

Trends in Healthcare Financing

March 2010

Trends in Healthcare Financing

Equity

- ▶ Private Equity
- ▶ IPO



I

Debt



II

Strategic Partnerships

- ▶ Management Contract
- ▶ Joint Venture

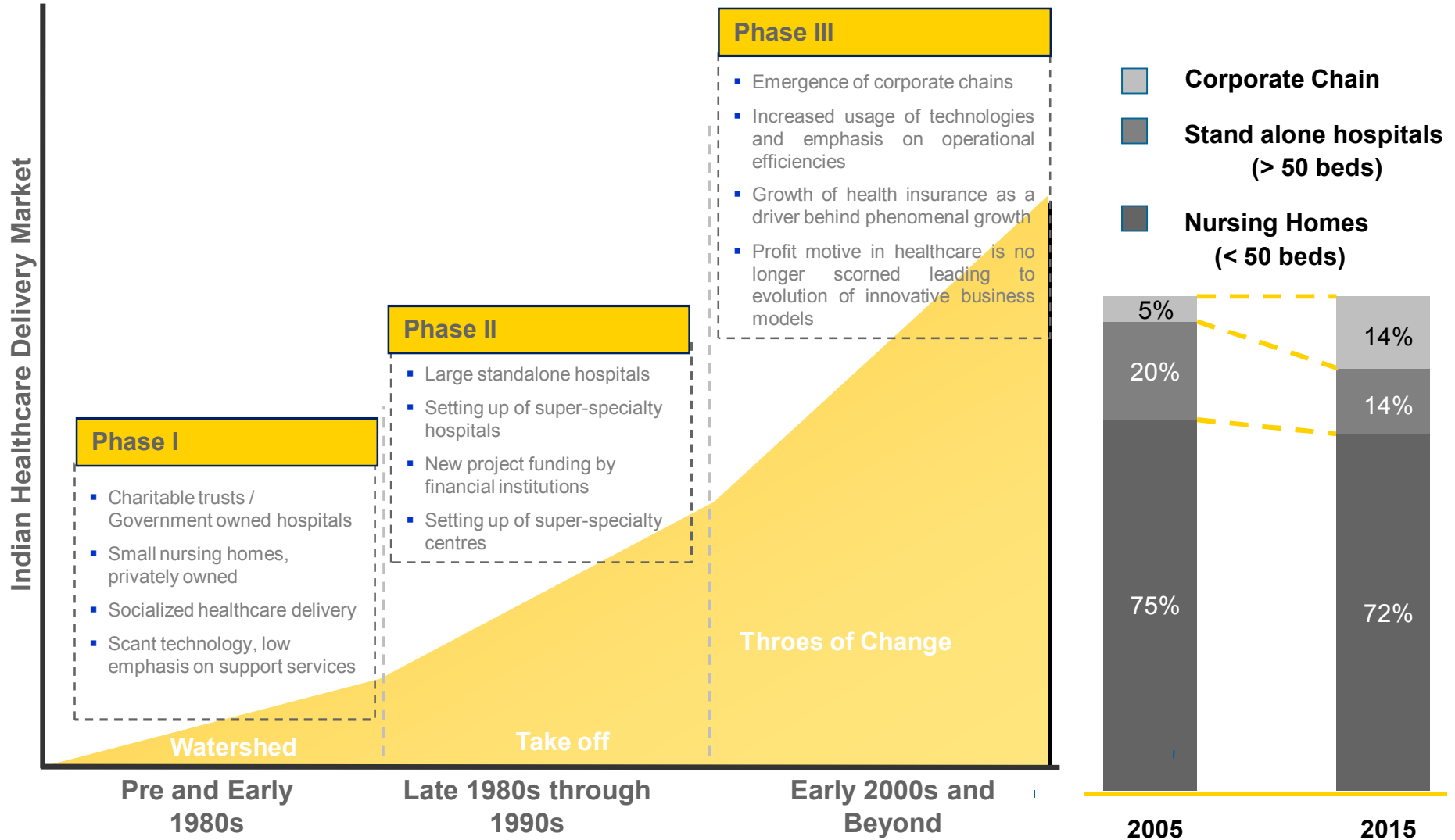


III

Background



Evolution of Indian Healthcare Delivery



Evolution of Indian Healthcare Financing

Early 1980s and 1990's

- ▶ Few small IPO's in early 90's
- ▶ Most hospitals set-up under the trust/ co-operative society structure
- ▶ Negative view of healthcare sector due to high level of NPA's

Mid 2000s and Beyond

- ▶ Hospitals being set-up under Corporate structure
- ▶ Emergence of "Hospital Chains"
- ▶ Increasing government support
 - ▶ Priority status
 - ▶ Five-year tax Holiday for setting-up a hospital in non tier 1 cities
- ▶ Increased focus of investors - Healthcare being viewed as RECESSIOIN PROOF industry

Trends in Healthcare Financing

Equity

- ▶ Private Equity
- ▶ IPO



I

Debt



II

Strategic Partnerships

- ▶ Management Contract
- ▶ Joint Venture



III

Private Equity



Private Equity - Investment Themes

Hospital Chains

- ▶ Investing in large corporate hospital chains. For example
 - ▶ Warburg Pincus, IFC - Max Healthcare
 - ▶ Apax Partners - Apollo Hospitals
 - ▶ Ashmore - Care Hospital

Build Network









- ▶ Building a portfolio of hospitals by acquiring majority/ significant minority stake. For example
 - ▶ ICICI Venture have acquired 4 hospitals (RG Stone, Vikram Hospital, Medica Syg and Sayadri Hospital)
 - ▶ Sabre Healthcare - similar strategy







Emerging Players - Stand alone Hospitals

- ▶ Investing in standalone profitable hospitals with scope for expansion. For example
 - ▶ Actis - Sterling Hospitals
 - ▶ AIG & JP Morgan - Narayana Hrudayalaya
 - ▶ Milestone Religare - Krishna Institute of Medical Sciences

