



CASE STUDY

# Creating Healthcare Markets

Apollo: Better Care through an Integrated Network in India

May 2017

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IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on leveraging the power of the private sector to tackle the world's most pressing development challenges. Working with private enterprises in more than 100 countries, IFC uses its capital, expertise and influence to help eliminate extreme poverty and promote shared prosperity.

## **ABOUT THE CASE STUDY**

Expanding access to quality and affordable health care is a central element to eliminating extreme poverty and promoting shared prosperity. The World Bank Group has a goal to end preventable deaths and disability through Universal Health Coverage (UHC). In many developing countries, governments do not have the capacity to service the entire population and private health care providers often play a critical role in meeting societal needs.

IFC's health practice is developing case studies that demonstrate the ability of the private sector towards achieving global and national health care goals. Through a focus on efficiency and innovation, certain business models can provide better outcomes at a lower overall cost to society.

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## **ACKNOWLEDGEMENTS**

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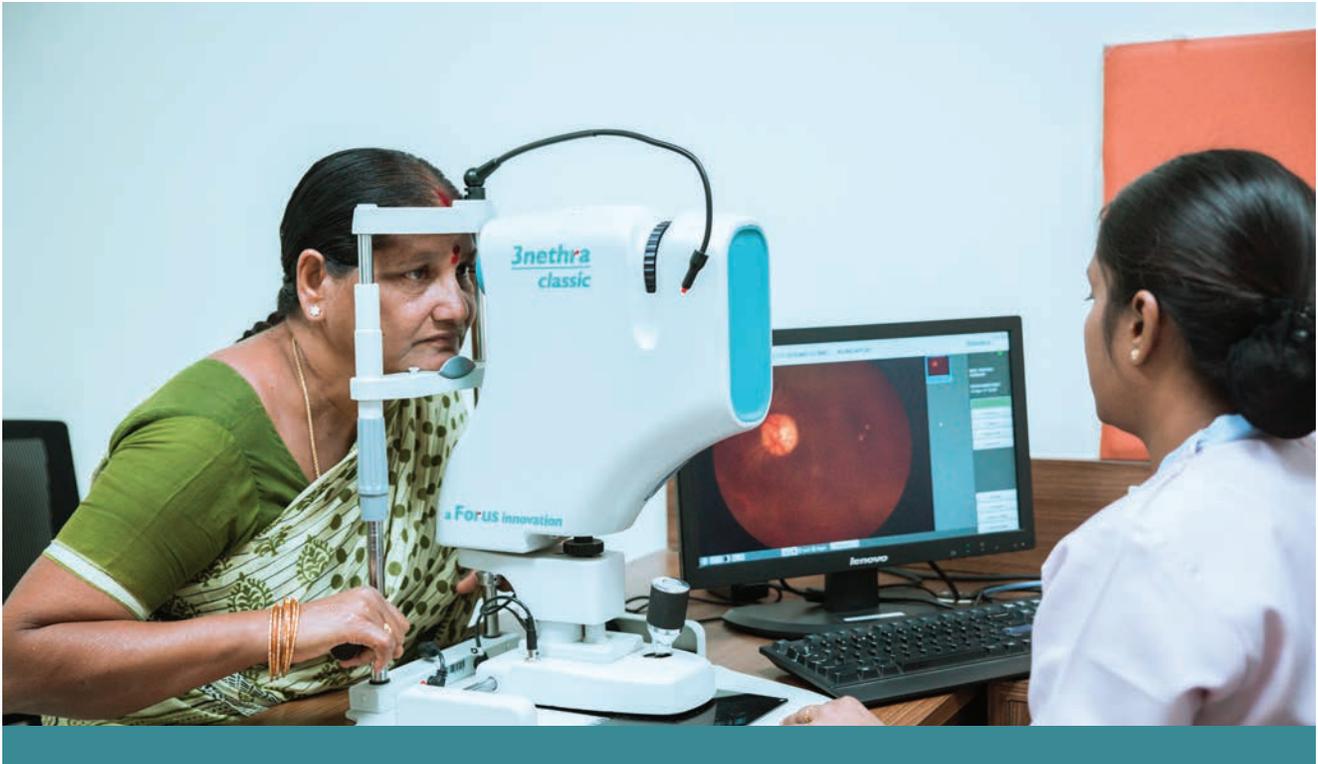
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## **PHOTOS**

