

TATA CAPITAL

Healthcare Fund

Private Healthcare 2023

Deal Outlook

India Healthcare / life-sciences Private Healthcare 2023 Deal Outlook

Private Capital in healthcare registered yet another strong year in 2022. Despite a muted macroeconomic environment, the Indian Healthcare sector's US\$5.7Bn+ private capital deal flow in 2022 reflects another year of robust deal activity after the record US\$6.2Bn flows seen in 2021. With this, **the sector's share of private capital stands at 12% of the total funding in the country, the highest ever in the last decade.** It is heartening to see the strong activity in the private capital side especially given that the sector's IPO deal activity has seen a sharp 80% drop in 2022 at US\$475Mn. The listed segment too registered significant relative underperformance in 2022 with the BSE Healthcare index down 12.1% vs BSE Sensex being up 4.4%. Of course, an interesting fallout of this divergence of activity between the private and listed/IPO markets has been a far more rational expectation on valuation metrics as well as several pre-IPO deal opportunities. As a long-term PE investor, our view on the sector's core fundamentals continue to remain positive given the established track record of value creation, attractive growth outlook and its recession proof nature. Looking ahead we highlight four trends at play in terms of private healthcare deal outlook:

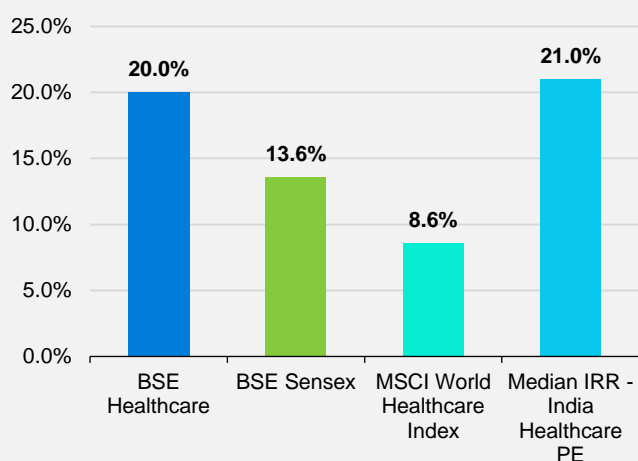
1 Over the course of the decade, we expect to see the sector continuing to attract US\$ 3-4Bn private capital YoY thereby resulting in a likely ~US\$ 25-30Bn additional capital between 2023-2030

2 The average ticket size of transactions has doubled in the last five years to over US\$ 46Mn and continues to trend higher Y-o-Y. A large part of the higher ticket size has come from a ~50% growth in deal volumes (2022 vs 2020) in the US\$ 5-50Mn ticket size

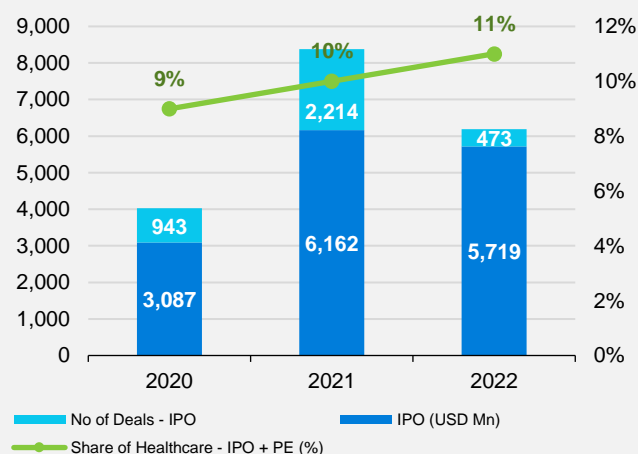
3 Three core segments - pharmaceuticals, healthcare delivery and digital are today attracting ~ 90% of private capital investment. The digital segment is now sizeable at 30% of the total pool; we expect this trend to continue

4 Growth capital transactions will continue to be the majority vis-à-vis early stage and buyout, although we expect the buyout segment to continue taking up more share from growth capital