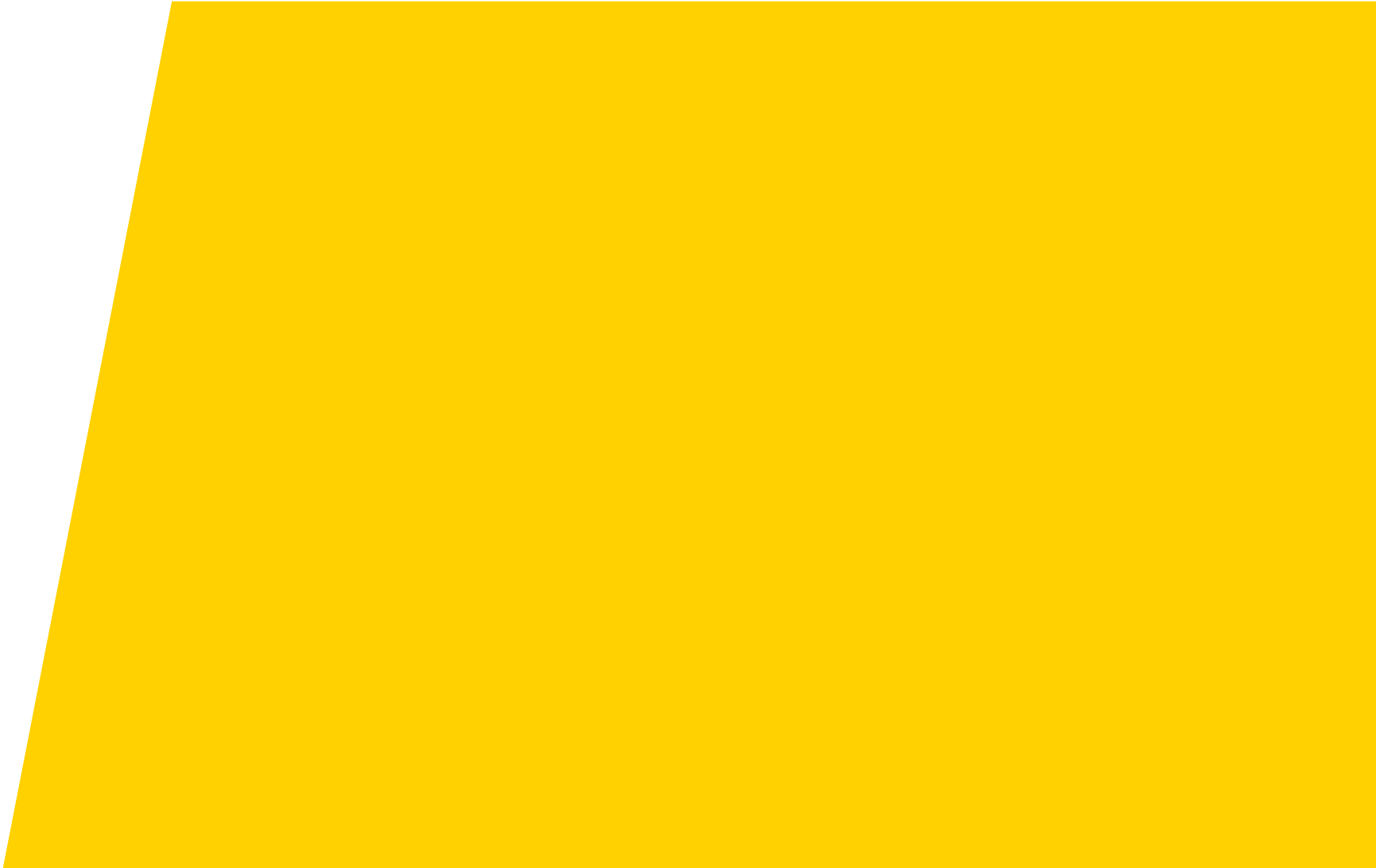
Healthcare being one of the "recession proof" industries, private equity players are keen to invest in Healthcare (Hospitals, Diagnostic, pharmacy chains etc)

Private Equity Investments

Hospital	Investors	Amt in USD million	Stake
	Apax Partners	104	13.6%
	BCCL	10	1.5%
	CitiGroup	20	3.2%
	IDFC	18	NA
	Warburg	30	30.0%
	IFC	60	3.9%
	Ashmore Fund	90	19.0%
	Actis	15	41.0%
	Columbia Pacific	NA	NA
	Indivision	25	25.0%

Hospital	Investors	Amt in USD million	Stake
	JP Morgan	40	12.5%
	AIG	40	12.5%
  		24	NA
		36	NA
		10	NA
		16	NA
Medicare Synergie			
	IDFC	10	NA
	PremjiInvest	18	NA
	Evolence	6	NA
Oyster and Pearl	Sabre Healthcare	13.5	NA
Dr Lal Pathlabs	Sequoia Capital	NA	26%

IPO



Key criteria for a successful IPO...

Company Size

- ▶ Revenue of the company should be at least Rs 400 to 500 Cr

Issue Size

- ▶ Issue size of the IPO should be at least Rs 100 Cr

Advantages

- ▶ Liquidity for Existing shares
- ▶ Participation by Qualified Institutional Investors
- ▶ Increase in market visibility and reputation
- ▶ Valuation Benchmark
- ▶ Platform for future Fund raising exercises
- ▶ Attract/Retain Talent through ESOPS

Issues and Key Trends - IPO

Issues

- ▶ Higher issuance costs (6% -7%)
- ▶ Company under constant regulatory/ market scrutiny
- ▶ Compliance and public disclosure requirements

