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IMPACT OF FOREIGN PRIVATE EQUITY IN INDIAN HEALTHCARE

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Impact of Foreign Private Equity in Indian Healthcare


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Table of Contents

Executive Summary

By 2022, India's healthcare sector is expected to experience a three-fold increase, growing at a CAGR of around 22%. Following this, it is likely to reach US$372 billion in monetary terms. The healthcare sector had become the fifth largest employer in 2015, employing close to 4.7 million people. As per estimates,[1] healthcare can bring about 2.7 million additional jobs in India between 2017 and 2022. India's healthcare industry comprises hospitals, medical devices, health insurance, telemedicine, and medical tourism. The rise in lifestyle diseases due to high cholesterol and high blood pressure in urban areas boosts demand for specialized care services. In addition to these, COVID-19 is likely to propel long-term changes in attitudes towards health monitoring and proactive medical check-ups. The increase in focus on healthcare has also accelerated Private Equity (PE) investments, both locally and from overseas. Further, there is also a growing emphasis on the emergence of Public–Private Partnership models in India's healthcare sector. The country's relative cost advantage and the availability of skilled labour make it a favourable destination for investments. The government is also taking initiatives to strengthen the healthcare sector. Together, these factors create several opportunities for investment in India's healthcare industry. Consequently, the healthcare sector has received heightened interest from investors over the past few years. These investments are flowing to enhance healthcare delivery to metropolitan cities, as well as Tier 2 and Tier 3 cities, which offer attractive investment opportunities. On a broader canvas, the Indian healthcare sector offers unparalleled investment opportunities, thus receiving significant attention from potential investors.

This report highlights the challenges and benefits of PE investments from the perspective of various key stakeholders, including doctors, patients, and other hospital staff. The need for PE investments primarily arises due to the hospitals being cash starved. From the perspective of a foreign PE investor, the motives include expanding footprint in India and opportunity for attractive profits. PE firms usually invest in Indian hospitals, intending to grow rapidly while gaining quick returns on their investments and, in the process, also grow the investee hospital.

Overall, a successful deal requires considerable effort from investors and investee organizations. They need to arrive at a common purpose and then develop strategies to achieve the desired goal. Networking plays a vital role in facilitating a profitable investment. In addition to these, the government must play the role of an anchor to various stakeholders while designing policies to facilitate such investments. If well-orchestrated, efforts by all the stakeholders could lead to successful outcomes that positively impact the quality of healthcare in the country.

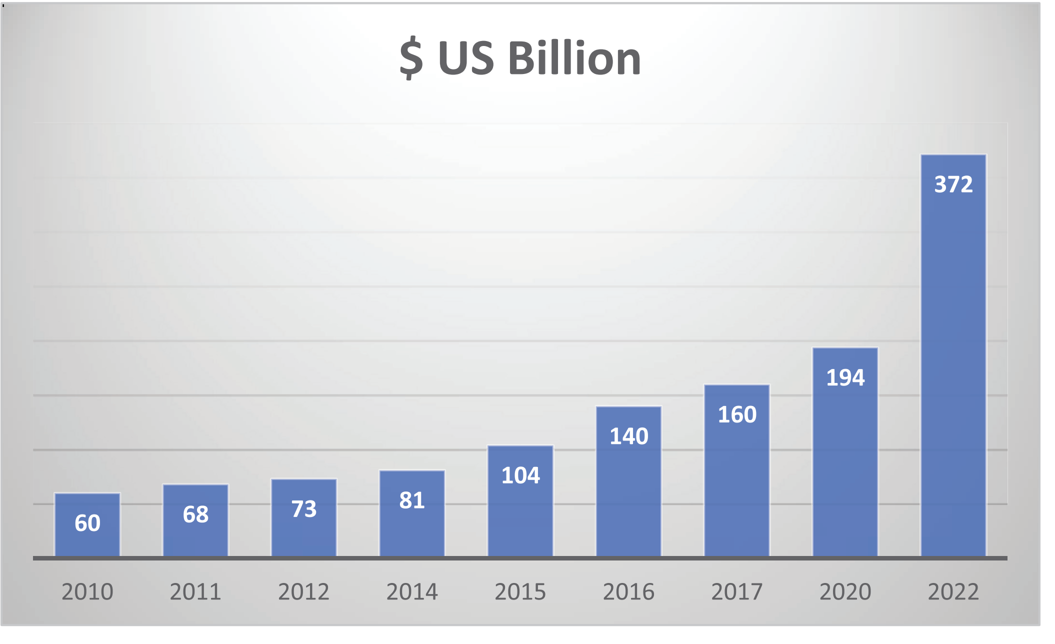
[1] National Skill Development Corporation 2021.

Chapter I

Introduction

India is dedicated to achieving Universal Health Coverage as part of the Sustainable Development Goals (SDGs).[1] However, as per the Human Development Report, India has just five beds and about eight doctors for every 10,000 people, which is considerably low compared to other developed nations. As per the World Health Organization (WHO) standards, India still can raise its supply of beds from current levels to the standards of Japan and South Korea of over 100 beds per 10,000 people. At the same time, due to rising incomes, growing geriatric population, and rising chronic care, demand for quality healthcare is increasing. The Indian healthcare sector is expected to generate 2.7 million new jobs in India between 2017 and 2022, which amounts to over 500,000 new jobs per year. Moreover, the healthcare industry in India is projected to reach revenue of US$372 billion by 2022. Figure 1 shows the growth of the healthcare sector in India over the years. The momentum of this growth can be sustained in the coming years only if private-sector investments in healthcare increase substantially in the next few years since the public-sector investments available for funding healthcare projects have been constrained.

Figure 1: Revenue Growth Rate of Healthcare Industry



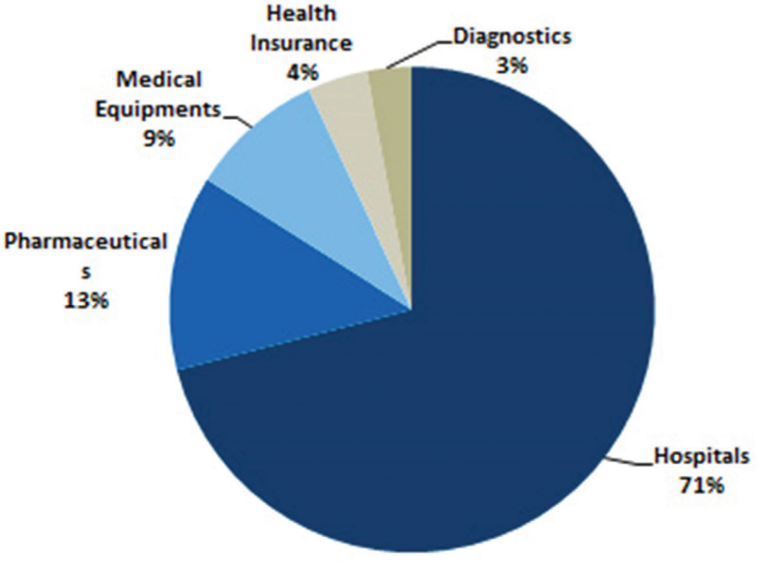
Source: India Brand Equity Foundation Report, 2021.

[2] These were set up in 2015 by the United Nations General Assembly and are intended to be achieved by 2030. They are the blueprint for achieving a better and more sustainable future for all by addressing global issues like poverty, inequality, climate change, peace, and justice.

The Indian healthcare sector has to grapple with immense diversity in culture, huge population, and growing awareness about health among the people. To ensure equitable access to healthcare services in India, governments at both the state and national levels are taking various steps to provide the services to the base of the pyramid. The present Compound Annual Growth Rate (CAGR) of the Indian Healthcare industry is at 17%. This has been catalysed due to increasing income levels, enhanced awareness about healthcare, growing incidence of lifestyle diseases, as well as increasing insurance coverage. With the rise in non-communicable diseases (NCD) and the escalating costs of treatment, research and development in medical science is on the rise. The cost of medical treatment in India generally is met mainly from out-of-pocket expenditures of the patients and their families.