Private Capital Investment in Healthcare (2020-2022) - Returns



Private (VC + PE) and IPO Capital Investment in Healthcare (2020- 2022) – USD(Mn)



Source: Venture Intelligence, BSE, TCHF Internal estimates

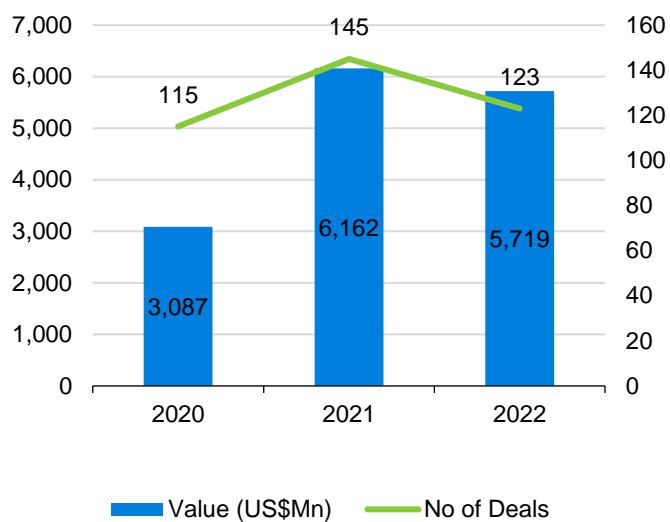
Noteworthy trends at play for private healthcare deal outlook



Continued investor interest in the sector with US\$5.7Bn after a record year in 2021.

The Indian Healthcare and Lifescience sector, benefitted in terms of private investments during the pandemic and we saw doubling of private investments in 2021 with US\$ 6.2Bn invested in the sector. While the pandemic has passed, the investor interest in the sector hasn't waned and 2022 recorded ~US\$5.7 Bn. The total private capital investments in India was down by ~30% in 2022 but the Healthcare. Sector saw only a slight dip of 8%. The sector today accounts for nearly ~12% of the country's private capital deals and ranks among top 3 sectors in terms of deal value and volume in the country over a period of 12 years. Driven by sector fundamentals and the significant demand-supply mismatch, we expect the strong deal momentum to continue through the present decade as well.

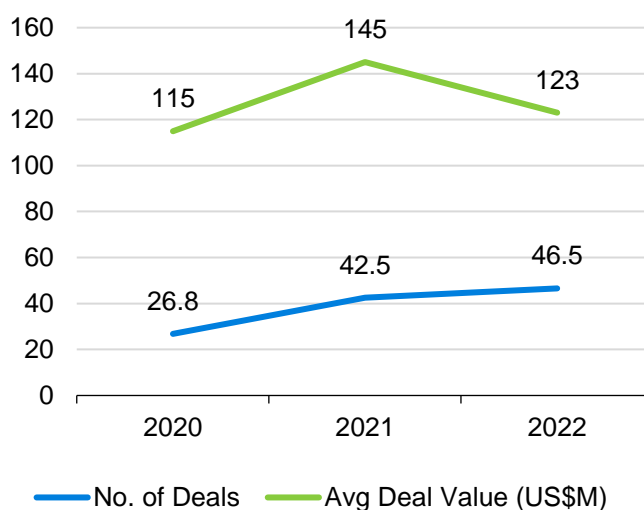
India Healthcare Private Investments (2020-22) – Value (US\$Mn) and Volume (no.)



The average ticket size in 2022 ticking upward despite a 59% increase in 2021.