Key Trends

- ▶ Volatility in markets has dampened the overall interest
- ▶ Only high quality IPOs likely to get subscribed

Trends in Healthcare Financing

Equity

- ▶ Private Equity
- ▶ IPO



I

Debt



II

Strategic Partnerships

- ▶ Management Contract
- ▶ Joint Venture



III

Debt Funding in Healthcare - A Snapshot

Greenfield Projects	Brownfield Projects	Equipment Financing	Others
<ul style="list-style-type: none">▶ Term Loan	<ul style="list-style-type: none">▶ Acquisition financing▶ Term Loan (for existing expansions)	<ul style="list-style-type: none">▶ Bank Debt▶ EXIM Finance▶ Consumable contract/ Re-agent contract▶ Financing lease▶ Managed equipment services	<ul style="list-style-type: none">▶ Working Capital finance

Prevalent equipment financing structures in the industry

Model	Equipment	Example	Comment
On-Balance Sheet			
Bank Debt - Self Arranged	High Value	ICICI, HDFC, SBI	Largely Established
Deferred Payment	High Value	GE, Siemens	All
Upfront + Profit Sharing		Ganga Ram	Established players
Off-Balance Sheet			
Rental	Patient Monitors	RMS	High Seasonal variation
	Cpap, Bipap	Respimed	
	MRI / CT	Apollo (Agfa)	Asset Light Strategy
	Dialysis Machines	Fresenius	
Reagent - Fixed rate contracts	Pathology, IABP	Transasia	Fast becoming a prevalent model for most consumers
		Roche	
		J & J	

Project Finance/ Term Loan - Key Parameter

Parameter	Norms
Debt equity ratio	▶ < 1.25 times
Debt Service Coverage Ratio	▶ minimum 1.25 and ▶ average to be more than 1.5 times
Fixed Asset Coverage Ratio	▶ >1.33times
Debt Service Reserve Account	▶ to be maintained for 1 to 2 quarters of principal and interest repayments
Moratorium	▶ During construction period is usually provided by the banks ▶ However, for cash flow losses in initial years of operation, additional moratorium or ballooning repayment structure could be agreed upon
Key Lenders in Healthcare	▶ State Bank of India, ICICI Bank, PNB, Standard Chartered Bank, Axis Bank, BOI, etc

