Private Equity and Capital Structuring for optimizing ROI in Healthcare delivery business

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Introduction…

Radiant Life Care Private Limited:

- Professionally managed company
- Promoted by professional entrepreneur with extensive Private Equity experience
- Currently managing & developing hospitals in Delhi, Ludhiana, Bhilai and Goa, including the 700 bed BLK Super Specialty Hospital at Pusa Road, Delhi

Points for discussion

- Why are PE investors interested in Healthcare?
- Capital Structuring for optimizing ROI
- What makes a company attractive to PE investors?

Why are PE investors interested in Healthcare?
Opportunity Set

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- **Demand side:**
  - » Potentially world's largest market with vast unmet / latent demand
  - » Expanding middle class segment
  - » Higher purchasing power
  - » Increasing average age of the population
  - » Lifestyle changes across all strata of society
  - » Higher insurance penetration
  - » Increasing awareness & intent to seek modern health treatment

- **Limited supply:**
  - » Few established players with High fragmentation

- **Scalability and growth opportunity:**
  - » Potentially unlimited growth opportunity
  - » Hugely diverse population: Can sustain multiple business models
  - » Pan-India communication infrastructure and connectivity with rural towns / villages:
    - Enabling access to conventionally 'unreachable' areas.

Why are PE investors interested in Healthcare?
Opportunity Set

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- **Competitive advantage to established players:**
  - » Gestation period of 3 to 7 years for greenfield hospitals: Entry barrier
- **Central / State Govts. actively pursuing healthcare insurance**
  - » However, Govt spend on healthcare infrastructure is still low
  - » Significant headroom for private participation in the sector
- **International Medical Tourism:**
  - » Unlimited pool of patients
  - » India: Low cost hub for specialty treatments

- HIGH RETURN ON CAPITAL
- OPPORTUNITY TO CONTINUALLY INVEST CAPITAL
- REASONABLE ENTRY BARRIERS

Why are PE investors interested in Healthcare?
Business Economics

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Mature hospitals in Tier I and Tier II towns:

	Tier I Town	Tier II Town
Tertiary Care Facility	ARPOB: Rs 25,000 - 28,000 Margin: Rs 5000 – 7000 (20% to 25%) Capex / bed: Rs 70 to 80 lakhs Gestation period: 2 to 3 years ROC: 30% to 35%	ARPOB: Rs 12,000 - 15,000 Margin: Rs 2500 – 4500 (22% to 28%) Capex / bed: Rs 50 to 60 lakhs Gestation period: 1.5 to 2 years ROC: 25% to 30%
Smaller / Limited tertiary care facilities	ARPOB: Rs 12000 - 15,000 Margin: Rs 3000 – 4500 (25% to 30%) Capex / bed: Rs 40 to 60 lakhs Gestation period: 1 to 2 years ROC: 25% to 30%	ARPOB: Rs 6,000 - 8,000 Margin: Rs 1500 – 3000 (25% to 35%) Capex / bed: Rs 15 to 25 lakhs Gestation period: 0.6 to 1.5 years ROC: 35% to 40%

HIGH RETURN ON CAPITAL

Points for discussion

- Why are PE investors interested in Healthcare?
- **Capital Structuring for optimizing ROI**
- What makes a company attractive to PE investors?