The Indian healthcare industry comprises multiple categories of players including hospitals, insurance companies, pharmaceuticals, medical device manufacturers, and diagnostic centres (Figure 2). The hospital sector accounts for about 71% of the total healthcare in terms of expenditure and market size.

Figure 2: Percentage Share of the Healthcare Sector



Source: NITI Aayog, 2020.

A REALITY CHECK

According to the Healthcare Federation of India (2018),

- India's NCD continue to increase at a rapid rate and are responsible for around 60% of deaths in India.
- Approximately 63 million people get into poverty each year due to a lack of financial protection for their healthcare needs.
- With a shortage of 22% in the primary health centres (PHCs) and 32% in community health centres (CHCs), it is estimated that 50% of beneficiaries, especially those living in the rural hinterland, travel more than 100 km to access quality care.
- 70% of India's healthcare infrastructure is concentrated in the top 20 cities, demonstrating extreme skew in availability of quality healthcare services.

- Many hospitals have obtained / are seeking to obtain the National Accreditation Board for Hospitals & Healthcare Providers accreditation for improving the quality and standards of care.
- The private sector dominates Indian healthcare. Given the enormity of capital requirements and constrained public funding, there is a significant need for private capital to bridge this funding gap.

ROLE OF PUBLIC SECTOR IN INDIAN HEALTHCARE

An ideal healthcare system is expected to satisfy four significant criteria, viz., accessibility to quality healthcare; fair distribution of the services and financial costs incurred for patient care; training the healthcare providers for the services and accountability; and special emphasis on the vulnerable groups of the population, including the people below the poverty line. In this regard, the Indian government has initiated several significant reforms to strengthen healthcare services. One of the lead initiatives is the launch of Ayushman Bharat,[2] which seeks to enlarge and enhance health insurance for the bottom of the pyramid population, allowing them to get cashless healthcare, thereby signalling a remarkable focus on providing quality healthcare to this vulnerable section of the population. Another significant government initiative is the introduction of a credit incentive programme valued at INR 500,000 million to boost the healthcare infrastructure.[3] Specifically, the government has allotted US$6.8 billion in June 2021 that allows firms to leverage the funds used to expand the hospital capacity or medical supplies with the government acting as a guarantor. The Ministry of Ayurveda, Yoga, Unani, Siddha and Homeopathy increased the budget for healthcare to Rs. 29,700 million in the Union Budget 2022 from Rs. 21,220 million during the previous year.

Furthermore, the Indian government has enhanced its spending on healthcare.[4] The 2021–2022 Union Budget allocated a sum of INR 2,238,460 million for health and wellbeing, compared to INR 944,520 million in 2020–2021. The government also aims to increase its spending on healthcare to 2.5% of the GDP by 2025, in contrast with the current expenditure of 1.28% of GDP. This includes emphasizing more on preventive and primary healthcare. We now provide a brief overview of the role of private sector in Indian healthcare.

ROLE OF PRIVATE SECTOR IN INDIAN HEALTHCARE

India's private-sector healthcare is experiencing rapid growth due to its ability to provide relatively good quality treatment against the backdrop of largely poor public healthcare services. The Indian population has grown by approximately 13.25% from 2011 to 2020, while the total public health expenditure of the central and state governments combined increased by only 0.39% during the same decade. This calls for the private sector in healthcare to fill the void. The National Sample Survey (NSS) conducted in 2017–2018 showed that the public health sector caters to the needs of less than a third of the population. The rest of the population (about 67%) depends on the private sector.[5]

Moreover, the demand–supply gap due to the resource crunch in the public sector has created a healthcare gap that puts the private sector in the spotlight. Several other challenges the public sector faces include limited availability of formally trained healthcare providers, recruiting and retaining qualified staff, poor quality of service due to low levels of motivation, absence of required numbers of specialists, and the overall poor governance and consequent accountability, result in long queues of patients, poor quality of service, etc.

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[2] Ayushman Bharat is a national public health insurance funded by the Government of India that aims to provide free access to health insurance coverage for low-income earners in the country.

[3] Bloombergquint.com, June 2021.

[4] NITI Aayog, Investment Opportunities in India's Healthcare Sector (July 2021).

[5] The Mint, (May 2020) "Less than a third of Indians go to public hospitals for treatment."

India has 43,486 private hospitals, 1.18 million beds, 59,264 intensive care units, and 29,631 ventilators. Total private infrastructure accounts for nearly 62% of all of India's health infrastructure.[6]

Indian healthcare attracts private equity (PE) investments both from within the country and overseas. These investments promise to pave the way for value creation for all stakeholders.

Though PE investment is not a substitute for public provisioning of healthcare services, it catalyses improving efficacies of the healthcare services. It is in this backdrop that the government has also realized the need for significant private-sector investments in healthcare and laid down policies to facilitate foreign PE investments. According to a PwC Report (2018), ensuring the delivery of quality healthcare in India through conventional methods will need an additional investment of US$245 billion by the year 2034. This will enable additional 340 million people to have access to quality healthcare. This would also generate 4.3 million additional jobs. Such enhancement in infrastructure will enable mitigating economic losses due to stroke, diabetes, and heart diseases in the coming years. For all of this to materialize, PE is a vital means of investment in healthcare.

[6] Institut Montaigne Report (2020).

Chapter II

Background of PE Investment in Healthcare

The literature on PE in healthcare is still in a nascent stage.

Nevertheless, PE investments in healthcare are seen as attractive investment opportunities. It is expected that along with financial services and consumer products, healthcare will draw the most PE investments over the next coming years (Neerza & Tripathi, 2019).

The overall global healthcare PE deal value reached US$78.9 billion in 2019 and outperformed the broader PE market on the metric of profitability. The key drivers included underlying demand for healthcare, rising incomes, and growing health-seeking behaviour of people (Jain & Murphy, 2020).

The main reasons for the growth of PE in healthcare include continual innovation that drives healthcare worldwide, implementation of new organizational structures and processes, and evolving regulatory and tax frameworks. Increase in healthcare awareness, among the elderly population and youth, has further accelerated the demand for PE investments in healthcare that has become a vital source of funds for healthcare organizations. Over the past two decades, Indian healthcare systems have adopted service quality improve patient satisfaction levels (Talib & Azam, 2015), which requires continual upgradation of infrastructure, skills, systems, processes, etc.

The annual deals had a steep increase from US$41.5 billion in 2010 to US$119.9 billion in 2019 (Berkeley Report 2021). This significant growth is driven by a stream of projected increases in healthcare spending, tremendous unused capital directed towards PE funds, and market disruption caused by the COVID-19 pandemic (National Centre for Biotechnology Information).

A key motivation of PE investment is to make significant return on investment within a stipulated period. The investor firms raise large sums of capital, putting enormous pressure on the investee organizations to show financial results, sometimes even at the expense of patients' welfare (Scheffler & Godwin, 2021).

A few studies argue that not every organization benefit from PE investments. PE investments in healthcare are expanding rapidly in developing countries. In the Indian healthcare context, a few studies have attempted to map the impact of PE investments on revenues, assets, employee compensation, profits, etc. These studies have revealed that in a few of these cases, productivity and return on assets (ROA) do not improve after the infusion of PE investments. There is a tendency to channel PE investments to high productivity firms, rather than turning around low productivity firms, which requires much more effort on the part of the investing fund (Smith, 2018).

Chapter III

PE Investments in the Indian Healthcare Sector

INDIAN HEALTHCARE: AN ATTRACTIVE OPPORTUNITY FOR PE INVESTMENT

Private players are critical in India's healthcare.[7] It is estimated that 54.3% of medical institutions, 75% of hospitals, 51% of hospital beds, 75% of dispensaries, and 80% of qualified doctors are in the private sector. Most of these are small, fragmented hospitals and founded using personal or family wealth. Hospitals find it challenging to meet the rising demand for quality healthcare.

Given the constrained availability of capital to expand and grow, Indian hospitals are considering PE investments as one of the viable modes for accelerating their growth. Healthcare, a sector resilient to economic fluctuations, is an attractive investment option for PE investors. Hence, it is not surprising that PE investments into the healthcare sector in India have been on a surge in the past few years. However, PE investments have been mainly made in large super-specialty and tertiary care services, while investments in primary and secondary care have remained negligible.