Trends in Healthcare Financing

Equity

- ▶ Private Equity
- ▶ IPO



I

Debt



II

Strategic Partnerships

- ▶ Management Contract
- ▶ Joint Venture



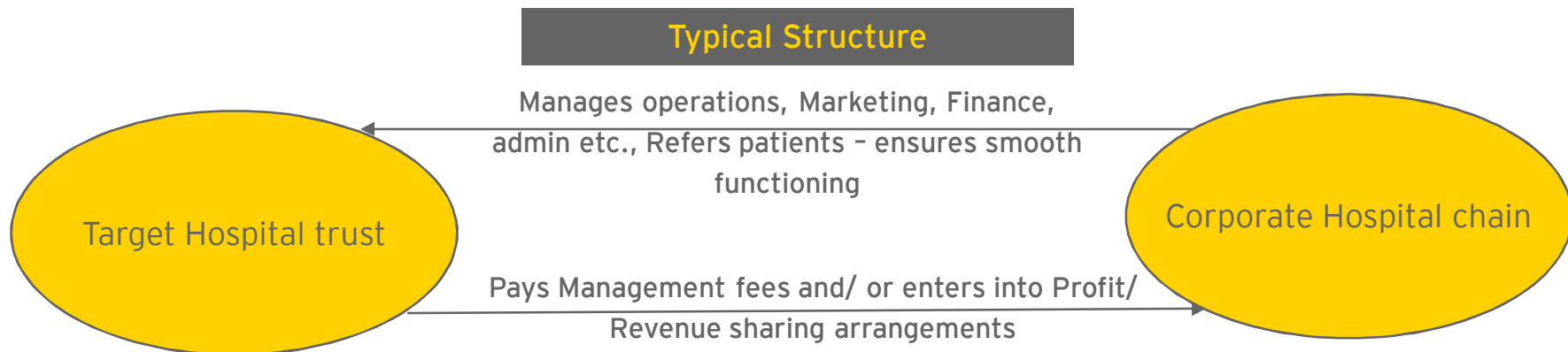
III

Strategic Partnerships



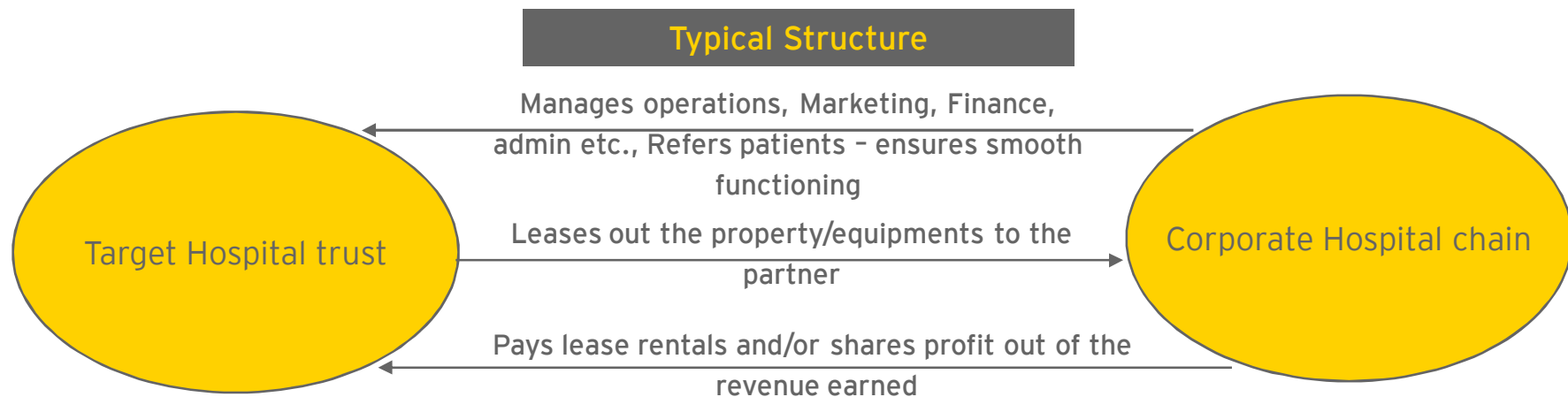
Management contracts - Fee Structure

- ▶ Under this, large Corporate hospital chain will enter into a management contract with target hospital.
- ▶ It will undertake the following broad functions
 - ▶ Managing marketing, operations, administration, finance etc.
 - ▶ Patients referred from other units within India/ overseas
 - ▶ Overall management responsibility
- ▶ Target Hospital will have to pay a pre-decided management fee (on a periodic basis) or enter into revenue/ profit sharing arrangements with the counter party
- ▶ *The Revenues/ income will be booked under the trust & the ownership of Land, building & other assets remains with the trust too.*



Management contracts - Lease Structure

- ▶ Under this the trust will lease out the entire hospital (land, building, equipments etc.) to the Partner/ Corporate hospital chain
- ▶ The partner will undertake the following broad functions
 - ▶ Managing marketing, operations, administration, finance etc.
 - ▶ Patients referred from other units within India/ overseas
 - ▶ Overall management responsibility
- ▶ *The revenues would be booked under the name of Hospital chain & it will in turn compensate the trust by paying lease rental and/or share of profits.*
- ▶ Ownership of Land, building & other assets remains with the trust.