Capital Structuring for optimizing ROI:
Factors to consider

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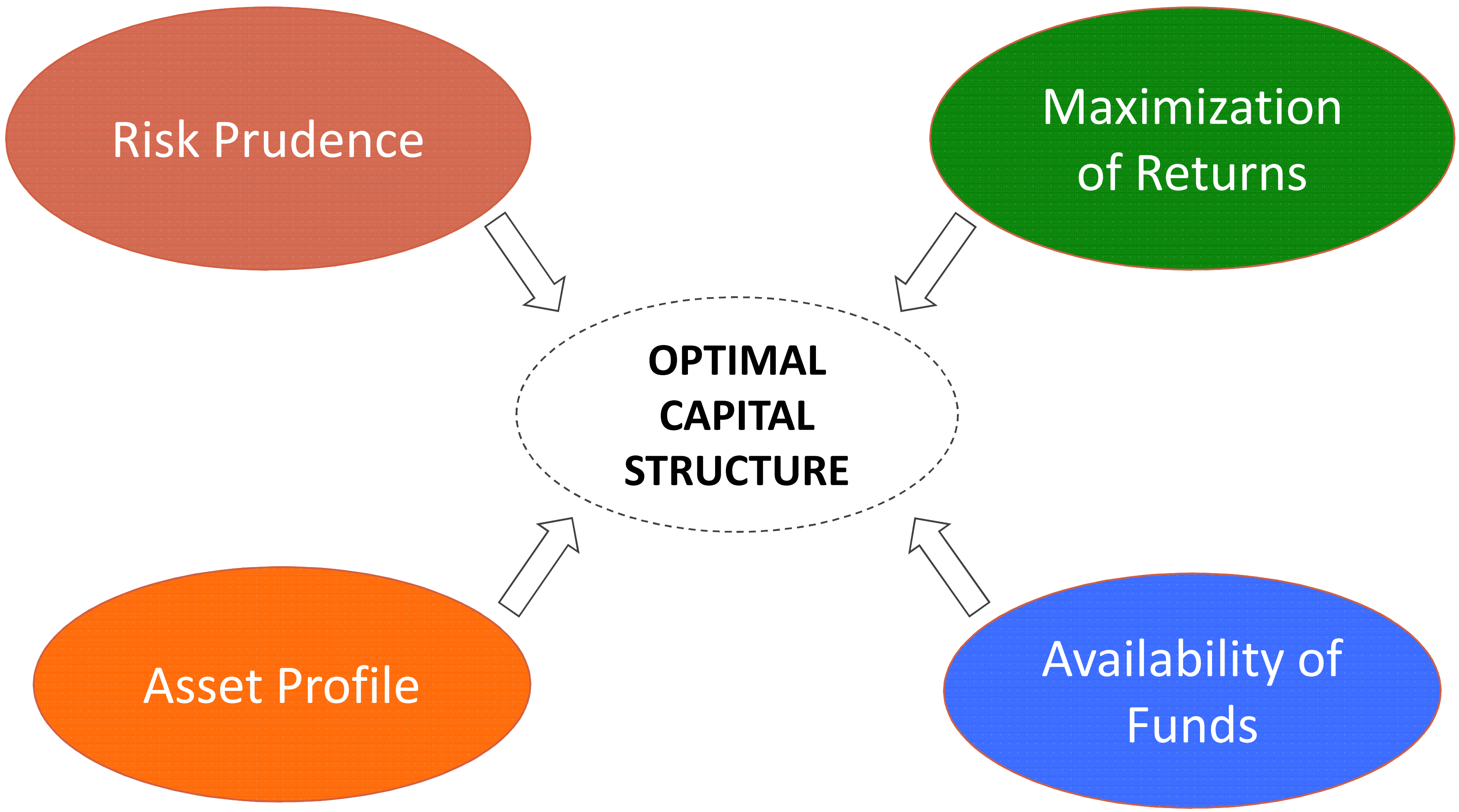

Capital Structuring for optimizing ROI:
Asset-wise Leverage vs. Overall Project Leverage

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Capex per bed (Rs L / bed)

Asset	Remarks	Tertiary Tier I	Tertiary Tier II	Secondary Tier I	Secondary Tier II
Land, Building, Infrastructure	Tangible, depreciating asset (ex. Land) Difficult to monetize if business closes down Funding by prudent combination of Debt & Equity	30	24	20	8
Medical Equipment	Tangible, depreciating asset OEMs can refurbish and re-sell, with relative ease Suppliers provide ~80% financing	26	21	18	7
Start up Losses	Losses lead to networth erosion To be funded by equity only	15	12	10	4
Working Capital	Tangible, easy to monetize asset Funding readily available by banks	4	3	3	1
	Total	75	60	50	20

