The investment opportunity in India's healthcare sector

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India's phenomenal population growth looks set to see it claim the title of most populous country in the world but less reported are the investment opportunities this is creating in its healthcare sector.

This is the year India is expected to overtake China as the most populous country, with a population of over 1.4 billion people. Each hour in India sees the arrival of a staggering 3,500 new births (compared with around 100 per hour in the UK) The sheer size of India's population and the rate of population growth – in particular, further growth in the working-age population, clearly offer both extraordinary opportunities and challenges.

Rising incomes, especially among the urban population, allow people access to new products and services, whether white goods for the home, or personal and lifestyle products such as clothes, cosmetics, jewellery, motorcycles or cars. Consumers are also focused on accessing higher-quality key services such as insurance, financial services and perhaps most of all – healthcare. All these services are currently highly under-penetrated in India relative even to other emerging markets, and, coupled with strongly increasing demand present a strong long-term structural growth opportunity.

According to the WHO, India has just over 0.5 hospital beds per 1,000 people, compared with 4.3 in China, 2.8 in North America and 4.6 in the European Union. Moreover, in a country of 1.4 billion people there are only 75,000 private hospital beds, a staggering statistic. Insurance penetration is increasing at an annual rate of 25%– an existing trend super-charged by a post-Covid focus on healthcare, providing more access to private healthcare for those under coverage. Although the overall population numbers clearly show a vast long-term demand pool for healthcare, the key immediate driver is consumer access, in terms of insurance cover and physical proximity or ability to access metro areas, both of which are increasing rapidly.

Take India's National Capital Region (NCR) – which encompasses Delhi and several districts around it from the states of Haryana, Uttar Pradesh and Rajasthan. Hospital demand is extremely strong and outstripping the current available capacity of beds. Max Healthcare is the country's second largest hospital in terms of revenue, and the fourth largest by number of beds and is the dominant player in NCR, with 85% of its bed capacity in this region. Max is currently operating at close to 80% capacity, with some hospitals as high as 90% – a recent onsite visit to its Super Specialty Hospital, Saket, located in South Delhi, showed a hospital nearly bursting at the seams, with beds temporarily parked in hallways. Despite being the dominant player in a region with a population roughly three-quarters of the entire UK population, Max has approximately 3,500 beds in service across its entire Indian operations. The scale of demand is clear and presents a clear pathway to growth for players such as Max.

One of the major constraints to expansion is the lack of availability of land parcels in key metro areas, significantly benefiting operators with access to land. Indeed, there has been no new hospital in Mumbai for 25 years, in Delhi for 15 years and for 10 years in Gurugram (an affluent financial and technology hub just southwest of Delhi). The means of expansion therefore is a combination of consolidation of existing beds by larger players, alongside predominantly brownfield expansion – building hospital extensions to existing assets, as well as sweating assets to squeeze in an extra 100 beds here or there. Indeed, Max is looking to double its bed capacity over the next five years and 80% of this expansion is coming from brownfield. The Saket site visit was an opportunity to see this process in action, where land connecting the existing hospitals is earmarked for a highly profitable expansion at one of the most profitable hospitals in the country. Max's existing land bank offers over a decade of potential growth, highlighting the reality that the phenomenal growth opportunity in demand will be served by those dominant players with access to land in attractive areas.

Tertiary care hospitals must be a minimum of 350 beds and are restricted to a maximum height of 35 metres due to fire risk, therefore requiring at least 4-5 acres of contiguous land to support a new hospital. While infrastructure can be put up anywhere, the key is to have beds close to the centres of demand. Retaining the highest-quality surgeons is key and they want to be busy, therefore volumes of procedures are not high enough to retain talent in hospitals outside key metro areas.

With the highest supply-demand mismatch in the country, the Delhi NCR and Mumbai markets offer the highest revenue per bed opportunities in India – with a third fewer beds per capita than better-served markets such as Chennai and Bangalore further south. With the highest proportion of beds in these areas, Max Healthcare enjoys the highest revenue per bed in the industry, focused as it is in areas with high per capita income, high insurance penetration and propensity to pay for high-end quaternary care facilities. Moreover, the availability of senior and statured clinical talent creates regional hubs of academic excellence that further attract and keep the most talent practitioners.

A further advantage provided by the NCR market is the ability to capitalise on the growing medical tourism business, with the highest proportion of India's medical tourists coming to this region, for example from the Middle East and Africa. A heart by-pass costs as much as $130,000 in the US compared with as little as $5,000 in India – a significant cost advantage when the largest part of the population is self-pay. Max's international business is now at 120% of its pre-Covid level, and with revenues per bed for international patients typically 50% higher than for domestic patients – by definition these tend to be major surgical procedures – this is a further margin driver for the company.

Indeed, as international medical tourism returns, this has in large part replaced low-margin institutional patients (government employees), where rates are set by the government and are well-below market levels. A major part of the investment case for Max since new management took over in 2020 has been this ability to restructure the business and push margins per bed higher – overall profitability has quadrupled in the three years since.

India undoubtedly provides one of the most compelling growth opportunities among the major global economies over the coming decade, supported by powerful demographic forces married with prudent, market-friendly policy making. However, ultimately it is companies and entrepreneurs that are left with the task of capitalising on these underlying structural growth opportunities. Abhay Soi, Max Healthcare chairman and managing director, embodies many of these elements. With a background in restructuring at global consultancies Ernst & Young and Arthur Andersen, he used an opportunity to turn a small single-asset hospital in Delhi into Radiant Life Care, which subsequently merged with Max Healthcare and embarked upon the transformation of the company. This has grown profits at four times the rate of revenues in the subsequent three years. It is this marriage of long-term structural opportunity with management quality and execution that makes India such an attractive market.

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