CENTRE & HOSPITALS PVT LTD |
|---|---|---|---|---|---|
| Revenue | 87 | 45 *(FY20)* | 52 *(FY21)* | 16**(FY23E)* | 22 *(FY21)* |
| EBITDA | 11 | 7 | 10 | 2.5 | 6 |
| Funding | 0 | 0 | 16 | 5 | 0 |
| Investors | Listed | Bootstrapped | Invascent | TCHF | Bootstrapped |

## Oncology Hospitals ~ USD 8 Bn growing at 12% annually

**Prevalence:** India has an estimated 3Mn live cases of cancer of which 1.0 Mn – 1.5Mn are added annually. Top three organs contributing to 43% of reported incidence in India in 2020 (estimated) are head and neck (~3 lakhs), breast (~2.6 lakhs) and gastrointestinal cancers (~2.5 lakhs) *(Source: EY)*

**Drivers:**

- Changes in lifestyle, unhealthy eating habits, tobacco smoking and rise in alcohol intake are resulting in the country is witnessing a shift toward higher proportion of NCDs
- Cost of care is reducing, and affordability is increasing with technology and higher insurance penetration

**Trends:**

- Increased focus by government towards increasing awareness of cancer and early detection of cancer
- Cost of key cancer technology (like LINAC) is coming down with the entry of Indian manufacturers

**Business Model:** There are three segments within Oncology – Medical Oncology, Radiation Oncology and Surgical Oncology. The primary business model for the oncology speciality is super-speciality Tertiary Care – This is a one-stop shop for all oncology related services e.g. HCG, ClearMedi, etc. There are newer business models emerging in the segment with a few offering medical oncology/chemotherapy as a day care service like MOC

**Metrics/Economics**: Typically, the Capex required in Medical oncology is the lowest (INR 15 Lakh per bed) vs radiation oncology which is highest (INR 1.5-2 Cr per bed including pharmacy and laboratory). At peak capacity and scale, an oncology center can generate 25-30% EBITDA margins and ROCE of 30%.

**Outlook:** Currently the oncology market has limited players but given the growing incidence and improved affordability among the population, we expect the market to continue growing and reach US$12.6Bn by 2026. Majority of the funding in this segment has gone to the early mover in the space – HCG which is the largest private player in the segment. We expect newer scalable, asset-light business models to emerge soon to cater to the demand in the segment and peak investor interest.

| Key Players FY 22 (USD Mn) | HCG Hospitals adding life to years | Tata Memorial Centre | ClearMedi Healthcare | MOC MUMBAI ONCOCARE CENTER | AOI AMERICAN ONCOLOGY INSTITUTE PRECISION CANCER CARE |
|---|---|---|---|---|---|
| Revenue | 175 | 50 *(FY21)* | 20 | 8 | 29 *(FY21)* |
| EBITDA | 29 | NA | 4 | 1 | 0 |
| Funding | 294 | 0 | NA | 0 | 33 |
| Investors | Invascent, CVC, Temasek | Tata Trusts | KOS Group | Bootstrapped | TPG |

## Dermatology Clinics | ~US$ 1.1Bn; growing at 15% per annum

**Business Model and Metrics:** The dermatology single speciality industry is highly fragmented with several sub-segments like aesthetic dermatology, salon & spa and weight management & fitness. The barriers to entry of the market are low hence a large portion of the market is dominated by unorganized standalone players (70% market share). Aesthetic dermatology services involves certain minimally invasive procedures and use of advanced equipment and hence enjoys higher realizations when compared with other sub-segments in the industry. Organized Players in this market typically have a combination of products (57% of market) and services (43% of market) for e.g. VLCC, Kaya have their clinics and sell own-branded beauty and wellness products.

**Outlook:** This segment has struggled to scale historically due to both high customer acquisition costs (concept selling) and competition (services – unorganized local players and product – large MnC and domestic companies). However, with disposable income increasing and industrialization moving towards tier 2 and tier 3 cities, the segment is expected to grow to cater to this new audience from emerging geographies in the country. We expect the market to grow at 15% and reach a market size of ~$2Bn by 2026

| Key Players FY 21 (USD Mn) | VLCC | Kaya | Oliva | Richfeel |
|---|---|---|---|---|
| **Revenue** | 71 | 40 | 13 | 5 |
| **EBITDA** | 19 | (7) | 1 | (1) |
| **Funding** | 22 | NA | 8 | 3 |
| **Investors** | Everstone, CLSA | Listed | Invascent | Fulcrum |

## Dental Clinics | ~ US$ 2.3 Bn growing at 9% annually

**Business Model and Metrics:** The dental services market is highly unorganized with 80% of the dentists operating standalone clinics. Like the dermatology single speciality, the Dental services market has low barriers to entry – the procedures and equipment used are well-established and commoditized. Organized multi-centre dental chains have struggled to generate profitability due to higher operating expenditures. The realizations per patient are low when compared with other single speciality segments - A standalone clinic setup at a cost of INR 25-30L with a two dental chairs and dentists can generate a revenue of INR 1-1.5 crore and 15%-20% EBITDA margin. At these levels of realizations – scaling becomes challenging due to the high operational intensity of running 100+ centres and the cost associated with the same.

**Outlook:** The dental services space hasn't garnered much interest from institutional investors due to low realizations, low barriers to entry and scalability challenges. However, dental services companies are expanding into products sales like aligners, implants etc to capture a higher share of the value chain e.g. Clove has a subsidiary Love My Smile selling aligners, braces, crowns etc. Majority funding has been in the space has been allocated to GDS (Holding company for Clove Dental). We expect the industry to a CAGR of 9% and reach US$3.3Bn in 2026.

| Key Players FY 22 (USD Mn) | Clove Dental | Sabka dentist | Dentzz | OrthoSquare |
|---|---|---|---|---|
| **Revenue** | 22 | 6 *(FY21)* | 8 *(FY20)* | 2 *(FY21)* |
| **EBITDA** | 5 | (2) | 1 | 0 |
| **Funding** | 100 | 24 | 7 | 0 |
| **Investors** | Investcorp, SeaLink | Lightrock, Asian Healthcare Fund | Helix | Bootstrapped |