With high levels of demand and limited access, the challenges facing India’s healthcare system are similar to those of other emerging markets (EM). However, its strengths in tackling problems such as bed shortages may be providing valuable lessons for even developed markets. Here, Newton healthcare analysts Stephen Rowntree and Emily Heaven outline their views on the prospects in Indian healthcare.

Government healthcare provision in India is limited, and as a result, it is middle-income earners that tend to get the most out of the system, explains Newton healthcare analyst Stephen Rowntree.

India’s spending on healthcare is well below that of large Western nations such as the U.S. and UK, but it has also lagged its largest neighbor, China, he notes. While China has increased spending in this sector and is rapidly embracing new and innovative areas of drug development, India remains very much an emerging market in healthcare, Rowntree states.

Unlike developed markets, in India there is a limited primary care system and poor infrastructure poses many challenges to healthcare delivery. Much like other emerging markets, it struggles with a twin-track healthcare conundrum—how to fulfill both urban and rural needs.

While rural India tackles common communicable diseases such as diphtheria and tuberculosis (often related to poor nutrition and sanitation), urban areas generally contend with lifestyle illnesses such as diabetes and heart disease. The number of diabetics in India is expected to grow from 69 million in 2015 to 123 million by 2040, a rise of 78%, according to analysts at BMI Research and the International Diabetes Federation (IDF).

Another area of excellence in India is in optimizing procedures, which enables doctors to perform operations more efficiently and with fewer resources.

**GENERIC POWER**

The struggle to meet these separate needs has dictated much of India’s healthcare developments, says fellow analyst Emily Heaven.

“The primary care system is a developed market concept and most emerging markets do not have access to such practitioners. They are more focused on the development of mobile units that can travel to patients and vaccination programs which target specific diseases,” she says.

However, there are healthcare areas where India excels, such as the ability to deliver the same product or service more efficiently and at a lower cost than other countries. This is partly responsible for increased medical tourism and pharmaceutical exports as well as the adoption of its logistical models by the West.
Rowntree says the country is renowned for its chemical engineering expertise and efficiency, making it a leader in the production of generic medicines. A drug may have a manufacturing process with say, 15 steps, Rowntree explains, yet in India they might work out how to produce the same drug in 10 steps. “India may not be great at healthcare product innovation but when it comes to improving chemical technology, they are second to none.”

This expertise has enabled cheaper drug production and a healthy export market in this sector, he says. While there are hundreds of domestic pharmaceutical companies in this area, most global multinationals also have a presence in India, Rowntree adds. Recently, however, key markets such as the U.S. are seeing a decline in the prices paid for many types of generic drugs and this is starting to impact Indian generic drug manufacturers.

**HOSPITALS AND SERVICES**

As a consequence, Rowntree says, some of the more interesting and innovative healthcare areas in India are in services, such as hospitals. Heaven says another area of excellence in India is in optimizing procedures, which enables doctors to perform operations more efficiently and with fewer resources. This helps to improve access to healthcare within India and attracts medical tourists from surrounding countries and Africa, who are looking for affordable but decent healthcare, Heaven notes.

Healthcare companies have been very clever at adapting to the hurdles they face and creating innovations in delivery, she adds. For example, Heaven points out that India has made use of remote doctor access, excelling at telemedicine, which was introduced there in the late 1990s, despite being thought of as a recent developed-market initiative.

India’s innovations in efficiency are aided by the lack of incumbent infrastructure. In the West, hospitals and the care system as a whole have evolved slowly, which can make new solutions more difficult to conceive and implement, bolting onto existing structures, procedures and processes.

**Healthcare Expenditure Forecast**

![Healthcare Expenditure Chart](chart.png)

Source: BMI Forecast; World Health Organization (WHO). As at 29 June 2017. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY Mellon product.
Heaven says: “As the saying goes, necessity is the mother of invention. India, as in most places, does not have enough hospital beds. This has prompted companies to come up with different solutions. The government has also been happy for private companies to take the lead in this area; regulations have been kind as a result. The skill and knowledge of medical staff is robust in India and clinical quality is impressive.”

There are five large hospital chain companies operating in India and individual hospitals within these chains can each have several thousand beds, which is still not enough. The ratio of hospital beds to people in the country remains low, with the facilities concentrated in urban areas. For example, in 2014 the city of Delhi had over 10 times more hospital beds per 1,000 people than the northern state of Uttar Pradesh.¹

Heaven says that given the state of primary care in India, many just turn up at hospitals seeking treatment, creating demand pressures. As a result hospital chains are attempting to implement a “hub and spoke” model, a version of the West’s general practitioner system, she explains. “This system could encompass all stages of care: primary, secondary, tertiary and quaternary care (quaternary care is seen as an extension of tertiary in reference to advanced and highly specialized levels of medicine). This would then enable patients to be funneled to the most appropriate site of care for their level of illness.” It is quaternary care where real innovation and pioneering procedures are taking place, she believes.

As in many places, there is also a shortage of doctors and nurses in India, particularly the latter. “We spend a lot of time discussing recruitment and retention of staff with some of the hospital companies we see,” Heaven says. In addition, she believes the staffing challenges in healthcare may change. With the implementation of practices such as telemedicine and a greater focus on using medical data to inform treatment options, in the future, the role of doctors may change, the Newton analysts conclude.

ELSEWHERE IN INDIA…THE ROAD AHEAD

The introduction of India’s first toll road investment trust, called IRB, in May 2017 underscores the expectation infrastructure will be a key driver of the country’s growth over the next few years.

Naomi Waistell, portfolio manager on Newton’s Emerging and Asian Equities team, says the IRB trust is likely to be the first of many. National highways make up just 2% of India’s road network, yet they carry some 40% of the traffic volume. Clearly there is a need for more motorways, Waistell says, noting the government plans to spend some US$20B on improving India’s roads. “For context, the capital spending on roads and rail combined by the government over the past two years has been about US$9.5B.”

Also underscoring the potential growth in Indian infrastructure trusts is another government initiative—tax reform. “At the moment India’s states have varying tax regimes, so paying tolls is a manual process and leads to long lines,” Waistell says. The newly launched unified Goods and Services Tax, a harmonized system across India, could enable automation of toll collections, speeding up travel times. This, in turn, could see an increase in traffic growth and more toll income, thereby supporting the income distributions from trusts like IRB, she notes. The IRB trust holds six toll roads and features a 10%-12% yield in a country where just roughly 10% of the Indian market’s large-cap stocks yield more than 3%, Waistell says.

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