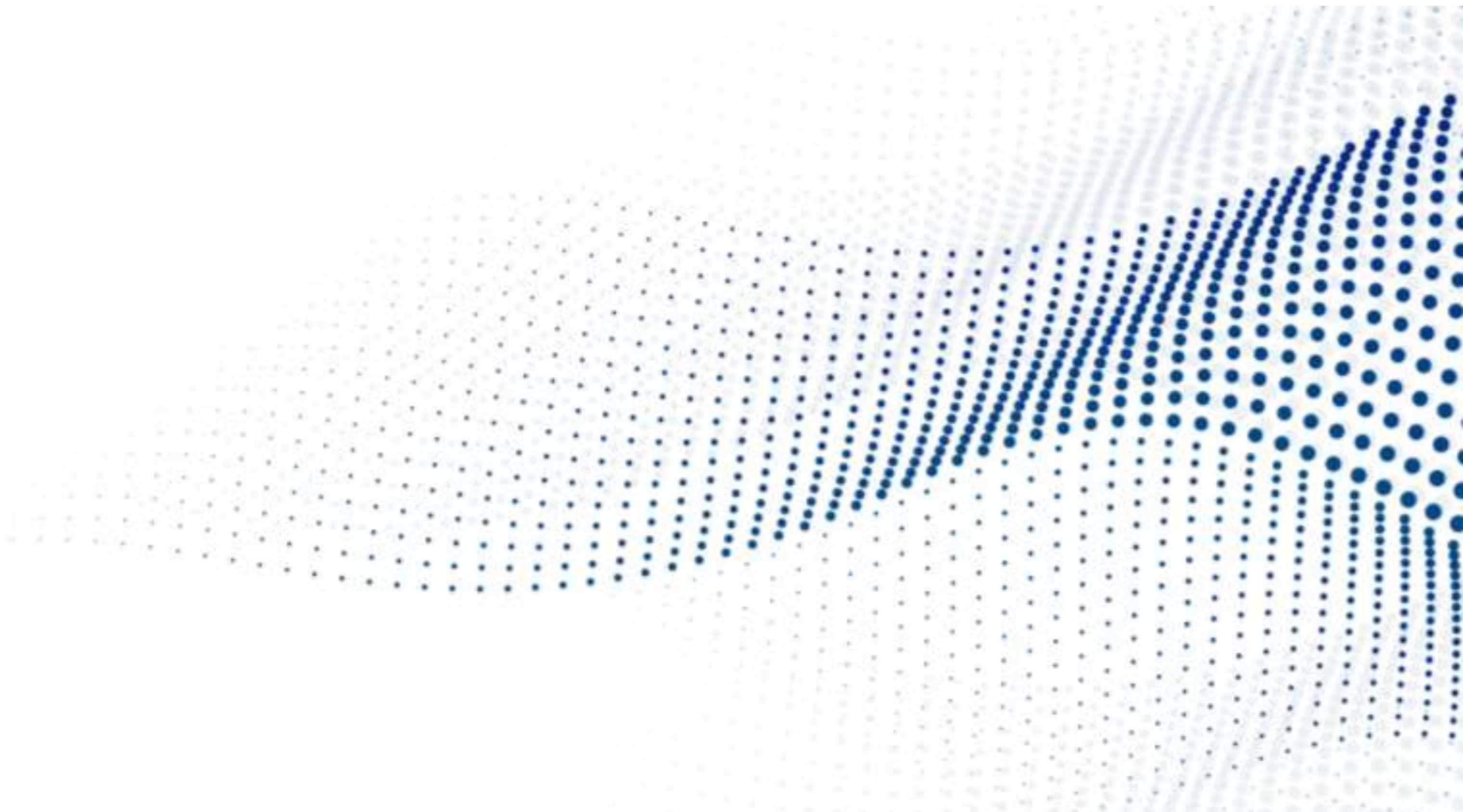
TATA CAPITAL

Healthcare Fund



# Digital Health

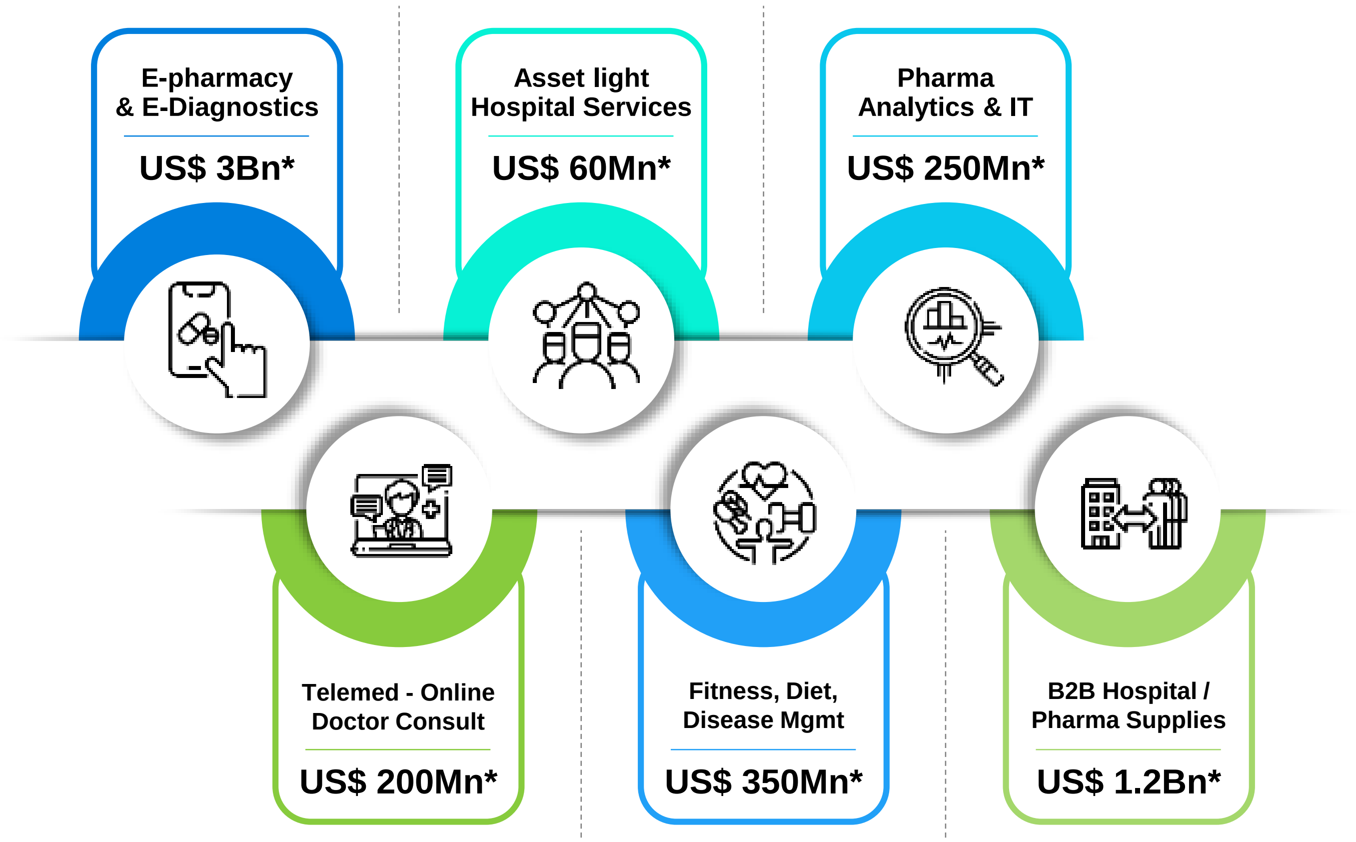
## where are we

# TCHF Industry Spotlight Series
# Digital Health – Where We Are

The digital health / healthtech market in India is ~3% of overall healthcare market (~USD 5Bn as of H12022 market size; over 30% projected CAGR) and has a huge headroom for growth. The COVID-19 pandemic has sparked a wave of digital transformation across the healthcare ecosystem which has resulted in increased healthcare access, improved efficiency of providers and brought in price transparency