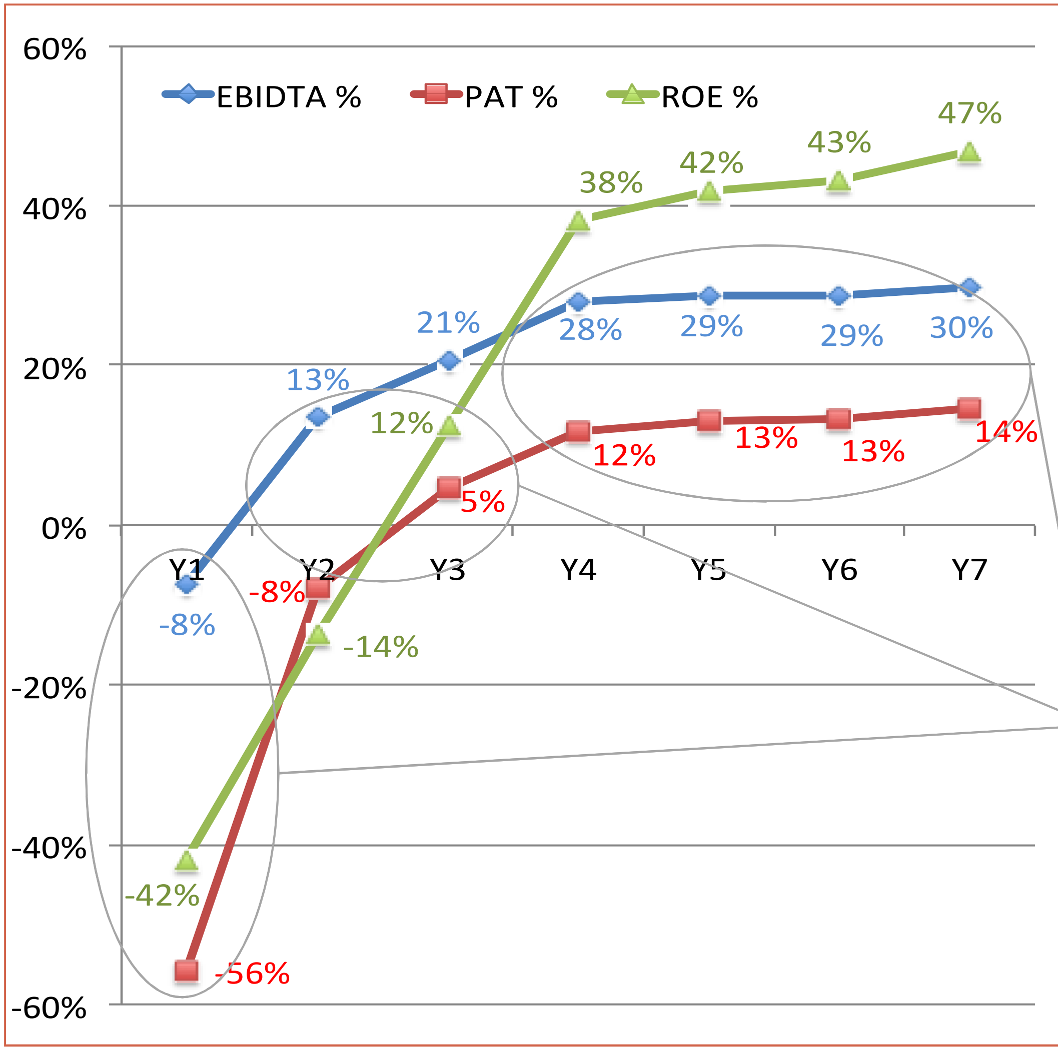
Capital Structuring for optimizing ROI:
Asset-wise Leverage vs. Overall Project Leverage

Radiant Life Care Private Limited

Asset	Remarks	Debt : Equity
Land, Building, Infrastructure	• Tangible, depreciating asset (ex. Land). • Difficult to monetize if business closes down. • Funding by prudent combination of Debt & Equity.	Close to 2:1
Medical Equipment	• Tangible, depreciating asset. • OEMs can refurbish and re-sell, with relative ease. • Suppliers provide ~80% financing for key equipment.	Close to 4:1 *(financed by suppliers)*
Start up Losses	• Losses lead to networth erosion. • To be funded by equity only.	100% equity
Working Capital	• Tangible, easy to monetize asset • Funding readily available by banks	Close to 3:1
	PROJECT LEVERAGE AT MATURITY	**Close to 2:1**

Capital Structuring for optimizing ROI:
Hospital Life Cycle

Capital Structure is dynamic to business life cycle



Source: Sector reports from Crisil (2010, 2011) and Radiant in-house analysis

- Due to higher fixed cost structure in hospitals, EBIDTA and PAT break-even take 2 to 3 years.
- However, non-cyclicality of business and 25%+ EBIDTA leads to long term of ROE of 35%+

Recommended Leverage - D/E ratio
(inversely co-related with project maturity)

- **Project stage:** 2:1
- **@ Commissioning:** 1:1 (inc. equity provision for losses)
- **Till break-even**: 1:1
- **Post Stability:** 2:1

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What makes a company attractive to PE investors?

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- **Thought-through & achievable ideas and plans**
- **Operating Leverage:** *low fixed cost set-ups*
- **Management Team:** *to achieve clinical and commercial balance*
- **Corporate Governance Practices**
- **HR practices:** *revenue sharing / ESOPs for doctors*

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