Both the magnitude and number of deals signed in this sector signal investors' confidence, thereby strengthening the perception of India as an attractive healthcare investment destination. These investments in turn catalyse growth in the sector.

[7] Healthcare Workforce in India 2020.

The surge in the PE investments in healthcare brings forth potentially important benefits:

a. Helps increase access and quality of healthcare delivered to patients
b. Makes care delivery more efficient for both payers and providers
c. Makes clinical trials and R&D within the sector more efficient

Identifying Potential Targets and Potential Acquirers: Is It a Two-Way Street?

While pursuing investment opportunities, most PE firms look for several attributes in the investee organisations, including strong market position, sustainable competitive advantage, multiple avenues of growth, and stable and recurring cash flows (Deloitte Report 2014). Factors such as favourable industry trends, a strong management team, and buoyant management teams who can successfully facilitate change and work cohesively, focusing on quality enhancement and opportunities where the PE firms can create additional value, also play a significant role in the decision of PE firms to invest in Indian healthcare organizations.

Profitable acquirers seem to look at a combination of several factors to determine the priority for possible target consideration:

- Transform the company's business model to reflect how consumers and businesses want to purchase and use technology in the current world
- Enhance patient care and satisfaction
- Create cost-effectiveness and efficiencies
- Steady growth rate
- Profitability
- Opportunity for market leadership or leadership in a niche specialty
- Effective management of legal, regulatory, or environmental issues

Likewise, hospitals explore those PE firms that would assist in bringing more revenues, enhancing upkeep and maintenance, scaling up operations, and vertical and horizontal expansion of services and networks. In addition to this, PE firms that meticulously evaluate the hospital's management structure, utilities, and infrastructure, are mostly sought after by the hospitals, with a view to identify the potential gaps.

Considering the above, both parties need to do due diligence in commercial, operational, and human capital areas. Aligning the partners is vital, including lining up expectations and requirements for risk and reward, focusing on often-invisible cultural factors, and organizational alignment that is important for creating a firm foundation for any business relationship. Ensuring business continuity and assessing the complexity of scaling the business across multiple geographic areas or market segments is also a significant factor that must be considered before consummating the relationship.

INVESTMENTS: CONTINUED MOMENTUM

Indian healthcare boasts of being the breeding ground for investment deals in the recent decade. Investment momentum was robust for all the leading Indian hospitals. Considering all healthcare deals (Leverage Buyouts, add-ons, growth investments, secondary buyouts), PE capital investment in healthcare increased 20-fold during the past decade.[8] In 2018, close to 23 deals worth US$679 million were recorded in the healthcare industry in India. According to India Brand Equity Foundation, investment deals in the hospital industry soared to 155% in the fiscal year ending March 2019.

[8] DPIIT 2018.

The first PE investment in Indian healthcare was in 1999 with Indraprastha Medical Corporation Ltd., invested by a UK-based global asset management company, Schroder Ventures. This was followed by several foreign-based PE investors picking up equity stakes in large Indian hospitals. Some significant investors include IHH Berhad, Malaysia; TPG Group, USA; Carlyle Group, USA; Advent International, USA; and Government of Singapore Investment Corporation, Singapore.

NEED FOR PE INVESTMENTS IN INDIAN HEALTHCARE

PE investment is essential for any hospitals to primarily fund its growth and upgrade its technology base. Moreover, PE firms add value through their networks and strategic partnerships, industry knowledge, and managerial expertise, which may enhance the performance of the investee hospital on key metrics including operational efficiencies, growth, patient satisfaction, and enhancing operating margins.

IMPACT OF PE ON INDIAN HEALTHCARE

The PE investments had both positive and negative impacts on Indian healthcare.

PE Investments as a Boon: A Success Story

"The ripple effect was visibly noticed at ***the top management level****, resulting in the change of the organization's management structure, which is totally under the control of the investment firm. The initial promoters and other top administrators were removed from the organization. Fresh intakes from the acquiring firm replaced the old management and administrators. This also brought forth enormous transparency in the hierarchy and stimulated more focus on the clinical side."*

Senior leader, renal transplant at a leading hospital in North India, that had significant PE investment

The most practical implications included a **change in the management** with more clarity, fairness, and forthrightness in communication. People have become more assertive, and their opinions were being increasingly heard. Moreover, **clinical outcomes improved** post-investment. The hospital planned to provide unique offerings such as liver transplant and venturing into robotic cancer surgery, by deploying the latest and better technology. **Patient care,** which was always a priority, was further enhanced, by increasing the doctor-to-patient ratio and hiring more well-qualified technical and nursing staff at a better remuneration.

The investment has also resulted in **cost rationalization** and working on augmenting capacities and improving occupancies.

Moreover, the partnership has ensured that **there is considerable operational and management control in the organization**'s hands and significant **freedom and flexibility in the work culture.** The primary motive of the PE investor was to increase geographic **footprint** rather than merely on profit maximization.

The Other Side of the Coin: The Story of a Failed Relationship

The working pattern post the PE investment has witnessed a not-so-welcome change, leading to less empowerment and decision-making by doctors and staff (including nurses, paramedical staff, and technicians) as power got more centralized at the top. The connection between the doctors/staff and upper management has significantly reduced.

"With more and more investment, the intended 'Mission' and 'Purpose' seem to have become diluted, with the inevitable change in management structure. Moreover, the working culture has witnessed not-so-welcome change, leaving doctors and staff having lesser empowerment and little role in decision-making on key aspects of the hospital's functioning. Due to the consequent high attrition, there is more recruitment of staff who are not trained and are not qualified."

Senior medical superintendent at a leading hospital in South India that had significant PE investment

The flip side includes bringing about a **heavy corporate touch,** unlike the pre-investment scenario where there used to be "*Sevabhav*" (attitude of service). Some deals focus more on "Buy-to-Sell" rather than "Buy-To-Build." **The pattern of working** consequentially witnesses many substantial changes. The focus seems to have shifted from being patient-centric to becoming income-centric. Post PE investments, the organization also noted challenges in accessibility to doctors for the patients, resulting in patient dissatisfaction. Notable changes for the worse, in relationships with vendors and contractors, were also visible.

Various management and cultural issues crop up when a hospital undergoes a PE investment, especially a foreign-based PE investment, due to clashes in cultures. The difference in cultures of the investor and investee firms could cause considerable stress on the system. PE investments often lead to the lateral induction of senior staff, who may lack knowledge about the ground realities of the hospital. The new system that supersedes the existing one lacks transparency, often culminating in patient discontent.

Other unfavourable consequences of the PE investment included reduction in the role of women in leadership positions and emergence of a toxic work culture. People had mixed feelings about the newly appointed chief executive officer (CEO).

Besides, various flagship programmes such as the flagship organ transplant programme were discouraged, partly due to the exodus of critical doctors, leading to widespread disillusionment. Notable Corporate *Social Responsibility* (CSR) activities, such as offering Basic Life Support to the neighbouring communities, Menstrual Hygiene programmes, and Charitable clinics, were discontinued.

Putting It All Together

As can be seen from the two diametrically opposite experiences narrated above, the success or failure of PE investments has a bearing on healthcare provided by the hospital. The notion of healthcare as a welfare enterprise vis-à-vis the concept of healthcare as a profit-maximizing business presents a stark dichotomy resulting in a paradox inherent in such PE investments. Most investor organizations seek to improve patient-centricity while aiming to be financially sustainable. While PE firms in general seek to maximize the return on investment, it is appropriate that they should also focus on the impact of their entry on various stakeholders.

It is important to note that there is no single-entry strategy for PE investments in Indian healthcare. There have been innovative entry strategies by some PE investors to fund Indian healthcare. Some of these strategies enable the investor organization to obtain market and operational insights before venturing into the deal with large-scale investments.[9] Such a strategy entails a gradual scale-up of the investment, based on real-time feedback of the previous tranche of investment. This is in contrast to a big-bang approach, which is the norm.

