

FOREIGN DIRECT INVESTMENT IN HOSPITAL INDUSTRY-A REVIEW

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ABSTRACT

Foreign direct investment (FDI) is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. Hospital Industry is one the fastest growing service sector in India. Given the growing importance of the health care sector and the significant development of trade in health services, foreign direct investment in this sector has gathered momentum in the recent years. Since January 2000, FDI is permitted up to 100 percent under the automatic route in hospitals in India. Therefore, there is growing interest among foreign players to enter India's healthcare sector through capital investments, technology tie-ups, and collaborative ventures across various segments, including diagnostics, medical equipment, hospitals, and education and training. The results of this study provide the current status of FDI in Hospitals and diagnostic centers in healthcare sector.

Keywords: FDI, Healthcare, Hospital, Diagnostic centers.

INTRODUCTION

The corporate hospital chains like Apollo Hospitals, Fortis Healthcare, Wochardt Hospitals, Max Healthcare etc have made headlines for their impressive expansion plans in India and in other countries, over the years. Chennai is the first place where Apollo Hospital has launched its first corporate hospital after more than 25 years. These corporate hospital chains are now spreading in almost every Indian metropolitan city and now entering in the towns where the population is exceeding one million also known as Tier 2 Urban markets which are not including the six largest urban areas in India. This corporatization of hospital care is not only to India. The corporatization means here is as the entry of publicly traded corporations into a specific sector not as the use of corporate governance principles into public sector entities. Hospital chains have expanded in Europe, in USA¹ in Australia² and in emerging countries like South Africa and China.

The health sector reforms and the liberalization policy in India have created new profit-making opportunities in health care markets since the 1980s for international and local organizations. When the demand of the quality as well as quantity of the hospitals is increased, the private sector as well as the public sector hospital care providers could not fulfill the demand then a new pro-market regulatory environment has helped private corporation to invest in the hospital sector. The corporations found tremendous growth potential in Indian hospital sector with such an untapped market and a favorable regulatory

environment. Various authors have researched the privatization of hospital care and the early stages of its corporatization throughout the 1980s and 1990s³. Many hospital chains have been created and have expanded since the early 2000s in all over India. Max Healthcare and CARE Hospitals on regional level and Apollo Hospitals and Fortis Healthcare on national level are become more diverse than they were before since the early 2000s. Each corporate hospital chain is finding for its own market space in network models, technical and management partnerships, and market segmentation, in terms of source of funding, in an increasingly competitive environment. The failure of the public and private partnership, have been well documented⁴, in the hospital sector. A renewed interest in supporting corporate hospital chains have been shown by the central and state governments.

FOREIGN DIRECT INVESTMENT IN HOSPITAL SECTOR

India is currently an important destination for Foreign Direct Investment (“FDI”) which is one of the biggest emerging markets. India’s economic progress since gaining its independence in 1947, despite of its potential to become one of the most dominant economies in the world, has generally been masked by its perception of being a closed, developing country. However, this perception has changed in the recent past and India is accepted as one of the most stable and robust economies. The healthcare sector as an industry is expanding rapidly and has not been as severely impacted by recent economic slowdown as some of the other industries. It comprises of hospital services, diagnostic services, diagnostic products, medical technology, clinical trial services and clinical research organizations. This sector is predominantly privatized and accounts for more than 80% of total healthcare spending in India⁵ with almost 75 to 80 % of hospitals being managed by private sector. The Indian hospital industry was estimated to be worth about USD 44 billion as of 2010 and is predicted to be worth around USD 280 billion by 2020. Further, the Indian hospital service industry is projected to grow at a compounded annual growth rate of more than 9%⁵. The Indian Healthcare sector is emerging as one of the fast-growing service sectors in India, contributing 6% to the country’s growth domestic product (GDP).⁶

Foreign investors can play significant role in the development of the hospital sector. This is evident from the fact that private equity funds (including venture capital funds) have invested over \$ 2 billion in healthcare and life science sector over the past five years⁷. Further, India has received USD 1,32,837 million as aggregate FDI from April 2000 to April, 2011 and specifically hospital and diagnostic centers have received FDI of USD 1030.05 million from April 2000 up to April 2011 constituting 0.78% of the total FDI into India. Foreign investors can play significant role in the development of the hospital sector. This is evident from the fact that private equity funds (including venture capital funds) have invested over \$ 2 billion in healthcare and life science sector over the past five years. Further, India has received USD 1, 32,837 million as aggregate FDI from April 2000 to April, 2011 and specifically hospital and diagnostic centers have received FDI of USD 1030.05 million from April 2000 up to April 2011 constituting 0.78% of the total FDI into India⁸.

