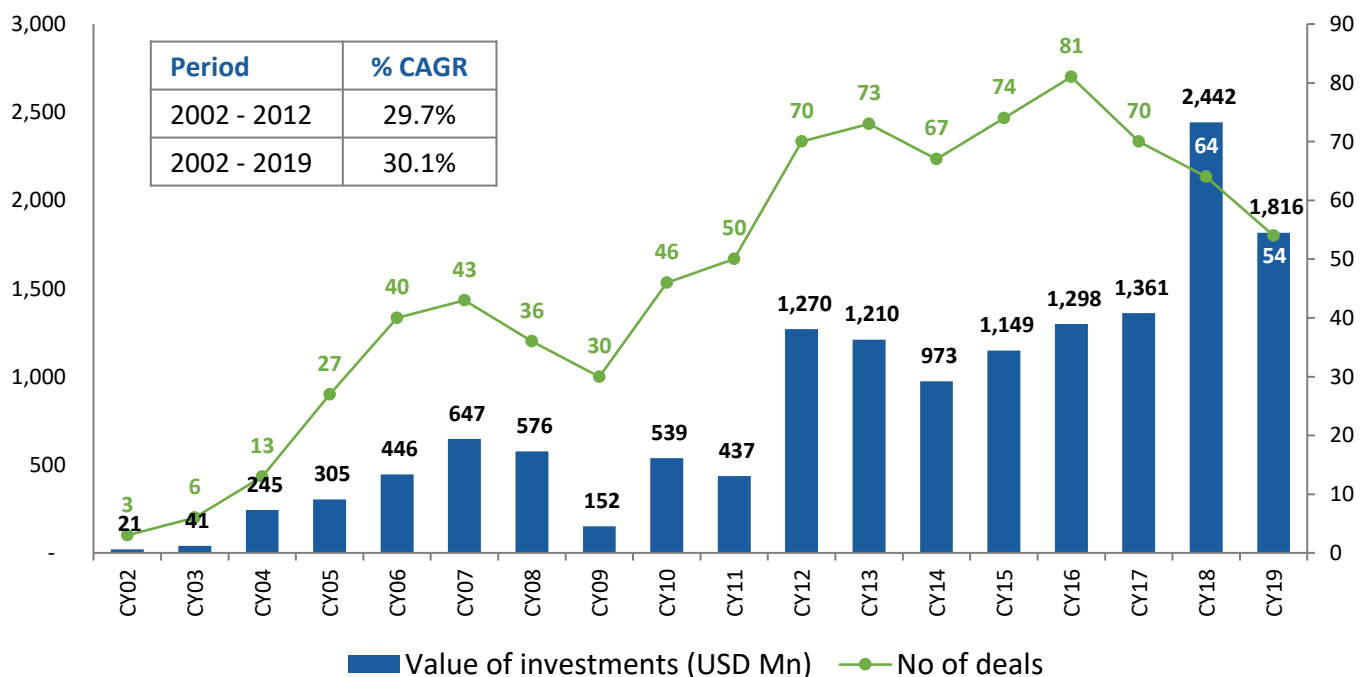


# India Healthcare / Life Sciences Strategies for the decade

**Private Healthcare and Life Sciences investing in India has come of age.** This industry's initial decade of nascency (2002 onwards) approached an inflection in 2012, when, in terms of private equity deal value, it crossed USD 1Bn for the first time. The progression since then has consistently exceeded USD1Bn p.a. to reach a peak of USD 2.3Bn deal value in 2018. Cumulatively, over the past decade, India had managed to attract about USD 12.5Bn capital in Healthcare and Life Sciences sectors making it among the top sectors in the country to attract private capital. This is indeed a good reflection of the market in terms of room for long term growth and opportunities for the sector.

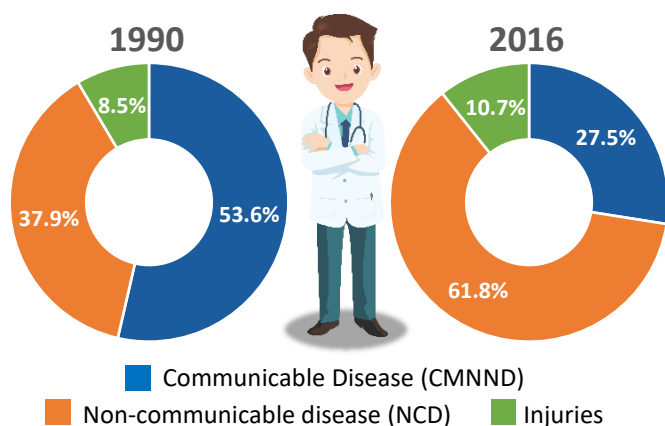
**Private Equity Investment in Healthcare**



