

# Away from the metros

## Investors eye medical centres in small and medium towns

The big picture of India's burgeoning healthcare industry is enough to impress anyone. Total industry size of over \$77 billion, nine beds per 10,000 people, more than six lakh doctors and 1.6 million nurses, which serve a middle class of 300 million people. Yet, the best hospitals, diagnostic centres and wellness clinics are located in the metropolitan cities. So where will future growth come from?

If the decisions of a number of private equity players and other investors are anything to go by, the next phase of rapid growth would happen in the Tier II and Tier III towns, rather than the metros. According to a recent report prepared jointly by Assocham (Association of Chambers of Commerce) and Yes Bank, a number of investors are zeroing in on business models that are "not traditional in nature". This includes a rising interest in rural and semi-urban healthcare. Many investment houses have identified the rural and semi-urban markets as being largely untapped from the point of view of access to healthcare services.

Over the past two-three years, small and medium enterprises, such as Vatsalya Healthcare, which focus on Tier II and Tier III cities in Karnataka, have been able to attract funding from Seedfund and Oasis. Likewise, I-VEN Medicare, an affiliate of ICICI Ventures has taken an equity stake in Vikram Hospital of Mysore and Sahyadri Hospitals of Pune, while Acumen Fund has a participation in Pushpagiri Hospitals that has made considerable inroads in South India. Another similar establishment is Swas Healthcare that concentrates in the small and medium towns of Gujarat.

While these investments have already happened, quite a few more are likely to happen over the next few years. "With substantial private equity investments



Chaturvedi: winning strategies

in private hospital chains, not only in large cities but also in innovative rural models, we expect this large investor appetite to contribute significantly to the increase of private healthcare establishments. Innovative infrastructure financing models will reduce incubation periods and simulate investor interest. Large corporations have also begun venturing into this highly lucrative business and we expect to see continuity in this trend," says the Assocham-Yes Bank report.

"To a lot of people who come to us for investment advice, we recommend medical centres that are located in Tier II cities but are planning to build facilities for modern super-specialty care," says Seema Chaturvedi, CEO of consultancy firm Accelerator Group LLC.

"Think of a healthcare entrepreneur in a place like Varanasi, who wants to set up a facility for open heart surgery. Most probably, the people there have to either depend on the BHU (Benares Hindu University) hospital or head to the nearest metro – Delhi or Kolkata,"

Chaturvedi explains. The same thing applies to dozens of towns in Uttar Pradesh, Bihar, Madhya Pradesh, and other states. To develop and promote this concept, the Accelerator Group conducted a survey among 50 hospital CEOs in different parts of India. The results, published late last month, are quite revealing.

### Improving revenue

The survey was conducted "to identify some of the winning strategies to enhance revenue, contain costs, recruit talent and retain the best individuals in a competitive environment. We sought to study the challenges and the opportunities in a dynamic market place. Finally, we attempted to frame key issues for government healthcare leaders, from the perspective of those in the private sector".

Among its key findings were the fact that most respondents sought to add super-specialties and a changing case mix towards better paying disease states as an effective way of improving revenue. Several multi-specialty hospital respondents identified oncology and cardiology as key growth specialties.

As many as 32 per cent of the respondents deemed the creation of multi-tasking staff as a key method of improving efficiency, thereby reducing costs. Additional strategies include decreasing average length of stay of inpatients, tighter supply chain management (such as decreasing inventory) and decreasing utility costs as major strategies for enhancing revenue growth. Another important conclusion was that most CEOs consider "word of mouth" as the preferred method for recruiting, particularly when it came to appointing medical specialists. For nurses, paramedical staff and other appointments, direct recruitment from the training institutes, like nursing colleges, appeared to be the most promising.

"Because they lack proper management bandwidth, most doctor-owned hospitals will probably never qualify for private equity funding," Chaturvedi says, adding that at the level of small hospitals, there was considerable scope for consolidation.

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