@ AHLL



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# EVERY MINUTE IS PRECIOUS WHEN SAVING A LIFE

*One hot summer day in Chennai, India, Mr. Srinivas,<sup>1</sup> who was 53 years old, was experiencing chest pain. His family physician referred him to an Apollo Clinic for a stress ECG test. As Mr. Srinivas was on the treadmill, he went into cardiac arrest and lost consciousness. Code Blue procedures went into effect and the clinic doctors immediately resuscitated him by performing CPR and administering shock. He quickly regained consciousness. Apollo Clinic's on-site cardiologist ordered medications and advised that the patient be moved to Apollo Hospital.*

As he was being transferred in an Apollo ambulance, the Apollo Clinic team contacted the Apollo Hospital cardiac team to provide the complete background on the patient and his case history. Upon arriving, Mr. Srinivas was wheeled into the catheterization lab for a coronary artery angiography, an x-ray that uses a radiologic contrast medium to image the arteries that supply blood to the heart muscle. The angiogram established the extent and nature of the cardiac disease and revealed a near total blockage of the left anterior descending artery, which is a critical artery supplying blood to the heart. An angioplasty, a procedure that unblocks clogged arteries, was performed that same day. The patient was kept in the hospital ward for recovery and observation for two days and soon returned to his daily activities

Mr. Neeraj Garg, CEO of Apollo Health and Lifestyle Limited (AHLL), explained, "The key to Mr. Srinivas' survival and full recovery was due to the immediate attention he received at the Apollo Clinic and the angioplasty that he received soon after arriving at the Apollo Hospital. The continuum of care that he received through Apollo's integrated care network saved his life."

AHLL is a subsidiary of Apollo Hospitals Enterprise Limited (AHEL). AHEL began operations in 1983 and is one of the largest integrated healthcare networks in the world, with nearly 10,000 beds in 70 owned or managed hospitals, staffed by 7,000 doctors. It has a chain of 2,300 retail pharmacy stores and partnerships with 12 academic institutions and it has a research foundation. Seven of its hospitals are Joint Commission International accredited<sup>2</sup>. Over three decades, it has touched the lives of 45 million patients from over 120 countries.



"The continuum of care that Mr. Srinivas received through Apollo's integrated care network saved his life."

Mr. Neeraj Garg  
CEO of AHLL

<sup>1</sup> The name has been changed to protect patient confidentiality.

<sup>2</sup> The Joint Commission, based in the United States, is a leader in the US and internationally in quality accreditation for hospitals and health services.

In 2000, Apollo Hospitals established AHLL, with the vision of ensuring access across the continuum of care. Dr. Prathap Reddy, the founder of Apollo Hospitals had a strong belief in the need to make healthcare more accessible and to move care closer to the home. As a result, Apollo Clinics was set up as a community based, multi-specialty chain of clinics that provides the neighborhood with easy access to specialist doctors, primary care diagnostics services, treatment facilities (treatment room, physiotherapy, dentistry) and preventive healthcare (health checks and vaccinations).

Apollo Clinics is now India’s largest chain of primary care clinics operated by the private sector, and it plays a major role in bringing Apollo expertise closer to the home. As consumer behavior has changed and healthcare models have evolved in India, AHLL has expanded the **Apollo Clinics** community concept and now operates a total of seven business lines. AHLL has also been a leader in creating new models of hospital care with the creation of **Apollo Cradle**, hospitals focused on maternity and women’s health with high-end neonatal care, and through **Apollo Spectra**, short stay “planned surgery” centers. Primary care services have been broadened in the last two years to include diabetes-focused clinics through **Apollo Sugar**, pathology testing labs with collection centers through **Apollo Diagnostics**, dental clinics through **Apollo White** and dialysis units through **Apollo Dialysis**.

