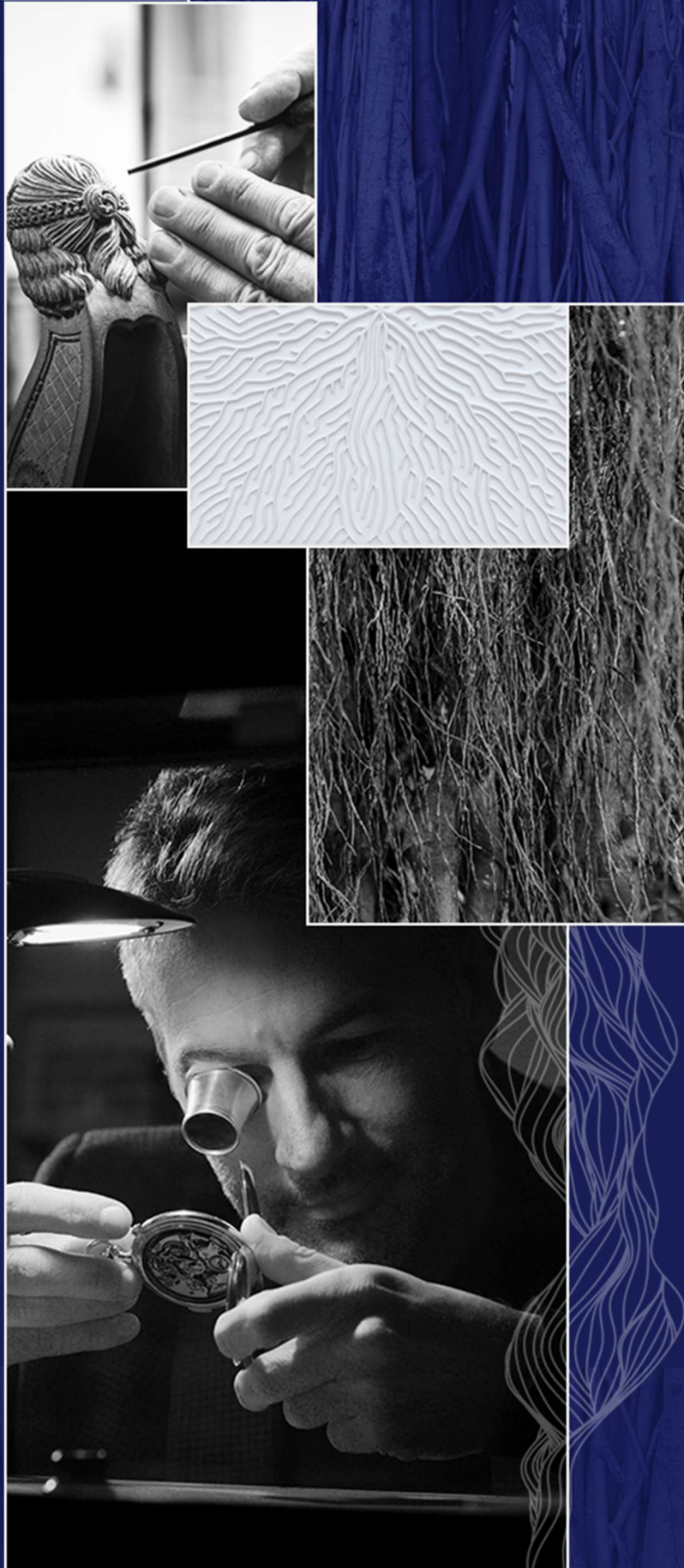


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NEWSLETTER
OCTOBER
2022



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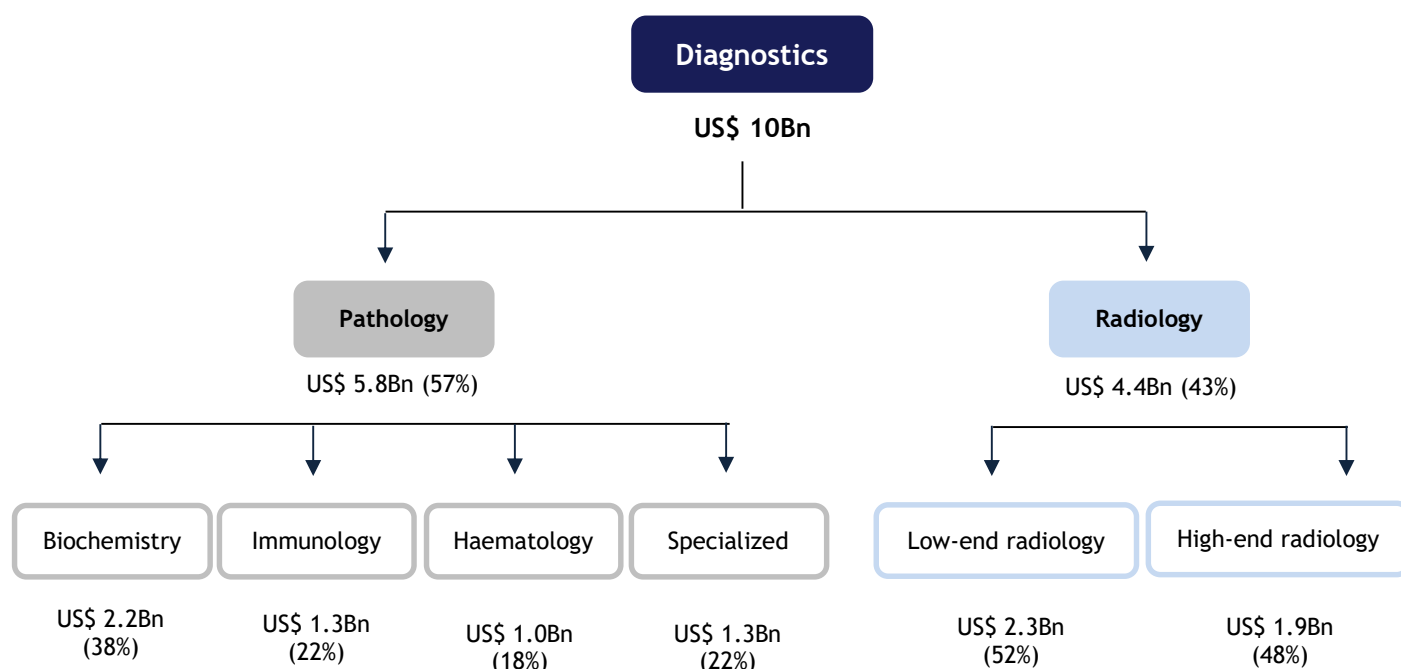
What are New-age Diagnostic firms doing differently?

Background - Diagnostics Industry in India

Indian diagnostics industry has been rapidly evolving over the years and has emerged to be a key constituent of the overall healthcare segment. The key factors driving this change over the years are strong validation and support from medical professionals and experts, improvement in the accuracy of diagnosing the illnesses, access to advanced diagnosis, change in consumer behaviour who are more health conscious and strong technological support.

The Indian medical diagnostic industry was **US\$10Bn in FY 2021** (of which 57% was pathology and 43% radiology) and is now expected to grow at a CAGR ('Compounded Annual Growth Rate') of 14% to reach **US\$ 20 Bn by FY 2026**. This growth will be primarily driven by an increase in healthcare spending by the aging population, rising income levels, improved awareness for preventive testing, access to high-end diagnostics offerings, urbanization, and the government's prompt health-related measures.

Market share in the industry sub-segments:



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Key trends/ patterns adopted by the new-age diagnostic firms:

A. Changing patient behaviour:

Pricing, convenience, and reliability are the top three factors due to which new-age diagnostic firms are being preferred over traditional diagnostic service providers by the customer today.

○ Convenience

Providing home collection over walk-ins: ~75% of the customers prefer home collection over lab walk-ins and are willing to pay extra for home sample collection services. Ease of online test booking, and choice of timing slot have further increased customer convenience. Test tracking, report access through email, app and other ways, descriptive & user-friendly report format have made customers gain easy access to read their reports.

○ Price competitiveness

Customers are now seeking reasonable pricing, for self-initiated tests, regular check-ups and wellness tests, the preference is high for online platforms offering competitive discounts and packages.

○ Reliability

A shift in preference for reliable service providers is being seen widely, driving customers towards more reliable branded chains. The prominent brand name of the provider gives a good recall to the customer.