Source: Venture Intelligence

**It is critical to take note of few big picture trends when building a long-term business or investing strategy in Healthcare/Life Sciences.** Since private capital investing calls for putting money to work over the long term say 4-8 years, it is important to bear in mind the trend of India's disease burden profile that has sharply shifted to a chronic/ lifestyle nature over the past decade. Today, over 60% of India's disease burden is on account of non-communicable diseases viz. stroke, diabetes, kidney disorders and the like. This trend could well become more sharp in the present decade. India already houses 17% of the world's diabetes patients and has 60% of the world's cardiovascular prevalence. Another critical long term factor is the dominant 'out of pocket' payor model that can change with rapid penetration of the center and state health insurance schemes. With India's Ayushman Bharat roll-out, we have already witnessed a rapid insurance penetration from 35% to ~48% over the past 18 months. While today there are still nearly 900Mn of the country's population who do not have any form of insurance cover, the present decade could well see a big majority of Indian population having health insurance. Also macro factors like growing urbanization and internet adoption are prime enablers to drive awareness and which can result in higher healthcare spending.

### India disease burden measured as % DALY reflects a big shift to NCD



disability-adjusted life year (DALY) is the measure of overall disease burden (expressed as the number of years lost due to ill-health, disability or early death)

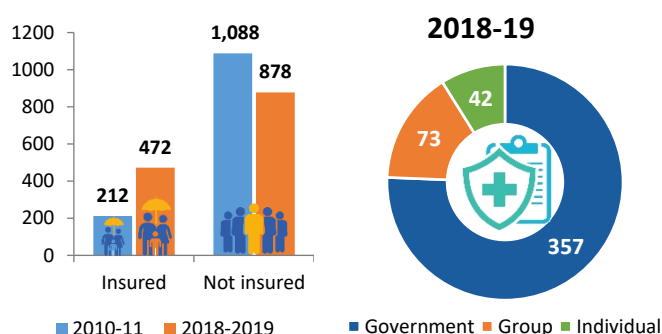
Source – TCHF sponsored study by PWC and EY

### NCD disease prevalence stats

	2010	2020 or latest
<b>Cancer</b> ('000 cases)	980	2258
<b>Diabetes</b> (MN cases)	50.8	72.96
<b>Coronary Heart Disease</b>	25.6 MN	54.5 MN in 2016
<b>Liver transplants</b>	750	1400 for the year 2014
<b>Asthma</b>	6 MN	15 MN

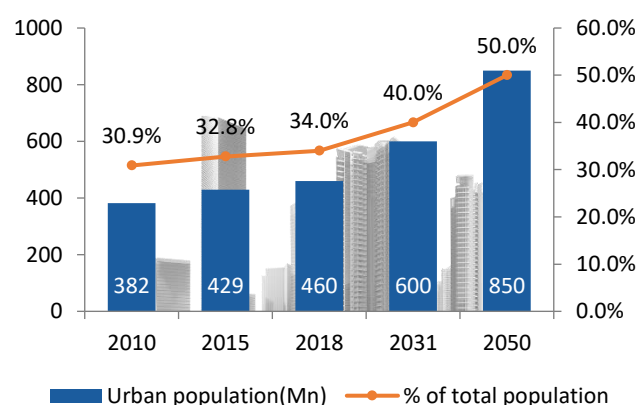
Source: India state level disease burden initiative 2017

### Growing health insurance coverage (Mn lives)



Source: IRDAI Annual reports

### Growing urbanization to drive great health awareness



Source: World bank data; Economic Survey 2017 Projections

## Seven strategy choices for the decade

The sector today houses a vast array of business segments (at least 25 in number) each of whom are industries by themselves with vastly different business drivers and economics. In such a case, as a business manager or as investor it will be well worth to pick focused strategies and try to build scale in select plays. The following are our seven top strategy choices:

### a) Specialization of Healthcare Services

#### Driver of greater patient access and business outcomes

Among the most visible trend witnessed in healthcare delivery has been the rise and acceptance of specialty healthcare delivery formats. Driven by lower setup cost per bed, shorter breakeven period and rising demand for specialized care like mother-and-child care, IVF, Home Health, Oncology, Orthopaedics & Nephro/Uro. Such focused models have resulted in better patient experience and outcomes and have proved to be more economically viable and at the same time playing a tremendous role in improving healthcare access. With rising urbanization and thereby growing health awareness and spending we will continue to witness more specialization of health services. Over the past decade, about 100Mn people have moved to cities and about 140Mn people are estimated to add to the urban population in the current decade, about 40% more urban people than in the past decade.