The private sector has largely been involved in building the healthcare infrastructure in the country, with active participation from PE players. However, to meet India's increasing healthcare needs, both the public and private sectors must collaborate to build a quality healthcare infrastructure and the skill sets required to deliver good care. This means that the traditional modes of healthcare funding will need to be augmented

[9] NATHEALTH – Healthcare Federation of India, Funding Indian Healthcare: catalysing the next wave of growth.

by innovative funding methods to improve the efficacy of healthcare investments. The government also needs to act as a catalyst by creating an ecosystem that makes investment in healthcare attractive for both domestic and international players. Very often, PE deals in their current form led to building pressure on prioritizing revenue and profit maximization over the quality of care, since the PE firms' focus on short-term revenue generation can result in erosion of quality standards. There is, therefore, considerable scope for innovation in business models relating to PE investment in Indian healthcare, which results in positive outcomes for all stakeholders.

Chapter IV

Research Methodology

DATA COLLECTION

This research comprises two methods of data collection, viz., primary and secondary data.

Primary Data and Subject Selection

The primary data consisted of in-depth interviews of healthcare experts and senior management personnel of hospitals that have received PE investments. The data were collected through semi-structured interviews conducted virtually. These interviews were recorded, and relevant insights were extracted for the purpose of this report.

Number of Interviews	8
Duration	About 1 hour each
Healthcare Segments	Public Listed & Private Limited Hospitals
Summary of Interview Responses	Annexure III

The respondents from these hospitals included senior leaders assuming senior positions such as CEO, medical director, and medical superintendent, among others. A few of them were the founders of the organization. In addition to the senior leaders from the organization, a few experts from the field who had spent a significant amount of time in the medical field were also included as respondents in this study.

Secondary Data

The secondary data collection included searching various databases, including Prowess IQ, Venture Intelligence, S&P Global, and VCC Edge, to name a few. This study entailed collection of several important financial variables and ratios, which were crucial for data analysis. A total sample of 77 hospitals was taken for the study. For these hospitals, we analysed the impact of PE investments on important financial ratios.

Chapter V
Data Analysis

The research focused only on the hospital sector for a more coherent analysis. The study examined both public listed and private limited hospitals. For both types of hospitals, we have done primary and secondary data analysis, which led to several important findings described in this report.

PRIMARY DATA ANALYSIS

The participants frequently observed that the need for PE investments arose primarily due to a lack of funds. Triggers for PE investment from the perspective of the investee organizations included need for growth and scaling up, funds needed for hospital upkeep and maintenance, need to expand geographic footprint, and sometimes even the growing rift among the promoters. In a few cases, need to drive out complacency in the organization and bring in a profit-making orientation was a trigger.

> *"The need for PE investment arose because the organization was cash-starved, and further, it also had to repay debt."*
>
> Senior marketing manager at a hospital in South India

The PE deals brought about various changes on several fronts, especially on the investee organization. Notable positive changes included significant improvement in patient care, updating the technology base, enabling greenfield investments, and a positive transformation in the organization culture including among the clinical fraternity. The investments also resulted in cost-cutting and boosting revenues.

> *"The investment has resulted in severe cost-cutting and working on augmenting capacities and improving occupancies."*
>
> Senior leader at a hospital in North India

Moreover, the deals and the ensuing partnerships resulted in many positive changes in the organization's overall functioning. In some cases, the deals fostered more and more management autonomy. Besides, the PE investment structure also incentivized the investor and investee firms to focus on the specific financial goals, which enabled generating funds for the organization's further progress and augmenting avenues for long-term revenue generation. The PE investments were also utilized for expansion and clearing debts in the case of some of the investee hospitals.

> *"The deal also noticed a significant impact on the firm's financial objectives, with the EBITDA soaring high, post the PE investment."*
>
> Senior dentist at a hospital in North India

Hospitals comprise of substantial human capital and physical assets, which have a bearing on quality healthcare provided by the hospitals. The success or failure of the PE investments depends significantly on building these assets.

In some cases, the PE deals have witnessed unfavourable changes in the management and deterioration in the cultural aspects of the investee organizations. Several risks associated with the deals included huge attrition rates of high-quality medical staff and widespread disenchantment of the workforce. A few deals led to the dilution of ownership interest and a yielding the control to a distant (and often disinterested) third party. One of the most apparent outcomes is relinquishing control of the executive decision-making, to remotely located managers, which increasingly became more centralized and was characterized by opaqueness in decision-making, lesser empowerment by the local doctors and the middle-level staff.

The concept of healthcare as a welfare enterprise vis-à-vis the idea of healthcare as a profit-motive business shows a stark contrast, leading to a paradox inherent in such PE investments. The critical component is aligning healthcare's mission and the acquirer's goal. Most hospitals seek to grow rapidly, given enormous opportunities for healthcare in India. Any deal would typically craft success strategies taking these different objectives into consideration. However, often such strategies start wavering during the implementation process owing to various unfavourable consequences faced by both the organizations, especially the investee organization. Besides, owing to the inability to manage the post-investment complexities, there have been cases where the PE firms decide on an early exit, which puts all key stakeholders in a worse situation than they were before the PE investment, especially if the early exit is acrimonious.

Our research suggests that PE investments primarily focus on enhancing access to funding for the investee organization. From the perspective of the investor, the sole purpose is profit maximization. However, it is imperative for the PE firms to ensure optimum utilization of funds, better strategy implementation, and robust governance, since these would help in strengthening partnership and ensure that unintended consequences are avoided.

SECONDARY DATA ANALYSIS

The secondary data collection explored various publicly listed and private limited hospitals, across a span of 15–20 years. We compared data for hospitals that had PE infusion and those that did not. For hospitals with PE investments, we studied the characteristics before and after acquisition looking, primarily focusing on hospital operations and financial metrics. As the ticket size of PE investments grows and competition for investing in good target hospitals intensifies, post investment value creation will become even more important as a source of differentiation.

The following illustrations display some of the key empirical results drawn from the analysis.

Public Listed Hospitals

Figure 3: Impact of PE Investments on Net Profit Margin

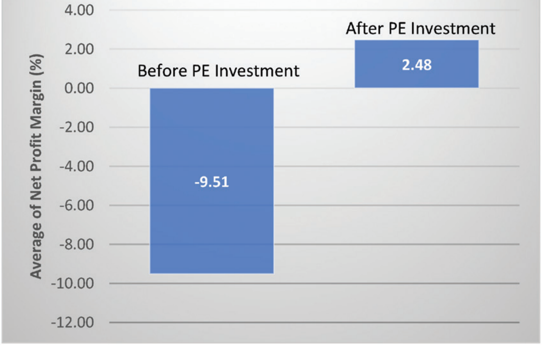


Figure 3 presents the net profit margin (NPM) changes for a sample of 16 public listed hospitals post the PE investment. This metric measures the net income generated as a percentage of revenues received. It is crucial as it helps investors assess if an organization is generating enough profit from its sales and covering operating and overhead costs. It is a better representative of a company's financial health than just the revenues. As seen in the figure, the NPM was negative before the deal (−9.51%), which increased to 2.48% post the deal. This could be due to a surge in the profit after taxes and a decrease in the costs. Post the investment, as the hospital generates more revenues, it could recoup most overhead expenses.

Figure 4: Impact of PE Investments on Return on Assets

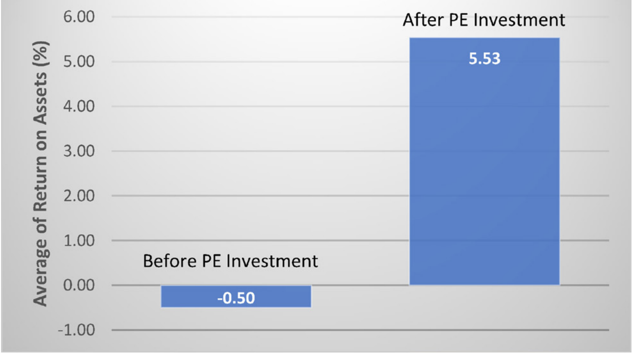


Figure 4 summarizes the changes in ROA for the same of sample of 16 public listed hospitals post the PE investment. This represents the profits generated by the assets expressed in percentage terms. It is determined by dividing Profit After Tax by the Total Assets that the company owns. This parameter informs investors of how effective the organization is in converting the money it invests into net income. The higher the ROA, the better because the organization earns more money for the money invested. As seen in the figure, the ROA was −0.5% before the deal, increasing to 5.53% after the deal.