B. Change in the Business Model

Newer lab chains are fast expanding through organic and inorganic routes in Tier 2+ cities through asset-light models. Acquisition of larger stand-alone facilities and regional chains for geographic expansion and establishing a pan-India presence is the preferred route for business expansion. Lab chains are further deepening their presence in multiple cities through collection centres, patient service centres, pick-up points, expansion of the teleradiology market, etc.

The Diagnostics ecosystem has expanded from comprising only core equipment and reagent providers to include players offering lab automation, third-party logistics & ones offering tech-centered business models.

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Evolving Partnership Network Models

	Traditional diagnostic operations	Modern diagnostic operations
Customer facing layer	COCO collection centres, Hospital labs, B2B pickup points	Online aggregators
Logistics	Own logistics	Third party logistics
Backend sample processing	Own labs, Home-grown LIMS	Partner labs, Robust LIMS providers
Reporting	Report preparation by the labs themselves	Teleradiology, Telepathology

Additional revenue streams generated in newer tests include molecular diagnostics, genomics, health and wellness tests, and remote diagnostics such as telepathology and teleradiology services.

New-age players are investing to make business plans around remote diagnosis to improve the quality and efficiency of diagnostics, newer patient-centric business models working around the challenges faced.

C. Digital Transformation & Improved Supply chain

Digital transformation is happening across all sub-segments in diagnostics right from sample collection to diagnostic reading, and reporting.

New-age diagnostic firms are increasingly focusing on improving customer experience through digitalized journeys, use of AI systems, especially in image processing across radiology and pathology, and robust IT system for fulfilment layer - collection scheduling, sample logistics, and tracking. Considerable focus has been on leveraging digital to become efficient and deliver customer delight, to support clinical decisions and serve as a backbone of the business.

With automation of the supply chain, reliability has increased, and TAT (Turnaround time) has decreased. Visibility has increased due to delivery management software (Real-time visibility of patient samples). Logistics is becoming critical in the pursuit to serve customers at their convenience. New-age firms are adopting tools and guidelines for container usage, transport temperature, time and safety criteria. Leveraging tools of information technology such as electronic medical records, clinician order entry, electronic handbooks, embedded hyperlinks in reports are widely adopted.

D. Industry Competition

Owing to attractive margins & lesser entry barriers, players from other sub-segments of the healthcare ecosystem have entered the diagnostic market, making it more competitive. Some of

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these non-traditional competitors include:

- Pharma companies - One of the major pharma companies plans to set up its National Reference Laboratory in Navi Mumbai with plans to open 100 labs & 1000 collection centres pan India in the next 3 years
- Hospital chains - One of the national hospital chains formulated a wholly owned subsidiary focused on diagnostics
- Diagnostic service aggregators - An online platform for health services, launched health testing at home in 100 new cities in the country by recruiting 1,500 support staff, including pathologists, phlebotomists, lab technicians, etc., whereas another aggregator expanded its diagnostic solutions to 3500+ routine and specialized tests for hormone testing, genomic testing, routing pathology investigations, etc.
- Increasing M&A activity - An online pharmacy player acquired 66% stake in Thyrocare, the fourth largest diagnostics chain in India. A competitor in this space acquired Droplet, a logistics company specializing in home sample collection for diagnostic labs. Vijaya Diagnostics & Krsnaa Diagnostics raised INR 1,895 crores & INR 1,213 crores respectively through IPOs for increasing their network labs and testing capabilities. National chains are also seen acquiring regional chains to expand their footprint.

Road ahead

Driven by attractive margins, the Indian diagnostics industry offers a plethora of growth opportunities with new age firms grabbing market share to grow rapidly. The industry has witnessed a huge transition and innovations during the Covid-19 pandemic. Leveraging unified data and processes, superior analytics capability, business & IT integration, evolved partnership ecosystem will be some of the key success factors for the players going forward.

With increasing Private Equity investment, increased competition, technological advancements, and regulations on improved quality, the diagnostics segment is expected to grow and proliferate in the times ahead.

Sources:

Praxis Report

News Articles

WCA Proprietary Analysis

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- Structured Finance
- Refinancing
- Additional Funds for Set-up



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- Growth Capital
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