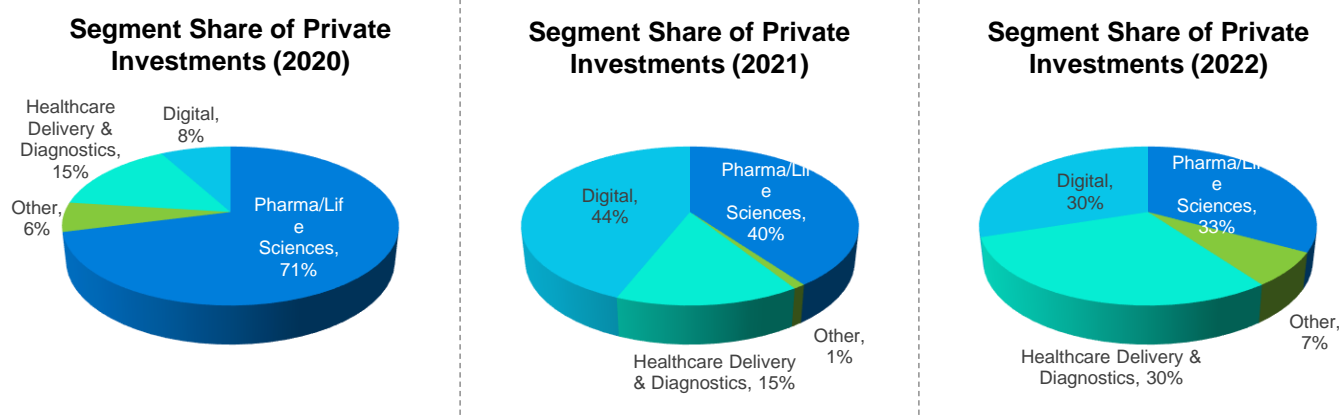
Based on historical data, between the years 2010-2017, the average ticket size of private healthcare deals ranged at USD10-15 Mn with deal volumes doubling during that period. The first inflection point for the sector was in 2018, where the average transaction value rose to USD25-35 Mn with total volumes being steady at 100+ transactions every year. 2021 was a record year with average transaction size of US\$42.5M recording a 58.6% growth over 2020, this was primarily driven by a significant increase in large ticket transaction. It is interesting to note that this trend continued in 2022 in the sector with further growth in the large ticket transactions leading to an increase in the average ticket size. Going forward, we expect the trend to continue where both the average ticket size and deal volume grow steadily between 8%-10% annually.

India Healthcare Average ticket size of private investments (2020-22) – US\$(Mn)



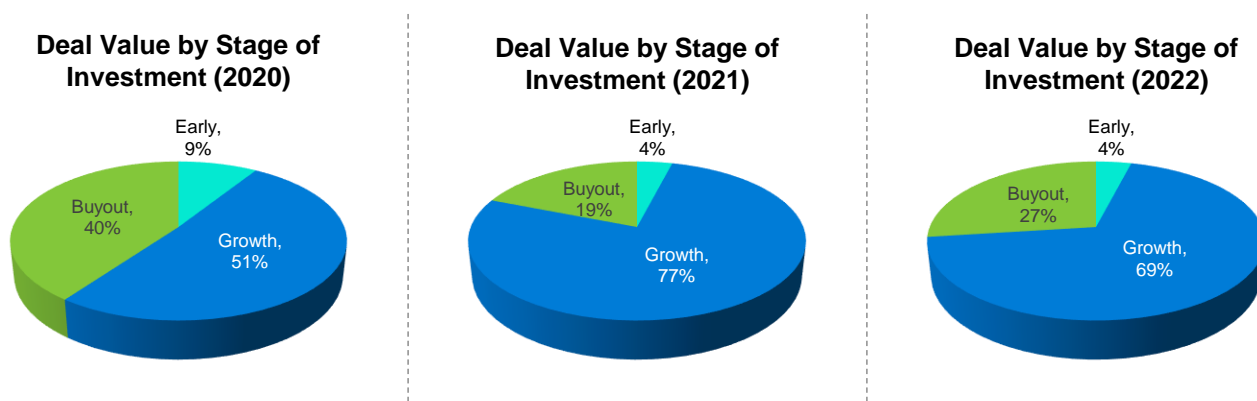
03 >> Digital continues to attract 30%+ capital for a second year in a row

Based on the 2022 share of investments data across the subsectors confirms the mega trend observed in 2021 that Digital is here to stay and is expected to continue attracting a significant portion of investment in the sector. Increased patient awareness over the past few years combined with high internet adoption and penetration has resulted in a vibrant digital healthcare ecosystem in the country today. It is also interesting to note that the Healthcare Delivery sub-segment which usually attracted 15%-20% of total private capital has attracted a higher share of the investment with 30% of total capital in 2022 getting allocated to the segment. We expect the pharma lifesciences sub-segment to increase its share in vs other segments and continue to be the dominant sub-segment in the future after a poor 2022.