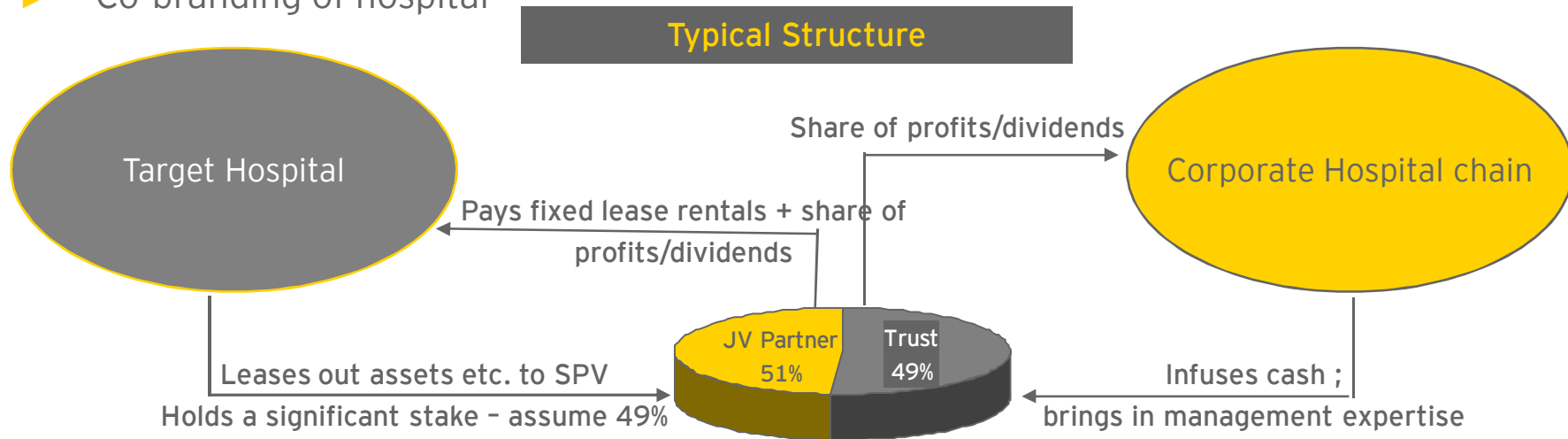


Illustrative list of Management Contracts

Hospital	No of Beds	Location	Corporate Chain/ Operator
SL Raheja Hospital	180	Mumbai	Fortis Healthcare
Modi Hospital	200	Kota	Fortis Healthcare
Jehangir Hospital	305	Pune	Apollo Hospital
Apollo Hospitals	330	Dhaka	Apollo Hospital