Figure 5: Impact of PE Investments on Return on Equity

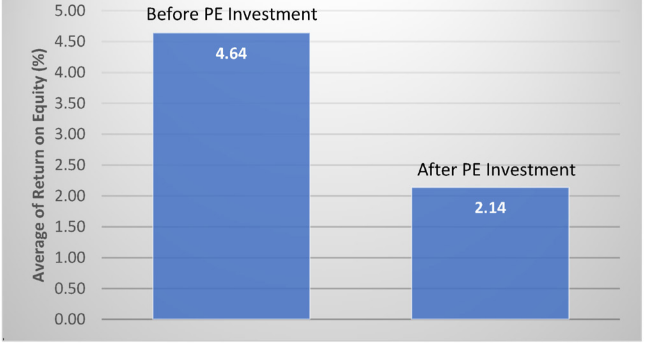
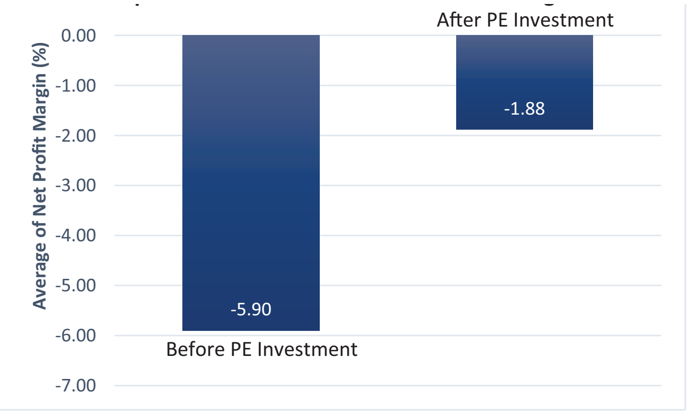


Figure 5 represents return on equity (ROE) changes for the same sample of 16 public listed hospitals post the PE investment. This shows the returns available for the company owners, which are expressed in terms of percentage. This metric is vital since it helps gauge an organization's proficiency in generating profits from its shareholders' investments. The ROE was 4.64% before the deal, which significantly decreased to 2.14% after the deal. This stems from the fact that if more PE is injected, and simultaneously, if the hospital is under the pressure of high debt, the profit after taxes would relatively be on the lower side, leading to a reduction in the ROE.

Private Limited Hospitals

Figure 6: Impact of PE Investments on Net Profit Margin



As can be seen in Figure 6, the changes in the NPM for a sample of 51 private limited hospitals have been captured. This value is increasing because the company/hospital effectively streamlines its operational processes and controls its costs. Moreover, the company/hospital is likely to focus more on improving its sales. As fund sizes grow and competition on deals increases, the post-investment value creation will become even more important as a source of differentiation.

Figure 7: Impact of PE Investments on Return on Assets

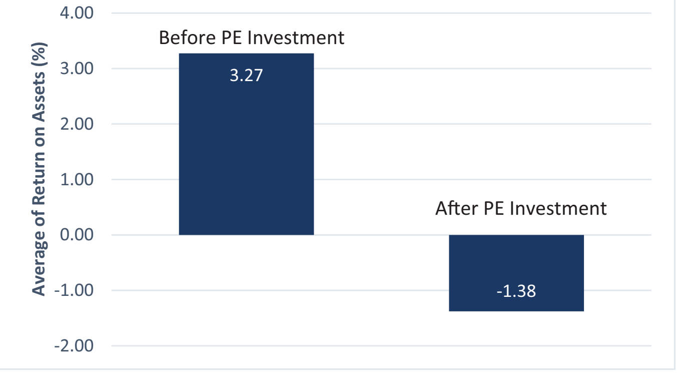


Figure 7 shows a decrease in the ROA post the investments for a sample of 51 private limited hospitals. The hospital industry is heavily infrastructure-based. Post investment by the PE, the hospital may have invested/over-invested in the assets, but the asset turnover may not be favourable owing to heavy depreciation expenses, etc.

One significant observation here is that there is a stark difference in the ROA results compared to public listed and private limited hospitals. In the private limited hospitals, the ROA decreased vis-à-vis the increase seen in public listed hospitals. First, this metric depends on the efficiency in which the hospitals utilize their assets. Second, it also counts on the tenure of the investment made. Public listed hospitals are relatively old and are existent for a very long time. The investments in the assets are also for a long duration. Moreover, any new funds are utilized for further expansion of infrastructure and workforce.

Figure 8: Impact of PE Investments on Return on Equity

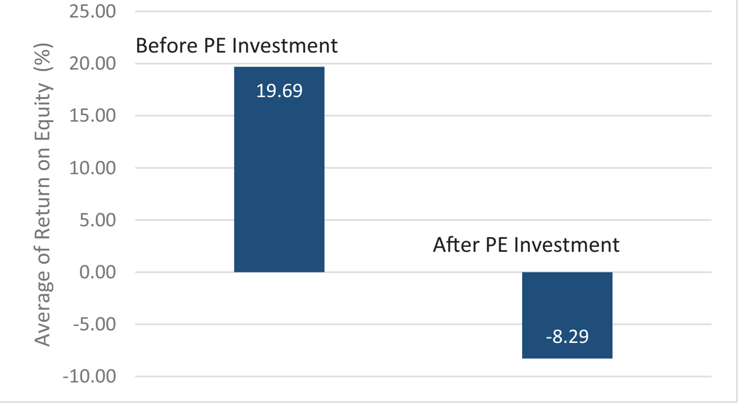


Figure 8 shows the changes in ROE for a sample of 51 private limited hospitals. As seen from the above, there is a decline in the said value. This depends on various factors like investment time, nature of the investments, and better utilization of funds. When a hospital borrows large amounts of money, this can raise the earnings per share (EPS). However, the profits after paying taxes, and interest, are still significantly low compared to the company's total equity, owing to rising costs and increasing competition. For a few new hospitals, investments would take time to show the desired results. More of it goes into building additional infrastructure and equipment, which may not result in immediate revenues.

In summary, though PE investments have indeed been a conducive factor for the investee and investor organizations' financial development by adding to the working capital, nonetheless it takes time to show the results.

SUMMARY OF FINDINGS

We considered the following key financial variables and ratios: total assets, total equity, NPM, gross profit margin, profit after tax, ROA, and ROE. We made a comparison between pre- and post-PE investment years, spanning 10–15 years (2005–2020). The results show that acquired hospitals were significantly larger than non-acquired hospitals. Significant differences were noted in the ratios such as NPM, ROA, and ROE, post the investment.

These differences make it possible to conclude that majority of the PE acquired hospitals had higher operating margins than non-acquired hospitals. Our analysis of detailed financial measures suggests that PE investors acquired sizeable hospitals with healthier financial margins. Despite the massive shocks to credit markets worldwide in 2008, PE-backed deals in healthcare have continued to rise.

Chapter VI

Recommendations

PE investments provide ample avenues for the growth of many healthcare organizations. Hospitals need huge capital to invest in infrastructure and technology and to scale rapidly. In most cases, PE firms invest in large healthcare companies and through multi-million-dollar deals. Even in economic downturns, the healthcare sector is attractive to such investors since the sector is intrinsically resilient.

