



## **Startup Strategy for Healthcare sector in India—an environmental scanning through PEST Analysis**

### **Abstract:**

*As India becoming an emerging market, startups are being introduced to cater a large demand in the fragmented sector of healthcare as the days passed. The basic need of infrastructure for such a large country is still on development phase and with emergence of health startups the demand for quality healthcare services has increased. The traditional model of healthcare is being changed. The paper tries to study the same in the context of healthcare startups and scan the environment in order to capture the huge demand of this sector.*

**Keywords:** Emerging market, Startup, Healthcare

### **Introduction:**

India is becoming the fastest growing country for startup base all over the world. [1] There are 6% to 8% of investments focused on the healthcare sector startups in India, study of FICCI Health and KPMG says. There is a clear need for quality healthcare services to cater a billion plus population. Potential worth of this sector is expected to be increased to \$280 billion by 2020. The market is growing at a CAGR of 16% since 2011. Still, a large part of population doesn't have access to affordable health services. There is a wider scope for healthcare sector because currently as a country, India spends only 4.7% of its total GDP (and 1.4% globally spent) on public healthcare systems. A large part of population lives in rural areas where access to health services is absent or limited. On the other side of the coin, urban areas have a population which is having lifestyle diseases due to urban life hazards like pollution is also increasing. Hence, the gap between demand and supply of quality healthcare services coupled with operational efficiency and technology penetration, there is a significant potential for increase in this sector. [2][3]

### **Emergence of Indian Healthcare Startups:**

In the U.S., 70% of the people use internet to find about healthcare information, out of which 40% had effectively diagnosed themselves with physicians. [4] On the contrary, in our country, the gap is wider when it comes to serve patients' needs and that offered by the hospitals in current traditional model. This is one of the biggest challenges. All these factors add the motivation for emergence of start-ups. Also, government's policy for startups has added a cushion in running a startup. Government promoted campaigns like Start-up India provides the encouragement to cater the various needs of healthcare services' startups and getting easy funding to them. Still, a lot is to be done on the part of access to the medical services. [4]

Current healthcare profile of India: [5][6][7][8]

Stats reveal, the average population to government allopathic doctor ratio is 11528:1. Considering a few states, Puduchchery: 1971:1, Delhi: 2203:1, Sikkim: 2363:1, Assam: 7092:1, Rajasthan: 8076:1 and Gujarat: 17036:1. As one can easily see that the access is comparatively low across the states. In India, there is no reliable source giving the number of the members of the health workforce as more than 50% of the healthcare professionals work in the unorganized private sector. Also, per capita public expenditure on health in nominal terms has increased from ` 621 in 2009-10 to ` 913 in 2013-

14. Considering the Centre: State share in the same was 34:66 in the year 2013-14. Another dimension affecting public healthcare is Health insurance which can also be a product offering for startups. Still, health insurance need to expand fully and leverage its full potential.

Currently, health insurance pays only for inpatient hospitalization and treatment done at hospitals in the country. In the year of 2000, government had allowed private players to enter to the insurance market in order to liberalize the insurance sector. The sector has seen many innovative products like family floater med claim, top-up plans, critical illness plans, hospital cash and top-up policy, cashless treatments etc. to name a few. Besides this new entry since almost 15 years, there are 74% of all people are covered with insurance which fall under government sponsored schemes. Of these people, 74% people are covered under public insurance companies and rest are covered with private players.

Looking at infrastructure of our healthcare sector, 70% of our population lives in Rural area and to serve their needs, there are total 15818 hospitals in rural areas with 216793 beds. And for the Urban areas, there are total 3538 hospitals with 537931 beds. Considering government infrastructure in rural area, there are 153655 Sub centers, 25308 Primary Health Centers and 5396 Community Health Centers in the country as on March 2015.

From last two decades, India has seen an advent in the technology and emergence of upper middle class too. There is a need to tap the unexplored potential of such a large market of healthcare.

PEST Analysis: <sup>[9]</sup>

#### **Political Scenario of the country:**

In the General Assembly Elections-2014, the Bhartiya Janata Party—a political party of India led by Mr. Narendra Modi as a Prime Ministerial candidate—had won a majority to form the government. After taking power, the government started to explore the need of start-ups by introducing Start-up India scheme under which anyone who wants to become an entrepreneur can get the support from the government in terms of funding, networks and other frills like tax exemption for 5 years' honeymoon time during which the start-up can be fully operational. Other institutions like C.I.I.E. (Centre for Innovation and Incubation for Entrepreneurship) also joined the wagon with its own pre-developed VC (Venture Capitalists) network and funds.

#### **Social Scenario:**

Literacy rate of India is 73% as per Census 2011. India's literacy rate at the time of independence was a mere 14%. Over the years; literacy rate has been increasing but with varied rates in different states with some states like Kerala (94%) and Mizoram (91.3%) well above national average and Bihar with a dismal rate of 61.8%. There is also a concern for female literacy rate (64.6%) which is much below the male literacy rate (80.9%). There is a strong need to improve the overall literacy rate as improved literacy rate has an impact on increasing a country's economic growth rate and decreasing population growth rate. Also, as India has a very young population, literacy will play a very important role in turning the young population into potential human capital.