#### The rise of Specialized Healthcare Services

Eye care	Orthopedics	IVF	Birthing	Oncology	GI/Bariatrics	Home Health	GP Clinics
Dr. Agarwal's Vasan Eye care Center For Sight MyDentist EyeQ ASG Eye Drishti Eye care	Shalby Lokmanya Sunshine Mewar Ortho	Indira IVF Ishwarya Nova IVF	Cloud Nine Surya Childcare	HCG Cytecare International Oncology Cancer treatment services	Asian Institute of Gastroenterology Asian Institute of Bariatrics	Portea Medical Nightingales Home Health Care 24	Wellspring Healthcare Modern Family Doctor Asvas Healthcare
Key Drivers							
<ul style="list-style-type: none"> <li>Facilitate specialized and latest technologies in the respective specialties</li> <li>Ease of patient access and convenience</li> <li>Focused care aiding patient experience and satisfaction</li> <li>Largely operate as asset light model having better business economics (higher margin, quicker operational break-even)</li> </ul>							

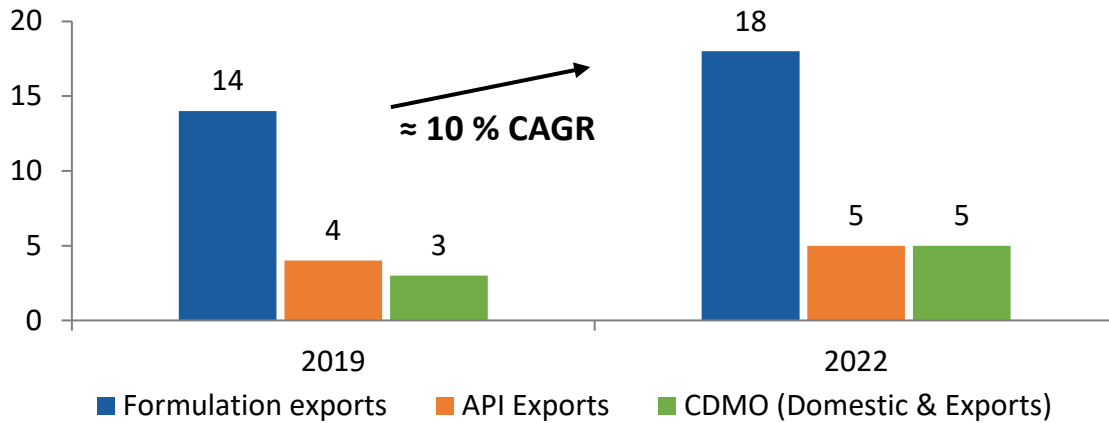
### b) Capitalise on generic manufacturing leadership

#### Newer markets is the key

Over the past three decades, India's manufacturing has had a phenomenal journey establishing as the world's third largest manufacturer of drugs by volume. India presently accounts for ~40% of generic drug approvals in the US (Drug master filings) and one in three pills consumed in the United States is produced by the Indian generics industry. The tight scrutiny that India has faced from USFDA inspections since 2009 has played a tremendous role in pushing the industry to continuously invest in upgrading quality standards on US generics compliance to keep its promise of a 'high quality reliable' supplier of medicines to the world. On one hand while the US generics headwinds may take a few years to streamline, the big opportunity we see is the ability of the Industry to leverage its generics leadership presence to also build strong reliable presence in other markets. It is worth noting that in markets like

Japan, China, South Africa, UK, Russia, Australia and few others India's presence is still small in terms of low single digit market share (For e.g.. In formulation exports). The strategies at play may range across both direct formulations/API exports as well as custom manufacturing of drugs and intermediates.