04 >> Growth Capital deals still a majority; intense buyout activity is a notable and new shift.

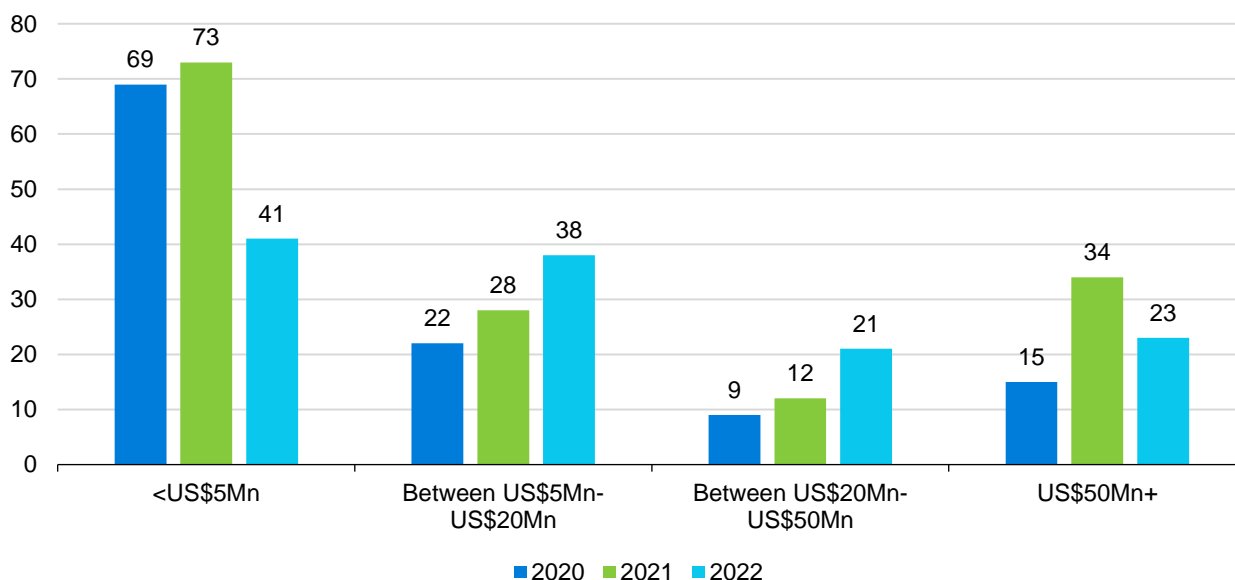
In 2020, we observed Buyout deals contributing to ~40% of investment in the sector, however this appears to have been a one-off instance on the back of COVID-19. 2021 and 2022 highlights that growth stage investments continue to be the mainstay of sector's private capital allocation. We expect growth capital to remain the mainstay going forward however given the high levels of dry powder in large buyout PE funds focusing of India, we expect that Buyout segment to steadily increase their share of the overall investment in the sector.



05 > Transactions in the range of USD 5M-50Mn growing steadily every year (~34%)

Based on the three-year historical data of deal volume across deal size, we observe that two segments (USD 5Mn – USD 20Mn) and (USD 20Mn – USD 50Mn) are steadily growing with the latter growing quicker and doubling in 2022 when compared with 2021. Meanwhile the <USD 5Mn segment has seen a significant drop off (~55%) which can be attributed to the overall weak market sentiment in 2022. We also note that the >USD 50Mn segments have dropped by (~40%) in 2022 which points to a drop off in buyout activity and weak sentiment in digital first unicorn companies which attracted significant pools of capital in 2021.

Deal volume split based on deal size (2020,2021 and 2022)



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.