As of March 2017, the group had about 400 centers, including 163 sample collection points across seven business lines. These formats are comprised of 75 clinics, 73 dental clinics, 44 diagnostics labs, 38 diabetes clinics, 12 Spectras, 12 maternal and infant centers, and 5 dialysis centers. Although still in an early growth stage, the company has served nearly 1.3 million patients through about 2,800 doctors in the last 12 months. At the end of its 2016 fiscal year, total unaudited revenues were estimated at Rs4.3 billion (\$64 million).<sup>3</sup>

IFC has supported the growth of both AHEL and AHLL. In 2016, IFC and IFC’s Asset Management Company took an equity stake of Rs 4.5 billion (\$67 million) in AHLL to help it grow the network in locations that are closer to where patients live. This marks IFC’s fifth investment in the Apollo group over the last 20 years. Apollo and IFC have partnered together on five investments totaling nearly \$190 million in equity and loans. The investments were for the expansion of the network, purchase of equipment and expansion into smaller, less developed cities with Apollo Reach—hospitals for low-income patients.



<sup>3</sup> Apollo’s fiscal year runs from April to March of the following year. The average foreign exchange rate was INR 67.07 : USD 1 between April 2016 and March 2017. Source: Reuters.

## TOP 3 SUCCESS FACTORS

AHLL is demonstrating that outpatient and specialized care can be a very effective approach for non-critical care because it can still maintain high levels of quality through increased efficiencies at a cheaper cost for patients.



**QUALITY:** The Indian market suffers from a fair amount of poor medical quality. For over 30 years, Apollo has differentiated itself by providing high-level clinical excellence. Apollo Spectra has nearly eliminated hospital-acquired infection—a significant health problem in India. Out of 13,000 surgeries in 2016, it had near zero hospital-acquired infection. It was able to achieve this because it has exclusive focus on surgery—it does not admit medical cases and does not have a medical ICU from which infections can spread.

Across AHLL, medical staff are properly trained. At hiring, it confirms that doctors are properly qualified and have earned the correct privileges to perform on patients. When it acquired hospitals that were not following these norms, it took immediate action to bar the doctors from performing unauthorized procedures. For nurses, it provides in-house training programs to overcome serious skills gaps. Better skilled health professionals have improved health outcomes.

At Apollo Diagnostics, AHLL ensures treatments are more effective through reliance on significantly more accurate diagnostics. Since nearly 70 percent of clinical decisions are based on pathology inputs, inaccurate diagnostic results could undermine AHLL's reputation for quality. As such, AHLL has invested in the latest equipment and processes to ensure that doctors have the most needed tests, with rapid and precise results. AHLL continues to cultivate a high-quality brand that patients can trust.



**HIGHER EFFICIENCY:** AHLL expands its network in clusters of different formats, which in turn allows the company to leverage synergies across its integrated network. This promotes higher efficiency and leads to better care for patients. For instance, when Clinics, Diagnostics, and Sugar are located in the same city, Sugar can co-locate inside Clinics and Diagnostics takes over the pathological processing. The IT network integrates the patient's information across formats to efficiently facilitate timely and accurate information sharing. The individual business formats benefit from the synergies from the group, as well as from referrals from the main AHLL hospital network.