for consumers. Moreover, increased patient awareness and over 50% internet adoption in the country (over 700mn internet users) have enabled  a wider adoption of digital health platforms. India presently houses over 5000 healthtech start-ups and has received over USD 6.5Bn private capital funding in healthtech the last five years. We believe digital adoption trends will stick in the long term and have the power to transform the way healthcare is traditionally delivered in the country. In this paper we have evaluated the six main digital health business models that have had a major impact on the industry thus far.

## India Digital Health Landscape

* Numbers indicate market size




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

# Executive Summary

**Current Estimated Market Size**

**~US$ 5Bn**

(CAGR 30%)

**Estimated Funding Since 2017**

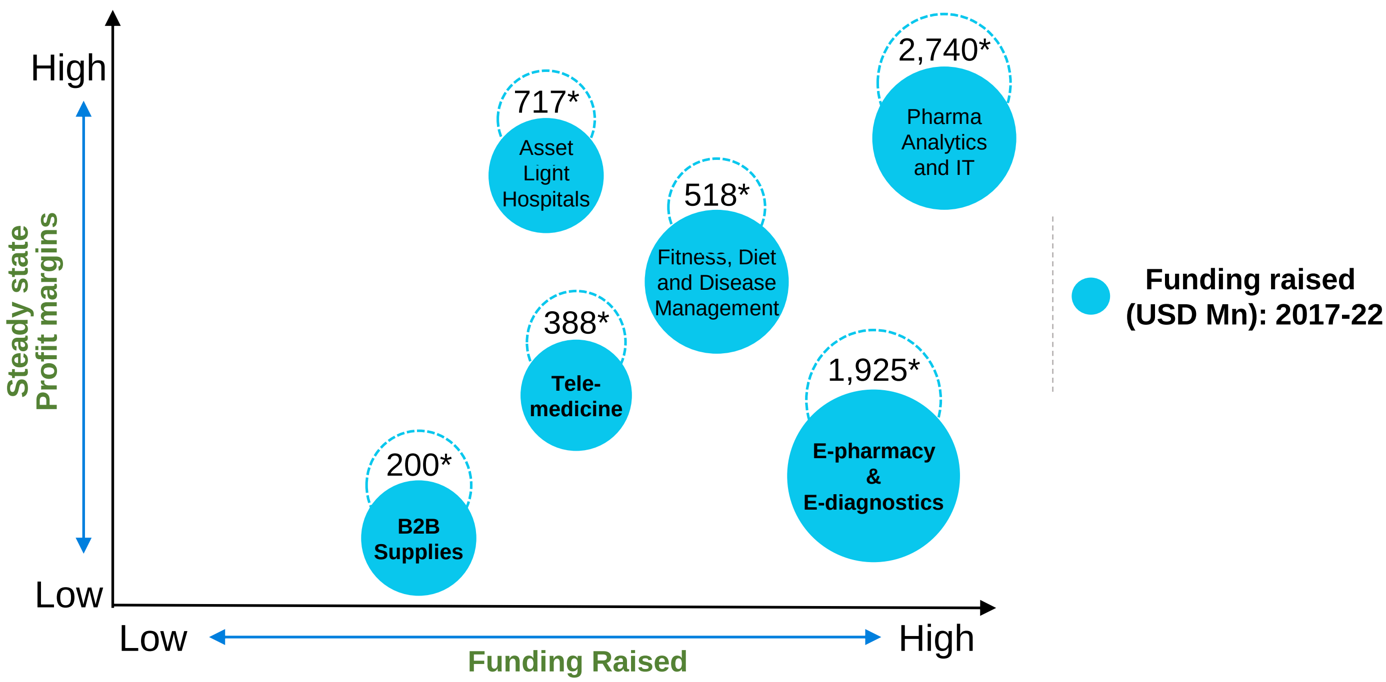
**~US$ 6.5Bn**

(vs.USD464Mn 2010-2016 )

The ~USD5 Bn Digital Health sector in India has attracted over US$6.5 Bn funding since 2017 and the sector is at the cusp of take-off in terms of consumer adoption. According to TCHF internal estimates the digital health sector is estimated to reach ~US$ 16.5Bn (CAGR 31%) by 2027.