According to 2001 population norms, there was still a shortage of 4,477 primary healthcare centers and 2,337 community healthcare centers and India would require 1.75 million beds by

2025. Over 6800 more hospitals are needed in India to provide basic health facilities to people in rural areas. In the recent past various hospitality brands such as Fortis, Apollo, Max, Global and Care have started aggressive expansion in the country.⁷

During 1991-2003, private out-of-pocket expenditure on health grew at 10.9% per annum in real terms, whereas per capita income grew at 3.8% during the same period. This level of expenditure poses problems for families who cannot pay, forcing them into debt and leading to a poverty trap. On average, the poorest 20% of the Indian population is 2.6 times more likely than the richest population to forego medical treatment when ill, due to financial reasons⁹. Even if the government provides free or nearly free services, poor households spend a significant part of their income on transport and informal charges.

The reduced subsidies on medical care services and government's withdrawal from social sector resulted in market segmentation, which in turn resulted in an increased demand for quality medical care services by the upper and middle class segments in India. This factor made it attractive for private investors to operate profitable healthcare operations¹⁰, which resulted in increased private investment in healthcare. Multiple policy level changes propelled the growth of Indian private sector. Several hospitals were set up, under the banner of trusts and charitable institutions to cater to healthcare services. However, the turning point in Indian healthcare service delivery came with the establishment of the first „corporate hospital“ by Apollo Hospital Enterprise limited, in 1983¹¹. Ever since then Apollo Hospital Enterprise Ltd, has seen a tremendous growth with over 7500 hospital beds under its banner across 25 cities in India. Concurrently several other corporate hospitals were established across India including Escort Group, Wocharkdt Group of Hospitals and Fortis Healthcare¹². The Indian healthcare sector is predicted to reach US\$ 280 billion by 2020, contributing an expected Gross Domestic Product (GDP) spend of 8 per cent by 2012 from 5.5 per cent in 2009, according to a report by an industry body. Growing population, increasing lifestyle related health issues, cheaper treatment costs, thrust in medical tourism, improving health insurance penetration, increasing disposable income, government initiatives and focus on Public Private Partnership (PPP) models are some of the driving factors for the growth of healthcare sector in India.

By 1990s the corporate sector had recognized the new emerging opportunities in private healthcare, and with the rapid changes in medical technology it came forward to invest in a big way in expanding the private hospital sector. Crisis & Alternatives began to increase by leaps and bounds. In 1992-93 the private health sector accounted for 2.5% of GDP and in 2004-05 it is estimated at 5.6% of GDP. During the same period public health spending increased marginally from 0.74% to 0.92% of GDP but it was much lower than the 1.5% of GDP it had peaked in 1986. The engine of private sector's growth was threefold. First India's pharmaceutical industry had acquired a transnational character accounting for 8% of world drug production by volume and exporting 52% of total domestic production.¹³

In fact, more than 50% of the urban population in Mumbai has expressed their preference for the corporate hospitals for their higher efficiency¹⁴. These corporate hospitals, with a rising demand, are attracting more business groups, like Apollo Tyres, to collaborate with medical institutions like, Artemis Health Institute, to form conglomeration of medical cities, like the Medi City in Bangalore¹⁵.