**CHEAPER:** AHLL identified a number of services that did not need to be based in expensive tertiary care hospitals and shifted these into smaller facilities that are more cost effective. The small format model is nimbler and has many advantages. It allows AHLL to locate facilities in neighborhoods that are closer to where patients live and where leases for smaller spaces are typically cheaper, reducing overhead. It can focus on the services that are most relevant to the local communities and equips it properly, also reducing fixed costs. By focusing on short-stay surgery, it can manage its operating theaters more efficiently and can turn around patients faster. The Apollo Spectra hospitals deliver surgery at 10 to 20 percent lower cost than that of multi-specialty in patient hospitals. These efficiencies result in savings that are passed on to the patient.

Another way that AHLL is reducing costs is by placing a greater emphasis on preventative care, which is significantly cheaper. Through Apollo Sugar it is helping diabetics manage and control their condition before it becomes more serious and costlier. A diabetic patient who is treated for a medical condition in a hospital will spend three times more than a non-diabetic patient. If Apollo Sugar can help prevent the onset of diabetes and help prevent complications, it will save the patient thousands of dollars in care and extend his or her lifespan.



# RESPONDING TO NECESSITY

In 1971, Dr. Prathap Reddy, a cardiologist with a flourishing medical practice in the United States, received a phone call from his father urging him to return to India. India was in dire need of highly qualified doctors, many of whom trained in India and then emigrated abroad, leaving behind a significant gap. “Upon his return he found the medical landscape in the country was plagued by gaps in infrastructure, delivery and affordability.”<sup>4</sup>

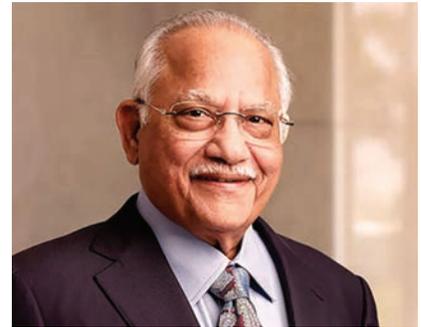
Healthcare in India has long been underfunded. As recent as 2015, the country of 1.3 billion—the second-largest population in the world—spent only 3.8 percent of GDP on health. Of this amount, the government invested 1.4 percent of GDP on health, while the world average for government spending was 8.6 percent. As such, India continues to be a very underserved healthcare market that juggles 20 percent of the global disease burden.

It was against a context of a lack of resources that Dr. Reddy encountered a difficult situation. A patient under his care needed a treatment that was not available locally. India lacked the latest technology that was available in the United States but the patient could not afford the \$50,000 cost of treatment overseas. The patient lost the battle. A devastated Dr. Reddy decided he would do something bigger—he would bring quality healthcare to India—with the latest technology and at the best cost.

In 1979, he founded AHEL. The decision to open India’s first multi-specialty private sector hospital was revolutionary. Nothing on this scale previously existed. It opened its doors in 1983 to provide integrated care with a long-term to vision of building a health ecosystem that would provide care across a continuum. Thirty-four years later, Apollo has fundamentally changed private healthcare in India.

Today, Apollo continues to be a pioneer, strategically addressing important health problems in India with its latest venture, AHLL. Historically, healthcare in India has been largely hospital-centric because that is where the specialists work. But this increases costs for services that can be provided in less expensive facilities. In 1995, AHLL opened the first clinic, but it was not until 2002 that the first multi-specialty Apollo Clinic was established. Today, its clinics offer healthcare services for more than 12 specialties.<sup>5</sup>

Around 2005, Apollo also realized that it could complement its offerings with centers that were specialized and focused, much like what the retail sector has done. In 2006, recognizing that maternity is not an illness, it opened “Cradle,” to shift maternal and neonatal care away from general hospitals that are focused on treating disease. It followed in 2012 with “Spectra,” short-stay surgical centers which discharge surgery patients anywhere from the same day to a maximum of two nights stay.<sup>6</sup> Between 2014 and 2015, the company continued to focus on primary care further and added diagnostics, “Sugar” for diabetes care, dental, and dialysis formats.



**Dr. Prathap Reddy**

Apollo continues to be a pioneer, strategically addressing important health problems in India.