Joint Ventures

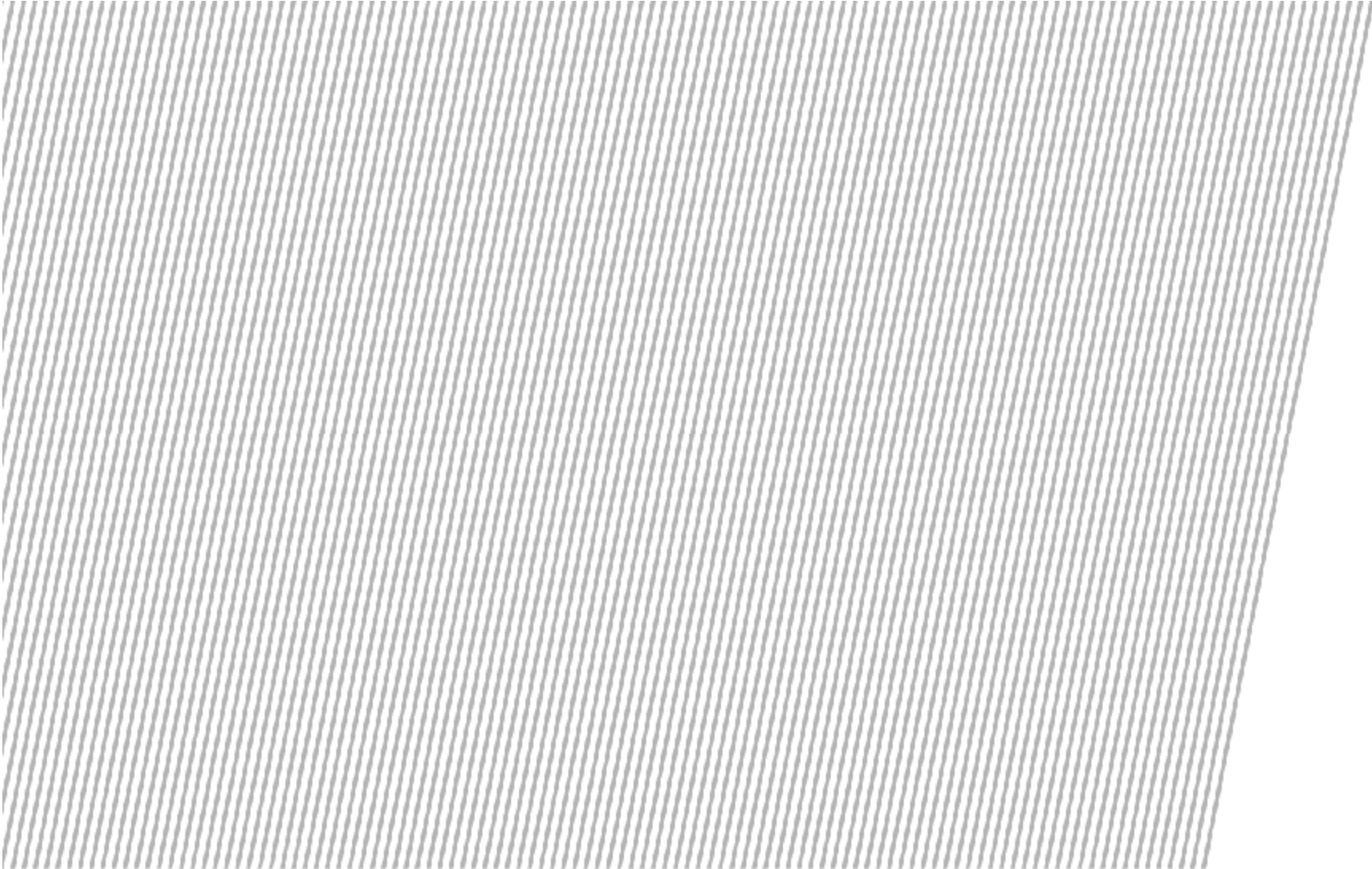
- ▶ Under this, a new Private limited co./ Special Purpose Vehicle (SPV) will be incorporated
 - ▶ The trust can lease out its assets to this new entity & earn fixed lease income
 - ▶ The JV partner (Corporate hospital chain) can invest money into this SPV - which can be used for further expansion of hospital, purchase of equipment etc.
 - ▶ Alongwith the trust, the JV partner shall also have an equity stake/ shareholding in the SPV
- ▶ Flexibility in structuring management contract - various functions such as operations, finance, marketing etc. can be managed by JV partner (as described earlier)
- ▶ Co-branding of hospital



