Healthcare Conference

Key Takeaways

18 March 2015

We organized **Healthcare Conference – "Quest for a Healthier India"** on March 12th in Mumbai. In a day-long event, we hosted following eminent dignitaries from Indian Healthcare sector in a panel discussion and that was followed by board-room meetings with corporates.

Surya Patra (+ 9122 6667 9968)
spartra@phillipcapital.in

Mehul Sheth (+ 9122 6667 9996)
msheth@phillipcapital.in

Panel Participants

- **Fortis Healthcare**, Sukhmeet Sandhu, Regional Director
- **Intl Oncology Centre**, Pradeep Jaisingh, MD & CEO
- **Thyrocare**, Dr A Velumani, Founder and CEO
- **HealthCare Global (HCG)**, Dr Mudit Saxena, COO
- **Metropolis Healthcare**, Ms. Ameera Shah, MD & CEO
- **PwC**, Abhishek P Singh, Associate Director, Healthcare

Takeaways from Panel Discussion

- As per PricewaterhouseCoopers (PwC) estimates, Indian Healthcare sector was valued at about US$79bn in 2012 and currently growing at 12% CAGR to reach ~US$ 140mn by 2017. Heathcare services (including Hospital and Diagnostic services) account 75% of the total healthcare industry.
- The Indian health care sector is becoming an attractive investment destination for PE and VC companies like –IFC, The Carlyle Group, GIC,Sequoia Capita, Advent International etc. In addition, international healthcare providers like – Life healthcare (south Africa), Parkway Health (Singapore), Columbia Asia etc have also shown keen interest in exploring the opportunity across spectrum of healthcare formatsin India.
- Healthcare services industry in India is not regulated. Hence there is a large unregulated segment currently.
- Though Indian central government through its New Health Policy initiates the campaign of "Health for All" and "Health Assurance for All", it may not have an immediate impact on the earnings for players as Healthcare is a state subject and states has to implement the policy changes.
- Healthcare in India has already entered into high growth stage led by key drivers like - a) increasing population & urbanization, b) strengthening of both lifestyle & communicable diseases, c) emerging middle class income, d) increasing health care insurance coverage (25% of the population covered), e) increase in investor interest, f) medical value travel.
- Two key principles of success in healthcare are – 1) Scale will only survive and 2) Healthcare service is very local (Services offering should be in tandem with local needs). Expansion into new regions (without any strategic reasons) only dilutes service quality and profitability.
- Though the huge patient pool of India and improving awareness towards preventive tests provides robust growth visibility in diagnostics, the growth in this segment has come down due to lack of regulation implying low quality competition. This has hurt the pricing and profitability. The main concerns for the diagnostics players are escalating cost, growth being split among huge number of players (both organised and unorganised) & higher import cost.
- Hub and spoke model has been the most successful model in case of super-speciality & multi-specialty service offerings. This ensures 1) optimal utilisation of capital intensive equipments and 2) improved scale implying lower average costs.
- Cancer is the fastest growing disease in India with 350000 cancer cases in North India itself but only 50000 patients can be treated in Govt facilities. As such there is huge demand available to meet the needs of these patients.

Fortis Healthcare

Focus on profitability rather than growth

- Fortis Healthcare(Fortis) is one of the leading healthcare service providers in India with installed bed capacity of approx. 5000 beds (Including owned, managed, leased and operated beds) across 52 healthcare facilities spread in 35 cities. Currently 4200 beds are operational. It expects an annual bed expansion in the range of 300-400 beds.
- **Focus on improving profitability rather than growth:**
  - In a drive to improve profitability, Fortis moved away from a low margin institutional business at Fortis Escorts (largely focused on institutional business) resulting in decline in its occupancy from 90% to 65% over the last 1 year. However, the company's Average revenue per occupied bed increased from Rs 10.4mn in FY13 to Rs 13.2mn currently.
  - Fortis currently focuses more on improving service mix. Currently, it generates approx. 65% of its revenues from the specialty services in Cardiovascular, Orthopedics, neurology, nephrology and Gastroenterology. 5% of its hospital revenue comes from cancer care, which it expects to enhance to 15% over next few years. It also expects to enhance its services in Mother & Child care, which is better remunerative.
  - Fortis has recently shut down its four loss making facilities and in process to shut 4 more facilities in tier 2 cities like Alwar, Agra, Moradabad, Mysore, Kangda etc. This should improve the operating efficiency for Fortis in near future. It has also initiated process to sale its Singapore facility.
  - Fortis' new facilities would improve its service offering mix in near future. In fact, the company expects to commission - 1) 200+ bed tertiary care multi specialty hospital in Chennai soon, 2) 70-bed facility focusing on Gynaecology, obstetrics & cosmetology in Banglore in 2015, 3) 210 bed comprehensive cancer-care brownfield facility in Banglore in 2016.
- **Demerger and IPO of Diagnostic business SRL soon**
  - SRL – Fortis' diagnostic business is the largest private player in the organized diagnostic sector in India with 12 reference laboratories, over 6000 collection points and over 1 lakh doctor coverage. It offers a comprehensive range of investigations in Pathology and Imaging with over 3,500 types of diagnostic tests and performs ~80,000 tests on a daily basis.
  - SRL is the market leader in organized diagnostic sector in India with about 50% market share. Currently it generates annual revenue of Rs 8000mn with operating margin of ~20% (In FY15e).
  - Currently Private Equity players hold 35% stake in SRL and they would exit from their investment soon as per earlier agreement. Hence, Fortis indicates about potential demerger and/or initial offering by SRL in couple of months time.
- FCCB worth $100mn from GIC is due for conversion in May 2015 at a conversion price of Rs 167 per share. Another two trenches of FCCBs worth $55mn and $30mn from IFC is due for conversion at a price of Rs 99 per share in 2018.