The private sector, which already accounts for about 75% of the healthcare services delivered, is expected to account for over 90% of future investments in developing the country's hospital infrastructure. The role of the government will largely be focused towards disease prevention, improving access to primary care, increasing and improving the quality of the country's pool of medical manpower and incentivizing the private sector to invest in capacity building and improving access to healthcare services.¹⁶ Foreign Direct Investment ("FDI") into India is governed by the Foreign Exchange Management Act ("FEMA"), 1999, the rules and regulations made there under by the Reserve Bank of India ("RBI") and the Industrial Policy and Procedures issued by the Ministry of Commerce and Industry through the Department of Industrial Policy and Promotion ("DIPP"), Secretariat for Industrial Assistance. The provisions pertaining to FDI are laid down in Schedule I of the FEMA (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000. These provisions are subject to compliance with the provisions of the Policy Guidelines and the Press Notes / Press Releases issued by the DIPP, from time to time. The DIPP has issued a consolidated policy with respect to foreign investment into Indian companies. Currently, foreign investment is regulated by Consolidated FDI Policy issued by DIPP in the form of Circular 2 of 2011.¹⁷

The FDI inflows in the hospital sector have not been significantly high despite government incentives to attract FDI investments (including 100 percent FDI in most health-related services). There are currently limited number of "100 percent foreign-owned healthcare" players in the Indian market. However, this scenario is expected to change given the attractiveness of the sector. Many foreign players are making a foray into the market through joint ventures with local healthcare units. For example, Singapore's Pacific Healthcare made its first foray into the Indian market, opening an international medical centre, which is a joint venture with India's Vitae Healthcare, in the Indian city of Hyderabad. Singapore-based Parkway Group Healthcare PTE Ltd had entered the Indian healthcare market in 2003 through a joint venture with the Apollo group to build the Apollo Gleneagles hospital, a 325- bed multi-speciality hospital at a cost of USD 29 million 23 and is looking at a joint venture for another tertiary care hospital in Mumbai. Many international diagnostic care players have entered India and others including medical education players are looking keenly at sectoral entry points. Since January 2000, FDI is permitted up to 100 percent under the automatic route in hospitals in India. Thus no government approval is required as long as the Indian company files with the regional office of the RBI within 30 days of receipt of inward remittances and file the required documents along with form FC-GPR with that Office within 30 days of issue of shares to the non-resident investors. Controlling stake is also permitted in hospitals for foreign investors. FIPB approval is currently only required for foreign investors with prior technical collaboration, but is allowed up to 100 percent. Prior to January 2000, FDI in hospitals was permitted under the FIPB route, which meant that the FIPB would consider the investment proposals and take a decision and the Indian company with the RBI would make thereafter filings. Current regulations also permit other forms of capital mobilization, which are treated as FDI. For instance, Indian companies can raise foreign currency resources abroad through ADRs and GDRs under the automatic route, up to 49 percent subject to specified conditions and such investments are also treated as FDI.

In order to understand the extent and nature of foreign direct investment in hospitals, a list of all FDI approved projects in hospitals and diagnostic centres during the January 2000 to July 2006 periods was obtained from the Department for Industrial Policy and Promotion. This list consisted of 90 projects, for a total approved FDI amount of \$53 million, and covering a wide range of countries, such as Australia, Canada, UK, US, the UAE, Malaysia, and Singapore, among others. However, if one examines the list of approved projects and separates hospitals from diagnostic centres, then one finds that the majority of these approved projects are diagnostic centres. Only 21 of the approved projects are in the hospitals segment.

The following table shows the approved projects for FDI in hospitals as received from the DIPP, along with the source countries, and the Rupee and US dollar values of FDI approved .

Table 1: Few Approved FDI Hospitals by DIPP¹⁸

S.No.	Date	Indian Hospital	Country of foreign investor	Foreign equity (Mn\$)	
				Rs.	US \$
1	April 2002	Fernandez Maternity Hospital, Hyderabad	Australia	0.42	0.01
2	December 2002	Sir Edward Dunlop Hospitals, New Delhi	Canada	1,282.25	26.71
3	January 2004	Max Healthcare, New Delhi	Mauritius	316.21	6.63
4	January 2000	Dr. Ramayya's Pramila Hospitals Ltd, Hyderabad.	UK-NRI	15.00	0.35
5	January 2000	HN Hospital, Mumbai	USA- NRI	0.00	0.00
6	September 2003	Kalinga Hospital, Bhubaneshwar	NRI	54.09	0.11
7	August 2000	Thaqdees Hospitals Ltd, Thaikkatukkara, Kerala	Saudi Arabia	0.32	0.01
8	January 1, 2003	Duncan Gleneagles, Kolkata	Singapore	59.24	1.29
9	July 2004	Pacific Hospitals, Hyderabad	Singapore	5.82	0.13
10	October 2001	Malabar Institute of Medical Sciences Hospital Ltd., Calicut	UAE	133.61	2.97

