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Docs join hands to set up hospitals in small towns

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LACK of organised funding, like private equity and venture capital, has prompted doctors to increasingly come together to begin hospitals in tier-II and-III cities.

Gujarat-based cardiologist Suhas Lele, who is exploring the possibility of starting a hospital with his colleagues, said: "Single speciality hospitals work better, especially on a small scale. It requires less capital and it is easier to bring in patients. The dynamics of multi-speciality are different and the returns are not equal to the amount of capital required to put it up."

Major metros are inundated with hospitals but tier-II and-III cities are largely ignored by companies looking to set up hospitals. Medical practitioners in these areas are bolstered by the possible tax holiday they could get if they set up hospitals. Milind Antani, lawyer with Nishith Desai Associates, said: "The government is offering incentives for those who build hospitals in tier-II and-III cities. If a hospital is built before 2013 and has 100 beds, it will get a 10-year tax holiday."

However, single speciality hospitals with more than 100 beds in smaller cities would find it difficult to breakeven, says Mr Lele. "I think anywhere between 50 to 100 beds is good. We estimate that it would cost Rs 25-28 crore. This is excluding the land cost, which will be the main expense apart from the equipment needed," Rajiv Bhatt, an oncologist who has been discussing the possibility of starting a cancer hospital with his colleagues, said.

Doctors estimate that a 100-bed cardiology hospital could cost anywhere between Rs 15 crore and Rs 20 crore while a nephrology set up could cost Rs 10-12 crore.

While doctors make excellent medical managers, Mr Bhatt says that they lack administrative expertise. Rajiv Maliwal, co-founder and managing partner of SabreCapital, said: "This is where PE firms come in. We are different from venture capital (VC) funds, which are just looking for a quick entry and exit. We currently have a \$100-million fund focused on investing in hospitals. We recently invested in Oyster and Pearl hospital in Pune, which a doctor we knew wanted to start. We are open to investing in either mid-size existing ventures to help them expand or in start-ups. If doctors come together and want to start something, we will back them and invest anywhere between Rs 50-100 crore for significant minority stake."

With 20 million children born every year in the country, there is a demand for 60,000 to 1 lakh new beds to be added every year.

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