International Oncology Services Pvt Ltd (IOSPL)

Provides world class cancer care through strategic collaborations

- International Oncology (IOSPL) is a global cancer care and research company focused on providing world class cancer treatment and care. IOSPL is at the forefront of bringing in best cancer care to India through expertise, research and collaboration. IOSPL has strategic collaboration with Fortis Hospital (Noida), Dr. L H Hiranandani Hospital (Mumbai), Sanchetee Hospital and Cancer Institute (Jodhpur) to establish state-of-the-art International Oncology Cancer Centres equipped with cutting edge technology and offering comprehensive cancer care under one roof.
- IOSPL follows a revenue sharing model. It ties-up with a leading hospital which meets their pre-requisites of having good footfall, strong E&T, GI & cardiology depts. Etc. The hospital provides the physical infra and personnel, while IOSPL will invest in equipments and will employ those personnel in their payroll after providing training.
- Typically, establishing such a facility requires around $3.5 million in tier-1 cities. IOSPL have a debt-equity ratio of 2:1. It takes around 30 months for them to break-even in each facility. Currently they are present in 4 locations and plans are on to reach a target of 10 in 2-3 years. IOSPL targets revenue worth Rs 500mn from each cancer at the end of 3rd year, as per the 50-50 revenue sharing arrangement. It makes EBITDA margins of around 20% and sub-10% profit margin.
- IOSPL don't use number of bed as metric since the cancer care operation is largely a day-care procedure except in case of surgeries. Typical cost of a cancer treatment for each patient is Rs 10 lakh. 40-45% of patients require radiation. IOSPL targets approx. 50 patients/day for breaking-even in 3 years period. In order to achieve the target profitability, it also open satellite centres around each hub that ultimately help optimal utilization of Hubs.
- IOSPL feels that the Government can do a lot in "War against Cancer" as more people die each year from cancer than the combined deaths by AIDS, TB and malaria put together. It hopes that soon there will be favourable customs duty for cancer equipments and medications as all his inputs are imported. Similarly, it believe the likely dedicated insurance policies for cancer would improve the cancer care in the country in future.

Healthcare Global Enterprise Ltd (HCG)

Ensures optimal utilisation of assets through through Hub & Spoke model

- HealthCare Global Enterprises Limited (HCG) is one of the Largest Cancer Care Network in South Asia with 27 centers across India. HCG is known for its successful implementation of hub and spoke model in India leading to optimal utilisation of its infrastructure and better profitability.
- The hub is technologically equipped centre of excellence from where HCG provides advance cancer treatment. The company has total 4 hubs across India in Bangalore, Delhi, Chennai, Ahemdabad and fifth one will start in near term in east region.
- The company has 23 spoke across India primarily in tier II/III cities. Spokes are small centers with 40-45 beds capacity at distance of 50-75 km from hub. At Spoke the company is not equipped with higher end technology machineries. Spokes are equipped with radiation and other diagnosis related instrument which either owned by HCG or by franchisee. The company is working on

franchise model with local doctor or entrepreneurs. HCG adopts different business models of a) revenue sharing or b) lease rental model as per negotiation.

- The operating cost (Including electricity, maintenance, medical staff etc) and high end instrument/ machinery at spoke are bare by HCG. Spokes are performing 55-60 tests per day. Further, HCG is adding 1 million cases every year and not concerned about bed occupancy as demand and supply gap is large. For HCG every spoke can be the revenue provider in case of patients detects with cancer and if it requires the Chemo/Radio therapy treatment.
- Average revenue per bed is ~Rs 25,000-30,000 per day. The company works for ~300 days a year in 2 shifts. Capex is roughly around 55-60 cr (Excluding land, high end machines). HCG day shift utilization is ~85-90% and evening shift occupancy is 55-60%, on average overall utilization/ occupancy is ~70-75%.
- The company has specialist for every treatments like specialist from medical oncology to handle medical oncology case, breast cancer specialist etc. and initiates training/ development programs for doctors to get real time experience of working on radiology instrument.
- The company manufactures its own nuclear dye to detect cancerous cells in PET CT scan, manufacturing dye helped in reducing cost and decency on outsourcing. Machine for dye manufacturing has been imported by the company and all records related to dye manufacturing company is submitting AERB (Atomic Energy Regulatory Board) on regular basis.
- HCG receives 80-100 cases per month from African countries and has special service center to cater patients from different countries. MENA region is also an important region for the company. It is looking for the expansion in Africa region using same Hub and Spoke model.