1. The prerequisite for a successful PE investment is a proper alignment of expectations between investors and investee organizations on several aspects. The intended synergies can transform the deal into a prudent strategic partnership, which can help both the hospital and PE firms to achieve their objectives. Healthcare is a people- and capital-intensive business. If the investee and investor organizations attend to these aspects, favourable outcomes will likely ensue. For the success of a PE investment in Indian healthcare, it is crucial to consider the interests of different stakeholders, including doctors, nurses, patients, and the management team.
2. Factors such as providing substantial operational and management freedom, evolving a robust business model, and flexibility to the investee firm post the investment help in fostering mutual partnerships between the investor and the investee firm, resulting in the success of the PE investments. This will ensure positive synergies. The focus must be on value creation for all stakeholders and on providing quality services. This will ensure the long-term viability of both organizations.
3. Optimum utilization of funds, improving clinical outcomes through top-class patient care and service quality assessment processes, accreditations, immaculate strategy implementation, and robust governance mechanisms would ensure achieving the intended objectives. The investee must focus on cash flows and viability without compromising patient care. Before signing the deal, it is essential that the investor and investee organizations agree on key aspects of the functioning of the hospital, including quality initiatives relating to patient care, clinical protocols, and revenue models.
4. Due diligence is a crucial facet of any successful PE investment. This includes understanding the company's value proposition, market position, historical performance, and industry trends to assess the target's ability to achieve its forecasted projections. Both the investor and the investee firm need to do due diligence on financial, operational, social, governance, and regulatory aspects. As with any business, the economics of the healthcare system is shaped by the nature of demand, cost structure, and the regulatory environment. In the context of increasing PE investment, the government must provide conducive incentives, including an inviting taxation regime, including subsidies where applicable. The government's role is significant in providing financial security to PE investing firms. With these factors in place, all stakeholders would be motivated to give their best to make the deal a success.
5. In addition to the above, the government's proactive measures of strengthening the primary, secondary, and tertiary healthcare and creating a macro-level infrastructure to upskill resources will augur well for PE investment. The success of attracting private investment would additionally depend on how flexible and agile the government's approach is. The role of the government on a variety of dimensions, including upskilling workforce quality and instituting robust and early fraud detection and swift legal redressal of such situations, can serve to make India an attractive destination for PE investment in healthcare.

Chapter VII

Conclusion

PE investments can bring about a transformative change in the healthcare sector by providing efficiency, cost-effectiveness, and well-grounded patient services.

This study identifies various implications of PE investments on publicly listed and private limited hospitals by comparing PE-acquired hospitals to hospitals not involved in PE deals. Our sources for secondary research were multiple databases. The study had taken 16 public listed and 51 private limited hospitals. The main findings in the study highlight that in addition to helping increase physical capacity in the healthcare sector, PE investments can also help raise the key performance indicators like NPM, ROA, etc., by focusing on an increase in the operating profit margins. Besides, honing healthcare standards and quality, upgrading technology, and creating employment opportunities have potential benefits to the healthcare sector and the economy. Other sources of information included journal articles and industry-specific reports for PE deals.

However, while the increase in PE investments in healthcare is a boon, the deal could also bring forth a few challenges. As we infer from the data available, certain hospitals have benefitted from the investments, resulting in better performance of the financial ratios to surge. Simultaneously, these investments also had an adverse effect on a few variables. Aligning the goals of the investor and investee companies on organization culture is crucial for to be profitable over the long-term. To ensure success, both parties must realize the intended synergies, thereby transforming the deal into an amicable strategic partnership.

Healthcare mostly runs on trust. Human welfare is at the core of PE investment's success in Indian healthcare; a proper alignment between the welfare and financial profitability is vital for the success of the PE investment. If well-orchestrated, PE investments can create an all-inclusive and profitable model that could benefit all stakeholders. The government can play a proactive role in addressing the problems of both the investor and investee organizations, which could lead to successful outcomes that positively impact the quality of healthcare in the country. For a potential PE investor to be interested in a potential target investee organization, the latter should have experienced staff, a competent management team, a track record of success, and a good reputation.

The study forms a foundation for future investigations into how PE acquisitions change hospital operations and clinical quality and enhance healthcare in the country.

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Annexures

Annexure I

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STRATEGY

Private Equity (PE) investments in Indian healthcare: Key drivers for success

Ratna Geetika, D V R Seshadri, Raghu Bommaraju, Indian School of Business (ISB) talks about PE investments in India healthcare and its key takeaways

The road Ahead

PE investments provide avenues galore for the growth of many healthcare organisations. Hospitals require vast amounts of capital to invest in infrastructure, technology and to reach viable scale. In most cases, PE firms are investing in large healthcare companies through big-ticket, multi- million-dollar acquisitions. Healthcare as a sector is attractive to such investors for its resilience even in economic downturns. However, the essential prerequisite for a successful investment is alignment between investor and investee organizations on several dimensions. Being aware of the intended synergies can transform the deal into a prudent strategic partnership, which can help both the hospital and PE firms to achieve their objectives.

Ratna Geetika

D V R Seshadri

Raghu Bommaraju

It is essential to provide substantial operational and management freedom and flexibility to the investee firm post the investment. This will ensure positive synergies. Fostering a spirit of collaboration between both is vital for success

Key factors

Hospitals vary widely in size, complexity, service mix, facilities, and business models. For any PE investment to succeed in Indian healthcare, it is crucial to take into account the interests of different stakeholders, including doctors, nurses, patients, and the management team.

Healthcare is a people-intensive and capital-intensive business. If both these aspects are taken care of, which are provided respectively by the investee and investor organisations, desirable outcomes in terms of better healthcare outcomes will ensue.

It is essential to provide substantial operational and management freedom and flexibility to the investee firm post the investment. This will ensure positive synergies. Fostering a spirit of collaboration between both is vital for success. The focus must be on value creation for all stakeholders, centred around providing quality services. This will ensure long-term viability of both organisations.

Factors such as optimum utilisation of funds, improving clinical outcomes through top-class patient care and service quality assessment processes, accreditations, immaculate strategy implementation, and robust governance mechanisms would further strengthen the partnership. While the investor provides finances, the government must provide conducive incentives including an inviting taxation regime. The investee must focus on cash flows and viability, without compromising on patient care. With these factors in place, all stakeholders would be motivated to give their best to make the deal flourish. It is also essential that the investor and investee organisations agree on vital aspects such as quality initiatives, protocols, revenue models, etc, before forming an alliance.

Due diligence is the most crucial facet of any successful PE investment. Both the investor and the investee firm need to do due diligence on financial, operational, social, governance, and regulatory aspects. A robust governance system, optimized workforce, and focus creating a conducive ambiance for successful investment are vital for success.

In addition to the above, the government's actionable measures of strengthening the primary, secondary, and tertiary healthcare and creating a macro-level infrastructure to build and upskill resources, augurs well for private equity investment. The success of attracting private investment would additionally depend on how flexible and nimble the government's approach is. The role of the government on a variety of dimensions including in upskilling manpower quality and instituting robust and early fraud management systems can serve to make India an attractive destination.

PE investors should look for investing in organizations that manifest transparency in transactions. Ideally, the investee organisation should have experienced staff, a competent management team, a track record of success, and a good reputation. Relatively low-risk entry strategies for the investor firm include expansion of existing facilities, and construction of other additional facilities nearby. In contrast, a greenfield hospital development tends to be a high-risk investment from the investor organisation's perspective. It is vital that potential PE investors should seek investee organizations suiting their risk appetite.

Conclusions

A strategy that encompasses investment portfolio management as well as human welfare is at the core of PE investment's success in Indian healthcare; alignment between these two components is vital for success of the PE investment. The government could create a conducive policy framework and showcase role models of successful PE investments in Indian healthcare, to make this sector attractive to potential PE deals. A prerequisite for success is trust among all stakeholders, including the government, hospitals, clinicians, and patients. If harnessed well, these factors can create inclusive, growth-oriented, and commercially viable models that could benefit all stakeholders. On its part, the government could take a proactive role to gauge and address the problems of both the investor and the investee organisations, which could lead to successful outcomes that positively impact the quality of healthcare in the country.

EXPRESS HEALTHCARE 33

September 2021

Annexure II

Databases Taken for the Research

VCCEdge is a financial research platform that is India's research database for private markets. Clients use it for deal structuring and valuations and for gaining market insights. The data points include company type, year of foundation, and industry classification. It was founded in 2005 and provides a complete information about financial companies in India.

Venture Intelligence was launched in 2002 in Chennai. This database provides information on India's growing number of entrepreneurs and PE firms.