**Indian Pharma: Driving growth from international markets**



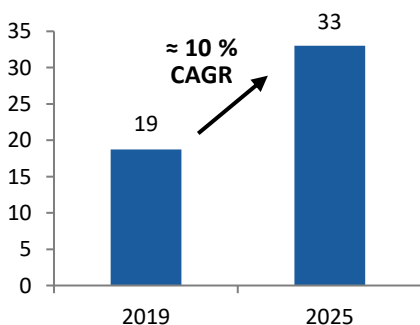
Source: EY Consulting

**c) Home market strategies as stable cash-cow  
Pharma products and diagnostic services**

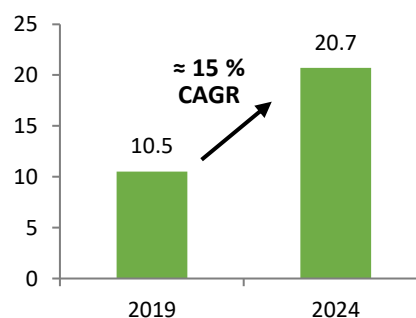
The USD 19Bn home pharmaceutical market has turned out to be among the most resilient sub-sector within the industry having delivered average double digit growth in the past decade. The several regulatory crackdowns on irrational fixed-dose combinations (“FDCs”) and unfair marketing practices will turn out beneficial for the serious players. This sub-sector continues to be a cash-cow for most industry players and there has been hectic activity in terms of roll-up / bolt-on acquisitions of brands / companies/ divisions to drive therapeutic focus. There are nearly 50 mid-sized companies in this space (USD 25Mn to USD 100Mn annual turnover range), several of them driving growth by focusing on 2-3 core therapies e.g.. La Renon (Neurology, vitamins, GI); Koye (Vitamins, gynaecology, respiratory); Brinton (clinical and cosmetic dermatology, paediatrics).

The home diagnostics market too has had an impressive record of double-digit growth in the past decade. The highly fragmented nature of the market split between imaging and pathology (more than 10,000 diagnostic labs) presents an opportunity for larger players to grow through M&A and for the smaller regional players to scale up to a stage where they can be positioned as attractive take-outs by the larger players.

**Indian formulations market size (USD BN)**



**Indian diagnostics market size (USD BN)**



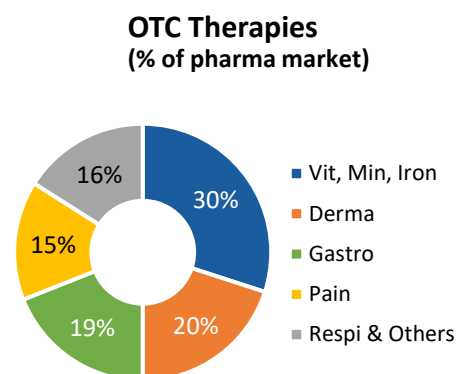
Source: AIOCD data  
Crisil report, EY Estimates, PwC Estimates

## d) Wellness and Nutraceuticals

### Growing focus for India's middle class

The domestic nutraceutical market (Rx plus functional foods) has today bludgeoned to a USD6 Bn industry. With the growing middle class becoming increasingly aware and health conscious, there is a rush to focus on dietary supplements, beauty care and wellness clinics. Both pharma and FMCG companies are addressing this segment through launch of new divisions / spin-off of companies and by Rx detailing skills.

Category	Composition	Market Size 2017 (USD Bn)	% CAGR
Nutraceuticals	Mineral/Vitamin supplements, tonics, stimulants, antioxidants (Pediasure, Revital, Nizral)	6	15-20%
Wellness	Cosmetic Enhancement, Hair and Beauty Salons, Fitness centers, Ayush clinics, Spas, derma procedures	20	20-25%



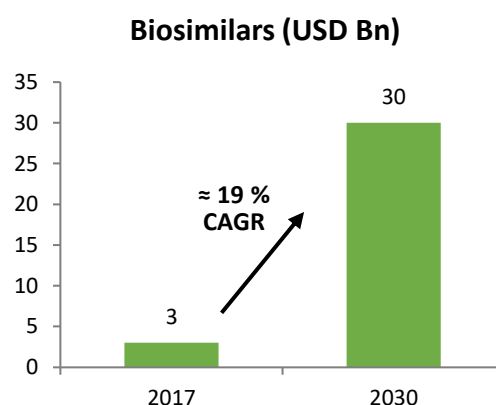
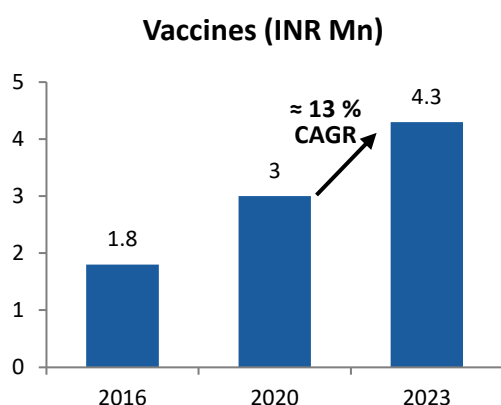
Source: EY Consulting