Illustrative list of Joint Ventures

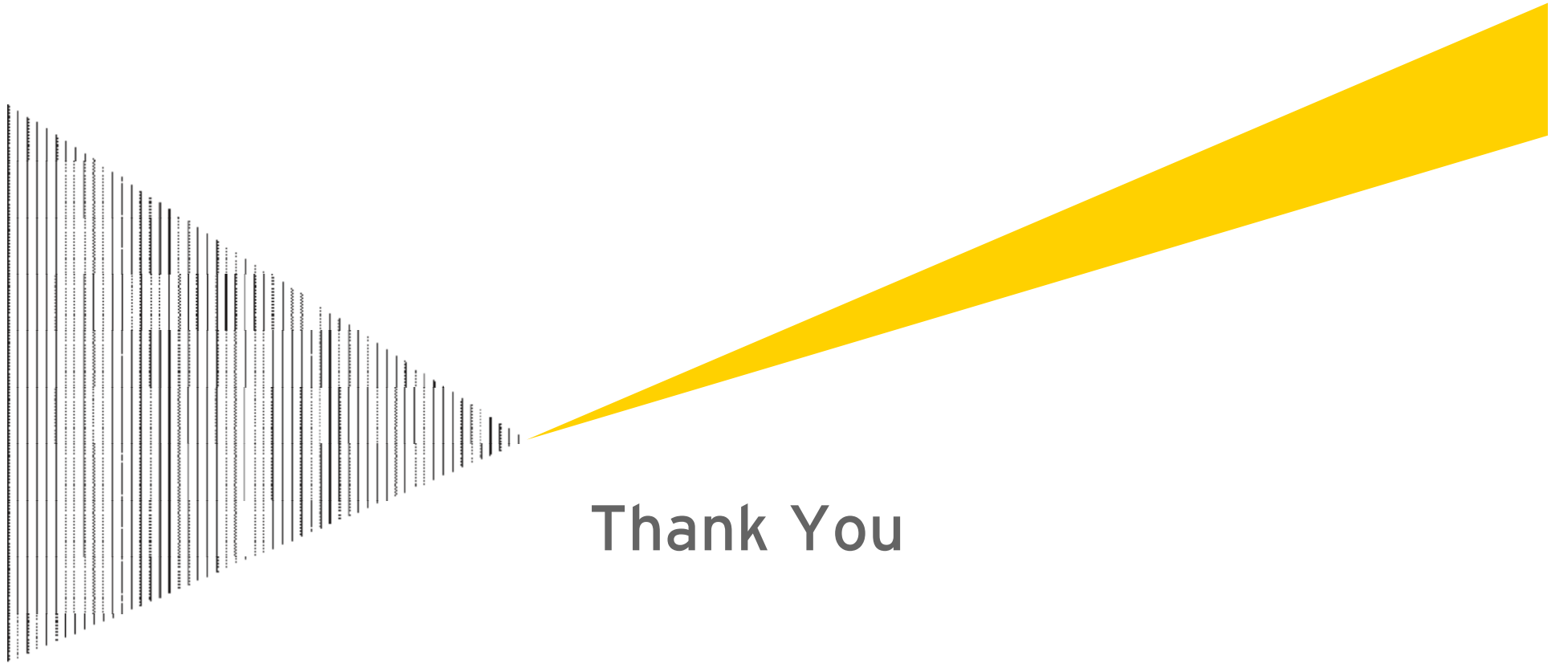
Hospital	No of Beds	Location	Corporate Chain/ Operator	Stake acquired
Clinique Darné	110	Mauritius	Fortis Healthcare	29%
RM Hospital	100	Bangalore	Fortis Healthcare	>67%
Apollo Gleneagles Hospital Limited	423	Kolkata	Apollo Hospital	50%
Apollo Hospitals International Limited	320	Ahmedabad	Apollo Hospital	50%
Imperial Cancer Research Centre	250	Bangalore	Apollo Hospital	51%

Disclaimer



Disclaimer

This document has been prepared by Ernst & Young Private Limited for discussion purposes only. The information and opinions contained in this document are derived from public and private sources which we believe to be reliable and accurate but which, without further investigation cannot be warranted as to their accuracy, completeness or correctness. This information is supplied on the condition that Ernst & Young Private Limited and any partner or employee of Ernst & Young Private Limited are not liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such a supply. Ernst & Young Private Limited is also not liable for any loss or damage howsoever caused by relying on the information provided in this document. In particular any numbers, initial valuations and schedules contained in this document are preliminary and are for discussion purposes only and does not constitute an opinion. The credentials mentioned herein include those transactions concluded by any entities which have since merged with Ernst & Young Private Limited.



Thank You

 **ERNST & YOUNG**
Quality In Everything We Do