Private hospitals in India rush to raise capital as healthcare demand picks up post-pandemic

Edit

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Multi-specialty hospitals in India are trying to amass huge funding from investors as they look to capitalise on the abatement of the pandemic and unmet demand for healthcare services in the country.

At least 10 large hospital chains across India are currently negotiating with private equity (PE) and venture capital (VC) firms, according to sources within the industry. These include Gurugram-headquartered Paras Healthcare, Maharashtra's Sahyadri Hospitals and Kauvery Hospital in the southern city of Tiruchirappalli.

All of them are backed by PE and VC investors.

While Creador-backed Paras is understood to be talking to investors including TA Associates to increase its penetration in smaller towns and cities in India, Kauvery Hospital is reportedly targeting to have 3,000 beds by 2025 from 1,500 currently The latter counts LGT Lightstone Aspada among its backers.

The investors Kauvery has approached could not be ascertained.

The need for funding has gone up as hospitals are focusing on a 'cluster approach' — wherein they operate in a location cluster to tap brand, cost, practice and management synergies — to cash in on the huge pent-up demand for various treatments that had taken a backseat during the COVID19 crisis.

Top Canadian pension fund Ontario Teachers' Pension Plan Board (OTPPB) recently made headlines for evincing interest to buy out PE firm Everstone Capital's majority stake in Sahyadri Hospitals. Earlier, Max Healthcare was understood to be in the fray to clinch the deal.

According to media reports, the proposed transaction could peg the value of Sahyadri Hospitals at Rs 2,500-2,700 crore. Meanwhile, Paras is looking at an enterprise valuation of over Rs 3,000 crore ($377.17 million), sources earlier told DealStreetAsia.

“With the onset of the pandemic, postponement of planned surgeries and reduced OPD footfalls negatively impacted the core hospital business,” said Darius Pandole, MD & CEO, private equity and equity AIFs (alternate investment funds) at JM Financial.

“While large hospital chains were able to respond to those challenges by rationalising their cost structures, some smaller players struggled to keep operational costs under control,” he added.

However, with COVID infections subsiding in the recent past and pressure on the healthcare ecosystem easing, demand for planned surgeries has started witnessing a strong revival.

“This has led to a sudden increase in capacity utilisation in the large hospital chains,” said Pandole.

Max Healthcare recently made headlines when media reports cited that its largest shareholder KKR initiated plans to sell its entire stake for around Rs 10,000-12,000 crore.

“The sector is opening up now. Medical tourism and discretionary surgeries are all coming back with a bang. Due to COVID restrictions, operations were restricted but now things are turning around big time. Further, there has been a time lag for the upgradation of equipment,” said Girish Vanvari, founder of Transaction Square, a corporate advisory firm in India.

Hospitals across India seem to be playing to their strength and sticking to their knitting as they seek financial support to train and pay specialist doctors. The trend gains steam as the government, too, on its part, has been pushing for the recruitment of more such health professionals across the country – even in small towns and rural areas.

According to industry estimates, more than 70% of India currently lives in the hinterland — of this 60% is poor, 35% is middle class while the remaining can be categorised as rich. Further, about 60% of hospitals, 75% of dispensaries and 80% of doctors are located in urban areas.

Among big-ticket transactions clocked in the hospital space recently, India’s sovereign wealth fund NIIF announced an investment of Rs 2,100 crore in Manipal Hospitals last year. More recently, in February, Singapore’s sovereign wealth fund GIC parked $170 million in Asia Healthcare Holdings (AHH), which is a single-specialty hospital backed by TPG Growth.

While healthcare has always been the ‘apple of the eye’ for investors, the COVID19 pandemic gave a further impetus to it, highlighting the sheer scale of need and opportunity for private capital to cash in on. This probably explains why fund managers are increasingly getting ready with dedicated healthcare funds to invest in the country.

Eight Roads, the global investment firm backed by Fidelity, is the latest to announce its first dedicated India healthcare and life sciences fund in May. Tata Capital Healthcare Fund marked the final close of its second vehicle with commitments of $126 million in March.

“There is a huge opportunity in the unlisted space...there will be a huge consolidation for which PE capital will play a big role,” said Vanvari.

Going forward, PE and VC firms could play a big role in bridging the gap between the challenges hospitals face — in terms of manpower, technology, and supply chains — and patient requirements.

In the first half of this year, PE and VC firms invested $390 million in India’s private hospitals, show data available with Venture Intelligence. The amount in 2021 and 2020 stood at $634 million and $216 million, respectively.

Asia Healthcare Holdings | Creador | GIC | Kauvery Hospital | Max Healthcare | OTPPB | Paras Healthcare | Sahyadri Hospitals | TA Associates