## e) Biosimilars and Vaccines

### Serious investing to pay off

The first biosimilar in India was approved in 2000, and the market has continued to grow since, reaching a value of USD 3Bn in 2017 (Source: Associated Chambers of Commerce of India's 2017 report). We have seen record No. of biosimilar products in last 24 months and India presently has about 70 biosimilars approved and marketed. Over the very long term (by 2030), the Indian biosimilars market is estimated to reach USD 40Bn (30% CAGR) with the growth aided by biologic patents expiries in the coming years.

The vaccines market too is estimated to record a robust double-digit growth during the decade. According to a June 2019 report by IPA, India accounts for 60 percent of global vaccine production, contributing 40 to 70 percent of the WHO demand for Diphtheria, Tetanus and Pertussis (DPT) and Bacillus Calmette–Guérin (BCG) vaccines, and 90 percent of the WHO demand for the measles vaccines.



Source: Company reports

## f) Rise of Digital Ecosystem Capitalizing on internet adoption

Increasing patient awareness combined with growing internet adoption (627Mn Internet users in India in 2019; penetration reaching ~50%) has resulted in a vibrant digital healthcare ecosystem today. India presently houses about 4800+ start-ups in the healthtech space. 52 healthtech start-ups have received funding in 2019 alone of USD 512Mn (Cure fit, 1 mg, Medlife, Carestack, healthkart etc.). Both digital software technology and analytics as tools, have become prime enablers to drive penetration, growth and efficiencies across the core industry segments viz. pharma, healthcare services and medical technology.

### India's Vibrant Healthtech Ecosystem

Segment	Companies/Platforms
Medical Affairs & commercial affairs: Patient and Healthcare Professional engagement tools like publications, e-detailing, product marketing, medical education	Indegene, Sciformix, Captive units of Big Pharma (e.g. Novartis), India units of large firms (Fishwalk, ZS), Curofy, Practo, asthma.com, spondilytis.com, Univadis
e-pharmacy & e-diagnostics	netmeds, pharomeasy, Healthkart, 1MG, MYRA, LifKare
Health Economics & Outcomes research (HEOR)	Excelra, India units of large CROs (PPD, IQVIA)
POC, Home Testing	Biosense, Eyenetra, Diasys
Medical writing and clinical data management	TCS, Accenture, Cognizant
Molecular & Genomics Diagnostics @ POCT	Triesta, strand, bigtec

Source: PWC and EY Consulting

## g) Playing across the Distribution value chain Structural changes in the air

The domestic pharma distribution and retail-end market is hugely unorganized and fragmented comprising over 65,000 distributors and over eight lakh retailers. The share of Top 3 pharma distributors in India is a mere 2% (versus ~35% share in China). Only 150 to 200 distributors report a revenue c.USD 15Mn. The highly fragmented nature of the industry represents a huge opportunity for organized players to grow through a variety of routes – both organic and inorganic.

The coming decade is set to experience structural changes across the entire/parts of the pharma distribution business which acts as the link between pharmaceutical companies and its customers, i.e. chemists, pharmacy chains (both e-hospitals, clinics and other pharma distributors). One key enabler for this change is Digital/ eCommerce retail models leapfrogging Brick-n-Mortar (presently at USD 0.5Bn market size with 3% penetration). Further, GST implementation can also drive consolidation in this market.

	2018	2023	% CAGR
Pharma distribution market (at distributor level)	USD19Bn	USD27Bn	10-12%
No. of distributors	~65000		
No. of retailers - mom & pop stores	~8L	~5-6L	
e-Pharmacy market size	USD0.5Bn	USD3.7Bn	63%
e-pharmacy penetration	3%	14%	
No. of pharmacies - online players	10-20	5-6	

Source: Company presentations; Frost & Sullivan Outlook on ePharma Market in India | EY ePharma – Delivering Healthier Outcomes | CLSA India Pharma Sector Outlook

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](mailto:info.tchf@tatacapital.com).