Prowess IQ is another important query-able database consisting of about 38,000 Indian companies. This database entails the data of all the financial performance of Indian companies, consisting of most listed companies and a smaller set of unlisted companies. This database is built from the audited Annual Reports of the companies and information submitted to the Ministry of Company Affairs.

S&P Capital IQ is another significant platform that was widely used in this research. This database provides research, data, and analysis on private and public companies and aids in better financial analysis on mergers and acquisitions and investment recommendations.

The financial data for the selected hospitals for this report were taken from the above databases.

Annexure III

Summary of Interview Responses

Respondent 1 of Hospital 1

- <u>*Need for PE investment:*</u> The need for PE investment arose because the organization was cash-starved. Though each hospital branch generated an adequate amount of revenue, procuring resources were scarce for upkeep and hospital maintenance. Further, the troubles cropping up from the promoters defrauded the system and led to a rift in the management. Fortis group also dealt with the Daichi Sankyo Company, which fell through, resulting in various other financial constraints.
- <u>*Pre PE investment scenario*</u>:
  a. Central Excellence Committee (CEC) – The majority of the decision-making was made through this committee.
  b. Fortis Healthcare was the flagship for organ transplantation.
  c. Chief Patient Experience Function (CPEF), which mainly focused on online patient care, was in full swing.
- <u>*Post PE investment*</u>:
  a. The ripple effect was visibly noted at the top management level, resulting in the stepping down of the CFO and other members of the executive team.
  b. It led to the attrition rate of the leading doctors, including top pulmonologists and the other support staff, resulting in a disenchanted workforce.
  c. Fresh intakes from IHH replaced top administrators. Currently, Dr. Raghuvanshi, a cardiac surgeon and an administrator, is heading the organization.
  d. Decision-making became more opaque, effectively resulting in red-tapism.
  e. The impact of the investment was much observed on the day-to-day corporate functioning. The only two functional areas operating were the Audit and the Finance departments, which had much decision-making power, effectively led to a freezing of the other departments.
  f. The CEC and the CPEF were completely dissolved as a result of the investment. The Medical Strategy Operations was completely headed by the doctors.
  g. Patient care, which used to be on top of the list, unfortunately, took a back seat. The investment did not impact the surgical profile patients much, but the medical profile (long-term) patients had to bear the brunt and were dissatisfied with the day-to-day processes.
  h. The focus of this deal was only on generating more and more revenues and profit maximization.
  i. The culture of the organization has gone through a significant change. Initial hiccups were noted when there was a clash in the regional ethos as the current CEO was from the South belt.
  j. While the deal did not note much impact on the financial objectives in short term, there was a decrease in the quality of the financial performance in the mid and long term.
  k. Women's leadership got eclipsed, and the position was diffused in this kind of toxic work culture. People had grey opinions about the newly appointed CEO.

l. Organ transplant programmes were discouraged due to the exodus of critical doctors leading to high disillusionment.
m. All the CSR activities like Basic Life Support, Menstrual Hygiene programmes, and Charitable clinics came to an end.

- *Other observations*:
  a. The deal was approved on 13 November 2018.
  b. IHH Berhad investment history:
    ✓ Continental Hospitals (Hyderabad) in 2015 – ended up in failure as one of the staff (a doctor) was involved in arbitration, leading to a court case.
    ✓ Global Hospitals (Chennai, Kolkata, and Bengaluru) in 2015 – again a failure due to the management conflicts between the Global and the IHH.
  c. Fortis investment history is segregated into three:
    ✓ TPG Manipal – The deal was initiated because of Manipal Group's impeccable reputation in terms of running educational and various other institutions of top quality. While there was good camaraderie, the share price then was highly pessimistic. The shareholders did not ratify this deal, thus coming back to square one, and once again, Fortis started looking for suitors.
    ✓ Munjal Burman Group – The deal was not ratified. It was more of the controlling stake.
    ✓ IHH Berhad – This had a majority stake of 51% and is probably the expensive and the most extended investment ever made in India.

Respondent 2 of Hospital 1

- *Need for PE investment* – The issues which triggered the investment were the lack of due diligence, which was an issue coupled with shortage of cash, largely with the promoters, as some assets were given to the court.
- *Pre PE investment* – The organization was a very well driven by family-run business, focusing on hard core strategy, and concentrated on pricing, consumption, manpower, and operational excellence.
- *Post PE investment*:
  a. PE investment mainly aimed for more footprints rather than just-profit maximization. The investor firm also focused on building a good camaraderie with the employees.
  b. However, the ripple effect was visibly noted at the top management level, resulting in the change of the organization's management structure, which is totally under the control of the investor firm. The initial promoters and other top administrators were removed from the organization who were replaced by fresh intakes from the acquired firm. This also brought forth a welcoming change in the organization's culture as there was more transparency in hierarchy.
  c. There was a significant change in the bureaucracy, with more clarity, fairness, and forthrightness in communication. Staff, mainly doctors, became more assertive, and their opinions are increasingly heard more.
  d. The investment has drawn up the task of severe cost-cutting and working on augmenting capacities and improving occupancies.
  e. Earlier, the focus was on the work being done, but post-investment, it has become more policy-oriented and lacks flexibility in the system.
  f. Though the manpower remained the same, the investment, however, brought forth a heavy corporate touch unlike the pre-investment scenario.
  g. Patient care being always on top of the list accelerated even at a faster pace.
  h. The pattern of working has consequentially witnessed a few changes. The investment augmented more decentralization involving more of a unit-level decision-making and focused on replicating the acquired firm's work culture by taking the team to visit its offices in Malaysia.

Respondent 3 of Hospital 1

- *Need for PE investment:* The need for PE investment arose because the organization was stagnant and wanted growth. Moreover, it was also falling short of funds to scale up.
- *Pre PE investment scenario*:
  a. Earlier, the focus was on IMRB, primarily revolving around the customer satisfaction, with the sole intention of *Sevabhav.*
  b. The management was very professional and ethics-oriented.
- *Post PE investment*:
  a. The main purpose was to generate more and more revenues and profit maximization.
  b. The primary motive of the deal seemed to be "Buy-to-Sell" rather than "Buy-to-Build."
  c. The ripple effect was visibly noted at the top management level. The organization chart underwent a sea change, which turned out to be vague. The environment became more bullish.
  d. The investment led to the removal of the zonal heads, resulting in centralized decision-making.
  e. In addition, it also led to the attrition rate of approximately 18–21% of the staff, resulting in a very disenchanted workforce.
  f. The impact of the investment was also observed on the day-to-day corporate functioning, leading to a change in the staff, especially the nursing staff, with provision of more in-house training. However, the objective was more on cost-cutting.
  g. Patient care, which used to be on top of the list, unfortunately, took a back seat. The investment did not have an immediate impact, but the day-to-day processes have affected the care quality.
  h. The optimistic picture shows a significant improvement in technology, like the advent of robotics, advanced PET scans, etc.
  i. No major changes in the standard operating procedures, and the hospital still maintains its checks and balances well.
  j. The deal also noted a significant impact on the firm's financial objectives, with the EBITDA soaring high post the investment.
  k. The investment also brought in stipulated monthly profit targets, especially for the doctors, thus bringing in a notable change in the value addition.
  l. Notable changes occurred with reference to vendor management, as in suppliers and contractors no longer remained the same.

Respondent 4 of Hospital 2

- *Need for PE investment:* The need for PE investment arose because the organization was cash-starved, and further, it also had to repay the debt.
- *Pre PE investment:*
  a. The terms of the deal were unambiguous, and a 350-crore deal initially seemed to be a golden opportunity for Continental hospitals.
- *Post PE investment*:
  a. The deal was to have a presence and footfall in India, have a controlling stake, and acquire power.
  b. The investment apparently seemed to be a very promising one. However, since the buyout, IHH has been engaged in a dispute with Dr. Reddy (pre-investment CEO) over operations management.
  c. The ripple effect was visibly noted at the top management level, with the erstwhile CEO stepping down. With the appointment of the new CEO, Dr. Ajay Bakshi, many management structures witnessed a considerable change in lock, stock, and barrel.
  d. 2015 onwards, the organization has noted the attrition rate of the senior staff members and several existing doctors. The staff were put at different supervisory roles. The new set of doctors who were hired post the acquisition were not of the same wavelength as before.

e. The downfall started when a dispute arose between the owner of the investee company and the new investor.
f. This investment brought with it a lot of political juggleries, and effectively, it dented the reputation of IHH.
g. On the flip side, the funding was well utilized for facility expansion, and most of the loans were cleared.
h. The organization's culture had a good boost for the initial 6–7 months, but eventually the decision-making process became more and more bureaucratic.
i. However, the new workforce was highly educated. They hired quite experienced and able staff and imported world-class protocols, eventually leading to a better patient care than before.