Thyrocare

Scale/volume is the key to success in diagnostic services

- Thyrocare – World's largest thyroid testing laboratory with 40,000 specimen thyroid test per day - was founded by Dr. Velumani (ex scientist of BARC) in the year 1996. Promoters hold 64% stake in the company.
- The Company operates through a franchise model. It procures blood samples through their franchisees across India (currently 1000) and processing is done at centralised laboratory (200,000 sq ft) at Navi Mumbai. Specimens from across India arrive (by air cargo) at Mumbai airport in the evening and processed during night. The test reports are delivered early morning next day.
- Currently Thyrocare offers 180 tests, 70% of which are thyroid tests in volume terms but account just 30% in value terms.
- Thyocare collects blood samples from areas around 28 airports in the country and processes at its Centralized processing lab in Navi Mumbai. In order to offer quality diagnostic service across the nook & corner of the country, it expects to set 12 more regional processing laboratories across the country over next 12 months period.
- Indian diagnostic market is valued at about Rs 20bn but 90% of the market is un-organised. The leading peers in the organized diagnostic market include Thyrocare, SRL, Dr Lal Path labs and Metropolis.
- Apart from its central state of art processing unit in Mumbai, Thyrocare has two other processing units in Bahrain and Bangladesh. Bahrain and Bangladesh will take another two years to break-even.

- During FY14, Thyrocare reported an annual revenue of Rs 1500mn with EBITDA of Rs 749mn (implying a margin of ~50%) and PAT of Rs 458mn. The company expects to close FY15 with sales approx. Rs 2000mn (implying a growth of 18% YoY).
- The Company has recently formed 100% subsidiary - Nueclear Healthcare to focus on PET-CT test (used to detect cancer). The objective of the subsidiary is to to address huge unmet need in cancer care and to offer affordable PET-CT tests. Believing “Scale/Volume” is the only principle for success, Thyrocare offers PET scan at Rs 9999 per test against competitors in the range of Rs 20000-25000. Revenue from this subsidiary stood at Rs 12 crs. This is B-to-C model, at present it has installed 5 scanners (2 in Mumbai, 2 in Delhi and 1 in Hyderabad). There are 100 scanners in India (50 in Mumbai, 20 in Delhi and 30 in other cities)

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles
Dhawal Doshi (9122) 6667 9769
Priya Ranjan (9122) 6667 9965

Banking, NBFCs
Manish Agarwalla (9122) 6667 9962
Pradeep Agrawal (9122) 6667 9953
Paresh Jain (9122) 6667 9948

Consumer, Media, Telecom
Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Jubil Jain (9122) 6667 9766
Manoj Behera (9122) 6667 9973

Cement
Vaibhav Agarwal (9122) 6667 9967

Economics
Anjali Verma (9122) 6667 9969

Engineering, Capital Goods
Ankur Sharma (9122) 6667 9759
Hrishikesh Bhagat (9122) 6667 9986

Infrastructure & IT Services
Vibhor Singhal (9122) 6667 9949
Deepan Kapadia (9122) 6667 9992

Midcap
Vikram Suryavanshi (9122) 6667 9951

Metals
Dhawal Doshi (9122) 6667 9769
Ankit Gor (9122) 6667 9987

Oil&Gas, Agri Inputs
Gauri Anand (9122) 6667 9943
Deepak Pareek (9122) 6667 9950

Pharma
Surya Patra (9122) 6667 9768
Mehul Sheth (9122) 6667 9996

Retail, Real Estate
Abhishek Ranganathan, CFA (9122) 6667 9952

Portfolio Strategy
Anindya Bhowmik (9122) 6667 9764

Technicals
Subodh Gupta, CMT (9122) 6667 9762

Production Manager
Ganesh Deorukhkar (9122) 6667 9966

Database Manager
Deepak Agarwal (9122) 6667 9944

Sr. Manager – Equities Support
Rosie Ferns (9122) 6667 9971

Sales & Distribution

Ashvin Patil (9122) 6667 9991
Shubhangi Agrawal (9122) 6667 9964
Kishor Binwal (9122) 6667 9989
Sidharth Agrawal (9122) 6667 9934
Bhavin Shah (9122) 6667 9974

Sales Trader
Dilesh Doshi (9122) 6667 9747
Suniil Pandit (9122) 6667 9745

Execution
Mayur Shah (9122) 6667 9945

Corporate Communications

Zarine Damania (9122) 6667 9976

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd
4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.
No 550 Yan An East Road, Ocean Tower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.
15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

FRANCE
King & Shaxson Capital Ltd.
3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Ltd.
6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc.
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

AUSTRALIA
PhillipCapital Australia
Level 37, 530 Collins Street
Melbourne, Victoria 3000, Australia
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309
www.phillipcapital.com.au

SRI LANKA
Asha Phillip Securities Limited
Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

INDIA
PhillipCapital (India) Private Limited
No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

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PhillipCapital (India) Pvt. Ltd.
Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013