From a business model perspective most companies in this segment are yet to establish a profitable commercial model. The recent liquidity crunch has resulted in the sector attracting 45% lower funding (US$ 773) YTD2022. The funding delays has also sparked consolidation among companies in last 12 months. e.g M-fine in the Telemedicine segment. The most stable segments are the e-pharmacy players which has attracted a lion's share of the funding have become part of large corporate houses and are also leading the wave of consolidation to become a one-stop shop for all healthcare services. For example, Tata 1MG opening offline pharmacy dry-up stores, Pharmeasy's acquisitions of companies like Retailio, Aknamed, Medlife, Thyrocare over the past two years. The Telemedicine companies as well as the asset light hospital companies continue to be cash guzzlers in their quest for network and customer acquisition. On the other hand the pharma analytics companies and health/fitness management companies have demonstrated reasonable scale and profitability thus far.

In our view, a long-term sustainable business in healthtech will require a mix of physical and digital models coming together. Added to that there is a need for a clear differentiation regarding the acute pain point or unmet need the particular digital model aims to solve with specific path to scale and profitability. We also believe that traditional industry leaders in each sub-segment who are flush with cash are waiting for the winners and the right opportunity to emerge in the sector before they join the consolidation wave.




***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.*

## E-health (E-pharmacy & E-diagnostics) | ~USD 3Bn growing at 35% annually

**Business Model:** The eHealth market presently rides on over 5Mn households with the covid period becoming the inflection point for over 3x increase in adoption. The main growth drivers are positive consumer sentiment in non-metros, demand for convenient, affordable, integrated services; buy-in from doctors, hospitals and regulators. The Government recently declared ePharmacy as essential service & allowed doorstep delivery of medicines.

**Metrics/Economics**: The cash burn for most companies is high (-50% to -100% EBITDA margin) due to deep discounts offered for customer acquisition (15%-20% of MRP). Most companies have gross margin inm range of 20%-30%. The main differentiation between the companies in this segment rests in having a balanced portfolio (across OTC, diagnostics, pharma), repeat customer base, GMV from non-metros and move towards profitability.

**Outlook:** The E-Health market is projected to reach ~$10 Bn GMV by FY27 through ~40-70 Mn household penetration with eConsultation growing fastest and ePrescription driving 60%+ market. The segment is expected to reach 3.5% of pharma market by 2027 (from 1.5% at present). eHealth market is quite busy in terms of investment and M&A activities aimed at geo expansion & integrated play. US$ 2Bn private capital invested in the sector so far and large corporate houses like Tata (1MG) and Reliance (Netmeds) have entered the space through acquisitions.

| Key Players FY 21 (USD Mn) | PharmEasy | TATA 1mg | netmeds.com | Flipkart Health+ |
|---|---|---|---|---|
| Revenue | 650 (TCHF FY22 Estimate) | 42 | 3 | 72 |
| EBITDA | (72) | (39) | 0.4 | NA |
| Funding | 1653 | 118 | 67 | NA |
| Investors | TPG, Tiger Global, Temasek | Tata Digital | Reliance Industries | Flipkart |

## Pharma Analytics & IT | India market ~ US$ 250 Mn growing at 20% annually, Indian players catering to global market of ~US$ 130Bn

**Business Model:** India has been a global hub of outsourced IT services; we have seen this trend in healthcare as well with successful businesses built around revenue cycle management and other IT related services for primarily the US/Europe customers. The business model is either software services revenue or SaaS and is typically recurring in nature.