11	July 2002	Peoples General Hospital Ltd., Bhopal	UAE	73.32	1.53
12	August 2001	Thaqdees Hospitals Ltd, Ernakulam	UK	0.34	0.01
13	July 2001	Trichur Heart Hospital, Thrissur	UK	49.89	1.11
14	August 2002	Bhimavaram Hospital Ltd., Bhimavaram	USA	0.10	0.00
15	December 2002	S&V Loga Hospital Pvt. Ltd, Peramanur, Salem	USA	3.79	0.08
16	November 2003	Vikram Hospital, Mysore	USA	29.65	0.64
17	February 2004	Basappa Memorial Hospital Pvt. Ltd., Mysore	USA	22.83	0.50
18	April 2004	Parekh Hospital Pvt Ltd, Mumbai	USA	0.50	0.01
19	July 2004	Columbia Asia Hospital Pvt. Ltd., Bangalore	USA	0.90	0.02
20	August 2004	Add Life Medical Institute Ltd. Sterling Hospital Building, Ahmadabad	USA	326.24	7.07
21	January 2004	RA Multispecialty Hospital Pvt. Ltd, Coimbatore	British Virginia	0.06	0.00

STATUS OF FDI IN HOSPITALS & DIAGNOSTIC CENTRES

The following table provides the status of foreign investments in healthcare sector in India, more specifically in hospitals and diagnostic centres from April 2000 to June 2012.

Table 2: Statement on FDI Inflows in Hospitals and Diagnostic Centres April 2000 To June 2012.18

S.No	Period	Sector	Amount of FDI Inflows		Total FDI Inflows (+)		% with total FDI Inflows (+)
			In Rs.	In US \$	IN Rs.	In US \$	
			crore	million	crore	million	
1	April 2000 To December 2011	Hospital & Diagnostic Centres	5,022.15	1,138.16	713,078.99	158,090.60	0.72
2	April 2000 To January 2012	Hospital & Diagnostic Centres	5,252.56	1,183.04	723,366.76	160,094.45	0.74
3	April, 2000 To February, 2012	Hospital & Diagnostic Centres	5,417.92	1,216.67	734,240.45	162,306.04	0.75
4	From April, 2000 To March, 2012	Hospital & Diagnostic Centres	6,040.87	1,340.47	775,005.97	170,407.08	0.79
5	From April, 2000 To April, 2012	Hospital & Diagnostic Centres	6,092.30	1,350.40	784,625.58	172,263.77	0.78
6	From April, 2000 To May 2012	Hospital & Diagnostic Centres	6,300.22	1,388.56	791,854.12	173,590.69	0.80
7	From April, 2000 To June, 2012	Hospital & Diagnostic Centres	6,340.88	1,395.82	798,825.59	174,834.96	0.80

As the above table shows, the FDI equity inflows received by Hospitals and Diagnostic centres have been increasing positively. This sector was received Rs. 5, 022.15 crores amount of FDI inflows during April 2000 to December 2011 and it was increased up to Rs. 5, 417.92 crores by accounting 0.75% in total FDI inflows. The FDI inflows in hospital and diagnosis sectors have received 0.03% growth from April 2000 to February; 2012. The percentage of FDI in hospital and diagnostic sector in total FDI in India has been increased from 0.72 in December 2011 to 0.80 in June, 2012.¹⁸

CONCLUSION

In conclusion, it is proven that healthcare seekers depend highly on the corporate hospital, since they provide a wider variety of services and are considerably more efficient. Thus, with the corporate hospitals becoming more prominent in the Indian market, it becomes even more imperative that India continues to ride this wave and makes more collaboration to bring the people of India a truly global healthcare delivery system at affordable prices. The study further aware the concerned researchers to work on this concept.

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