- *Other observations*:
  a. IHH Berhad also holds a 10.5% stake in Apollo Hospitals.
  b. It also holds a majority stake of 73.4% in Global Hospitals.

Respondent 5 of Hospital 2

- *Need for PE investment –* The issues which triggered the investment were shortage of funds from the head office. Though each hospital branch was generating an adequate amount of revenue, the funding for procuring resources was scarce. Further, the troubles, which were cropping up from the promoters, effectively gave rise to a rift in the management. Fortis group also had a dealing with the Daichii Sankyo Company, which fell through, resulting in various other financial constraints. Besides, upgradation of technology also necessitated sourcing of more funds.
- *Post PE investment*:
  a. The ripple effect was visibly noted at the top management level, resulting in the change of the organization's management structure, which is totally under the control of the investor firm IHH. The initial promoters and other top administrators were removed from the organization. Top administrators were replaced by fresh intakes from IHH. Currently, Dr. Raghuvanshi, a cardiac surgeon and administrator, is heading the organization. This also brought forth enormous transparency in hierarchy in addition to stimulating more focus into the clinical side.
  b. There was a significant change in the bureaucracy with more clarity, fairness, and forthrightness in communication, as there were lesser people in the hierarchy. People became more assertive, and their opinions increasingly heard.
  c. Clinical improvements started pouring in post-investment as Fortis is now planning a liver transplant division and venturing into robotic cancer surgery expansion, thus employing technology better.
  d. Patient care being always on top of the list accelerated even at a faster pace, witnessing an increase in the doctor-to-patient ratio, and hiring more well-qualified technical and nursing staff at a better remuneration.
  e. The pattern of working, though, has consequentially witnessed not-so-welcoming change, leading to lesser degree of empowerment and decision-making by doctors and staff (including nurses, paramedical staff, technicians), as power gets more centralized at the top. The connect between the doctors/staff with the upper management has significantly reduced. Management wants more people who can generate more and more revenues.
  f. The culture of the organization has gone through a significant change wherein, the appraisals are purely performance-driven unlike in the past where it just consisted of pleasing the superiors.
- *Other observations*: On the flip side, with more hiring and the hike in the pay scale, the costs were also on a high, proportionately increasing tremendous pressure on the doctors, especially the ones on incentive mode, to achieve their targets to spike up more revenues by bringing in more patients. The doctors and their associates at Fortis would travel as far as Jammu, interiors of Punjab, Himachal,

and Uttarakhand. They visit small town and have extensive camps and tie-ups with the local doctors over there. For example: A cardiologist who does stenting on a patient in Chandigarh, where the latter belongs to a small village, would be tended to at his own home or nearby by a local doctor, who is in contact with the cardiologist, so that the patient gets the procedure done through virtual treatment by staying at home for the follow-ups, as well.

Respondent 6 of Hospital 1

- *Need for PE investment –* The need for the investment arose due to vertical and horizontal expansion of services and networks. Moreover, the biggest constraint was the capital, and there was also a heavy debt infusion.
- *Post PE investment*:
  a. This investment proved to be more of a money multiplier, and the main objective was to just inject more and more capital, in addition to further geographical expansion.
  b. Having secured good funding and this investment fetching reasonably good returns within 3 years, the organization thought of a quick but a clean exit as it did not have much of a collateral.
  c. More so, the organization also did not want any additional pressure at the time of exit unlike other hospitals which are still juggling by sitting on huge PE investors.
  d. After interacting with various strategic investors, across the healthcare domain, this hospital zeroed in on a strategic partnership with Aster DM Healthcare.
  e. Hence, the organization zeroed in on this strategic partnership/investment rather than opting for another PE investment.
  f. This type of strategic investment ensured that there was considerable operational and management control in the hands of the organization in addition to significant freedom and flexibility in the work culture.
  g. This deal also brought forth good synergies by acquiring the best of support from the international hospitals.
  h. It remarkably helped in utilizing the funds for further acquisitions.
  i. The strategic deal also witnessed a surge in the quality of clinical outcomes and accreditations.
  j. It served as a strong support function in terms of quality initiatives, implementing strategies, protocols, and various logical progression, rather than just a mere controlling stake.
  k. Patient care and satisfaction always being on the top list has witnessed a considerable improvement.
  l. The governance systems had become very robust. The workforce was optimized, and there was increase in the focus on the right avenues. The revenue base also witnesses a higher surge.
  m. There was a huge rise in the HR costs.

Respondent 7 of Hospital 1

a. The need for PE investment arose when the organization was planning to go for further expansion in addition to finance its debt.
b. The ripple effect of the investment was visibly noted at the top management level, resulting in the change of the organization's management structure.
c. The hospital was the flagship for its immense expertise in cardiology domain, and post the PE investment, there was lot of horizontal expansion, which led to increase in the scope for other medical domains.
d. But on the flip side, the intended "Mission" and "Purpose" seem to have diluted with change in the management structure.

e. The working culture has consequentially witnessed not-so-welcoming change, leading to lesser degree of empowerment and decision-making by doctors and staff. There is more recruitment of staff who are not trained and qualified.
f. Earlier, the focus was more patient-centric, post-investment it is more income-centric.
g. It was also observed that the system lacked transparency in billing.
h. Additionally, the investment brought about a huge surge in the attrition rates of the employees.
i. The organization also witnessed emerging challenges in terms of approachability to the doctors for the patients, effectively resulting in patient dissatisfaction.
j. Notable changes occurred with reference to vendor management, as in suppliers and contractors no longer remained the same.

Annexure III

Profiles of the Authors

Prof. D.V.R. Seshadri (Clinical Professor of Marketing and Director of ISB-Centre for Business Markets, Hyderabad) Since 2000 until joining ISB in 2016, **Prof. D.V.R. Seshadri**, taught in various IIMs (particularly at Bangalore, Ahmedabad, and Udaipur). For 15 years prior to 2000, he worked in a variety of companies (public sector, family business, and entrepreneurial start-ups, the last 10 of them as CEO) spanning a variety of industries (petroleum refining & petrochemicals, bulk drugs, active pharmaceutical ingredients, precision manufacturing, and software). His areas of interest among others include B2B Marketing, Innovation, Entrepreneurship & Intrapreneurship, and Strategy. He is actively involved with several NGOs such as Aravind Eye Care Systems, Madurai, and DHAN Foundation, Madurai, in addition to engagement with several top corporates such as companies of the Tata Group and L&T. He has been engaged in teaching/consulting capacity with over 100 large corporates, both India-based and foreign MNCs. He has co-authored several books and over 100 case studies and authored several application-oriented journal articles in his areas of interest.	
Prof. Raghuram Bommaraju Assistant Professor of Marketing, Indian School of Business, Mohali) **Prof. Raghuram Bommaraju** holds Marketing specialization from University of Houston, MBA from XLRI Jamshedpur, and MS in Quantitative Economics from Indian Statistical Institute. Prior to his Ph.D., he worked in analytics and retail industries for 4 years. Professor Bommaraju currently focuses on two streams of research: sales force management and marketing-finance interface. His first dissertation essay won the best dissertation award from Sales SIG (Sales Special Interest Group).	

Ms. Geetika Ratna Research Manager, ISB-Centre for Business Markets **Mrs. Geetika Ratna** is a Research Associate at the Centre for Business Markets, Indian School of Business (ISB). She holds an M.A. and M.Phil in Economics from University of Hyderabad, Hyderabad. She has over 12 years of experience in the education field and has been involved in various research projects.	

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