**Key Metrics/Economics:** The sector has attracted US$2.7 Bn capital primarily from PE funds given the high EBITDA margins (>25%) and cashflows. However, over the last 5 years we have seen several product first technology companies raising capital from venture capital funds in healthcare who target both the local Indian customer as well as the global customer for aspects like digitizing operations, data management and activation.

**Outlook:** While the RCM market is matured, there is high investor interest in the Healthcare SaaS market given the need for digital transformation in the healthcare sector. It is interesting to note that most companies operating in this space are building for the globe as the scale for India is limited. We can expect Indian companies to succeed in the global healthcare software market.

| Key Players FY 21 (USD Mn) | agshealth | CitiusTech | innovaccer | HealthPlix | THB |
|---|---|---|---|---|---|
| **Revenue** | 52 | 214 | 50 (TCHF FY22 Estimate) | 1 | 2 |
| **EBITDA** | 10 | 59 | 3 | (2) | (2) |
| **Funding** | 495 | 991 | 375 | 3 | 11.5 |
| **Investors** | Barings Asia | Barings Asia | Westbridge, Lightspeed | Kalaari, Lightspeed | Blume, Sealink, Healthquad |

## Asset Light Hospital Services ~ USD 60 Mn growing at 35% annually

**Business Model:** This segment of digital health companies have de-linked fixed asset costs of the hospital from the patient value chain by creating a virtual hospital ecosystem of patients and doctors. They digitally acquire patients and either fulfill the surgery at a partner hospital through their own team of surgeons or pass on the lead to the hospitals for fulfillment.

**Key Metrics/Economics:** The sector has attracted ~ US$ 200 Mn (~75% invested in Pristyn Care). Due to the asset light nature of the business, the companies are reducing the fixed costs by ~30% and spend ~15% on digital customer acquisition thereby gaining an additional margin ~15% over traditional hospitals.

**Outlook:** Pristyn Care has taken a significant lead in the market, however profitability still eludes despite large profit pools and a well- established track record of strong revenue generation and growth. We believe this model has proven effective to deliver day care surgeries, but moving into other segments which require hospitalization and care beyond a day will need to be seen.

| Key Players FY 21 (USD Mn) | Pristyn Care | GLAMYO HEALTH | Ayu Health | MEDFIN |
|---|---|---|---|---|
| **Revenue** | 50 (TCHF FY22 Estimate) | 8 (TCHF FY22 Estimate) | 10 (TCHF FY22 Estimate) | 0.1 |
| **EBITDA** | (8) | (0.1) | (3) | (1) |
| **Funding** | 150 | 7.5 | 25 | 3.5 |
| **Investors** | Tiger. Sequoia | Ananta, Agility | Vertex, Stellaris | Blume, HealthX |

## B2B – Hospital/Pharma Supplies ~ USD 1.2 Bn growing at 35% annually

**Business Model:** These are the newer tech led hospital and pharma supplies procurement businesses. The pharma/med devices and hospital supplies procurement industry is extremely fragmented and complex involving over 500K SKUs across 5,000+ manufacturers catering to over 10L hospitals, 100k pharma distributors and 800k retail pharmacies. The B2B supplies companies offer pharma retailers/hospitals Just-in-time inventory, credit and convenience unlike the traditional distributors thereby enabling productivity and gross margin gains.

**Key Metrics/Economics:** Most companies in this segment continue to burn cash for customer acquisition, supplier and fulfillment network growth and digital assets to improve service quality (TAT), packaging etc. All companies in this segment are working to become the first-choice procurement partner for healthcare providers by aggregating demand and delivering savings. Gross margins of most players in this business are in low to mid teens.