#### **Economic Scenario:**

Startup India Scheme: <sup>[10]</sup>

According to the scheme, there are total 124 incubators operational as of now. <sup>[11]</sup> Total 1835 applications have been received for recognition, out of which 713 had the required documents and have been recognized as Startups by Department of Industrial Policy and Promotion (DIPP) as of now.

Compliance norms have been eased in order to reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance costs low. The compliance norms usually have 3 main categories describe as under:

a) Startups falling under the list of 36 “white” category industries have been exempted from all the applicable compliances under 3 Environment Laws viz. The Water (Prevention & Control of Pollution) Act, 1974; the Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003 and the Air (Prevention & Control of Pollution) Act, 1981. [Click here](#) to get the list of “white” category industries

b) Ministry of Skill Development and Entrepreneurship (MSDE) has issued advisory to allow Startups to self-certify compliance with the Apprenticeship Rules, 1992 of Apprenticeship Act 1961.

c) Self-Certification under six Labour Laws has also been formulated; 12 states have confirmed compliance to the advisory issued on 12.01.2016 by Ministry of Labour and Employment (MoLE). The 12 states are: Chhattisgarh, Delhi, Jharkhand, Madhya Pradesh, Rajasthan, Uttarakhand, Chandigarh, Gujarat, Daman & Diu, Punjab, Mizoram and Tripura.

### **Tax Benefits to Startups:**

#### ➤ Tax Exemption:

The Finance Act, 2016 has made provision for Startups to get income tax exemption for 3 years in a block of 5 years, if they are incorporated between 1st April 2016 and 31st March 2019. In the Union Budget 2017-18, the Government has increased this period of profit-linked deductions available to the eligible startups to 7 years. To avail these benefits one must get a Certificate of Eligibility from the Inter-Ministerial Board of DIPP.

#### ➤ Tax Exemption on Capital Gains:

Section 54 EE has been introduced under the Finance Act, 2016 which provides for exemption of capital gain up to INR 50 lakhs arising out of transfer of long term capital asset invested in a fund notified by Central Government. Also, Section 54 GB of Income-Tax Act, 1961 has been amended to provide exemption from tax on capital gains arising out of sale of residential house or a residential plot of land if the amount of net consideration is invested in equity shares of eligible Startup for utilizing the same for purchase of specified asset.

#### ➤ Removal of Angel Tax:

Tax exemptions on investments above Fair Market Value have been introduced on 14 June 2016 for investments made in Startups.

A 'fund of funds' of INR 10,000 crores to support innovation driven Startups has been established which is being managed by SIDBI. The corpus shall be released over two Finance Commission cycles, by 2025. FFS invests in SEBI registered Alternative Investment Funds(AIFs) which, in turn, will invest in Startups. INR 500 crore have been released to SIDBI in FY 2015-16, additionally, INR 100 Cr will be released in FY2016-17. So far, 129 crores have been sanctioned by SIDBI to various Venture Funds. Out of the sanctioned amount, 114 crores have been released to 5 Venture Funds.

In addition to above structure, the present government proposed special incentives for emerging startups as a part of Union Budget 2017 as follows:

- Proposal to reduce the Income Tax rate for companies with an annual turnover of up to INR 50 crore to 25%. This would provide MSMEs a reduction of 5% from the current applicable rate of 30%.
- For the purpose of carry forward of losses in respect of Startups, the condition of continuous holding of 51% of voting rights has been relaxed subject to the condition that the holding of the original promoter/promoters continues.
- To ease the regulatory environment in the country and stimulate growth, it is also proposed to allow the companies to carry forward their MAT credit up to fifteen years from the present

period of ten years. This provides the companies an additional five years before they become liable to pay their MAT.

### **Technological Scenario:**

Emergence of the IoT (Internet of Things) is the new trend that is being running on. Smartphones are the drivers of smart homes nowadays. So, in a way internet and technology is becoming an essential part of today's lives. Major tech companies like Apple, IBM and Qualcomm technologies had already started working on healthcare sector with their own products like Care Kit, Watson health respectively, to name a few. This shows a high expectation on the part of the potential of this sector. And that brings the discussion about India and their Healthcare startups.

Analyses of investments in healthcare have shown a extraordinary shift from electronics health record solution to developers of consumer-oriented applications, wearable health technology, and health data and some of the advanced analytics. Looking on the other side of the coin, as new healthcare apps relating to specific functions are emerging every day, their impact on patients facing genuine health problem is not yet clear. It will still take time for the industry to reach to its full potential, where it will change its nature from precautionary to remedial. <sup>[4]</sup>

### **Conclusion:**

As stated above, the environment is quite supportive for starting a startup, especially related to healthcare. The sector is expanding with the days passed. The hospital and diagnostic centres attracted Foreign Direct Investment (FDI) worth US\$ 4.09 billion between April 2000 and September 2016, according to data released by the DIPP. The opportunities are there, provided one come up with a unique idea to cater the untouched population. <sup>[12]</sup>

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