**Outlook:** The sector has attracted over USD 200 Mn private capital since 2015. The traditional players in the space like Keimed, Ascent, etc are dominant in the space 90%+ market share of organized market. We are seeing an increasing shift of the unorganized distribution to organized led by the digital first players. The organized share of the market is expected to reach >10% by 2025 and like other developed markets we believe consolidation will take place and the traditional players who have the financial muscle will drive consolidation and acquire the digital capabilities. For e.g. Entero has acquired 10+ unorganized distributers in last 2 years; Pharmeasy has acquired Retailio and Aknamed.

| Key Players FY 21 (USD Mn) | Entero | medikabazaar | aknamed |
|---|---|---|---|
| **Revenue** | 350 (TCHF FY22 Estimate) | 350 (TCHF FY22 Estimate) | 20 |
| **EBITDA** | 3.2 | 0.6 | (0.7) |
| **Funding** | 22 | 151 | 16 |
| **Investors** | Orbimed | Healthquad, Kois, Creaegis | Lightrock |

## Telemedicine | ~US$ 250M; growing at 20% per annum

**Business Model:** Telemedicine involves using technology to provide healthcare services remotely viz. tele consult, tele-nursing, tele-radiology, tele-surgery. With over 75% of the country's health infrastructure concentrated in urban areas while more than 75% of the population lives in rural areas, this tool is particularly effective in connecting the patient to the doctor. consultations. e-consultation has seen a rapid rise during the COVID period and regulatory guidelines too have recently encouraged the use of econsultation to prescribe medicines and there is a clear classification of permissible medicines that can be prescribed in this manner.

**Key Metrics/Economics:** The number of teleconsults in India in FY21 reached ~4Bn, which is almost 3 teleconsults per person each year. The private players either aggregate doctors or enrol doctors full-time and deliver the service. The gross margins range between 25% - 50% based on the business model. The biggest challenge for Teleconsult only players has been high customer acquisition costs and low customer loyalty which led to high discounting and spend on CAC making it an unprofitable operation.

**Outlook:** While Telemedicine as a service has seen multi-fold increase in adoption, the technology has become commonplace and is being offered by every B2C digital health player including e-pharmacy companies, this has led to challenges for Telemedicine only players who are being acquired at distress valuations.

| Key Players FY 21 (USD Mn) | practo | mfine | DocsApp | CLINIKK |
|---|---|---|---|---|
| **Revenue** | 18 | 2 | 3 | 1 |
| **EBITDA** | (0.5) | (15) | (10) | (0.6) |
| **Funding** | 212 | 105 | 173 | 6.1 |
| **Investors** | Sequoia, Matrix, Tencent | Stellaris, Beenext, Prime Venture | Invascent, Bessemer, Quadria | WEH Ventures |

## Fitness, Diet & Chronic Disease Management | ~ US$ 350 Mn growing at 35% annually

**Business Model:** Fitness and Weight management Opportunity in India is large. The new age companies in this segment are bringing standardised protocols into a digital centric fitness business. Customers are offered digital and offline experiences across fitness, nutrition, and chronic disease management. Some of the factors for this business model to succeed are a high paying and sticky customer base, ability to source and retain supply of trainers, have adequate equipment and capital for initial set up and low cost of customer acquisition.

**Key Metrics/Economics:** The digital only players can generate operating profit margins of 15%-20% at a steady state level where spend on CAC is ~10%; whereas the phygital players have higher realizations and higher fixed costs. The main success driver for this segment remain differentiated content generation for repeat customers and large subscriber base, negative working capital and reaching steady state margins at a certain scale.

**Outlook:** The sector has attracted US$ 750M and the unit economics for the space are well-established in the fitness and diet category, however chronic disease management space is still nascent with business models evolving and can expect increased investor interest in this category given the chronic disease profile of the Indian population.

| Key Players FY 21 (USD Mn) | cure.fit | FITTR | HealthifyMe | ULTRAHUMAN |
|---|---|---|---|---|
| **Revenue** | 75 (TCHF FY22 Estimate) | 15 (TCHF FY22 Estimate) | 25 (TCHF FY22 Estimate) | 0.3 |
| **EBITDA** | 4 | 0.6 | (2.5) | (3) |
| **Funding** | 539 | 13 | 108 | 25 |
| **Investors** | Accel, Kalaari, Temasek | Dream Capital, Elysian Park | Sistema, Leapfrog, Blume | Nexus, Steadview |