<sup>4</sup> [www.apolloclinic.com](http://www.apolloclinic.com) Last visited on April 17, 2017.

<sup>5</sup> Apollo clinics attend to cardiology, internal medicine, gynecology, pediatrics, urology, orthopedics, neurology, dermatology, gastroenterology, dentistry, pulmonology, endocrinology and ENT.

<sup>6</sup> The specialties at Spectra include: Bariatrics, Orthopedics and Spine, ENT, General and Laparoscopic surgery, urology, ophthalmology, gynecology, vascular surgery, plastic and cosmetic surgery and pain management



# HEALTHCARE AS A LIFELONG JOURNEY— NOT SIMPLY AN EPISODIC EVENT

The Reddy family noticed that they were seeing patients only after they had reached advanced stages of development in cancer, cardiovascular disease and diabetes. They decided to focus more on preventative care, rather than focus exclusively on late-stage treatment. This is a significant philosophical departure from how hospital enterprises traditionally view patients.

## HEALTH CHECKS

Apollo developed the “Health Check” to screen patients comprehensively and to help them make lifestyle decisions before they become ill. Apollo’s “Health Check” is a comprehensive investigation, through tests and clinical examinations, that provides indicators of the status of an individual’s health. The annual exam typically takes four-to-five hours to complete at an Apollo Clinic. The Health Checks are segmented by age and increase in coverage and complexity as the patient ages. The results help participants, who may not yet know they have health issues, to detect illnesses and treat diseases at an early stage. In 2016, six percent of participants were found to have developed diabetes while nine percent were diagnosed with hypertension.

AHLL targeted corporates, which already pay for some portion of healthcare for employees, to pay for the annual Health Check. Last year, Apollo Clinic performed about 200,000 Health Checks and these accounted for roughly 17 percent of AHLL’s individual patients. When the annual Health Check program is sponsored by a corporate, the employer gets a summary report of aggregate scores and non-confidential health information. If the indicators disclose a high propensity for diseases, for instance, employees who have been diagnosed with diabetes or those who are at high risk for developing diabetes, AHLL will work with employers to design interventions to improve their health at an early stage before it becomes costlier.

Ms. Sangita Reddy, one of Dr. Prathap Reddy’s daughters and Joint Managing Director of Apollo Hospital Group explained, “If you invest in early screening and you find a condition, it is far more likely to be treated with less invasive techniques that are cheaper. If it is detected at a later stage, more aggressive treatment or surgery may be required, which is more painful for the patient and more expensive to treat.” She is a firm believer that early screening, compliance to medications, and appropriate care at the appropriate time, all bring down the costs of healthcare.



“Early screening, compliance to medications, and appropriate care at the appropriate time, all bring down the costs of healthcare.”

Ms. Sangita Reddy, Joint Managing Director of Apollo Hospital Group

## APOLLO SUGAR

Diabetes is one of the most significant rising health issues in India. According to the International Diabetes Federation around 70 million people have diabetes in India. Many of those with diabetes receive poor quality or no treatment.<sup>7</sup> In addition, millions of Indian's are not diagnosed until the disease has reached advanced levels and more involved treatment is required. This leads to serious complications such as blindness, the need to amputate the toe, foot or leg, and severe kidney disease requiring dialysis or a kidney transplant. When thinking about how to address the diabetes epidemic, Apollo management spoke with endocrinologists, diabetologists, general practitioners, patients, and nurses and realized that care was highly fragmented.



Given the rising diabetes crisis worldwide, IFC has started to see an increase in similar efforts to Apollo Sugar starting up in other markets. For instance, Clinicas Azucar (Sugar Clinics) was launched in Mexico.

Ms. Sangita Reddy explained: “Patients did not have a common dialogue, team, or care plan. Everyone was doing some portion of caring for the patient but it could be far more integrated and far more uniform. That was where the idea of the diabetes condition management program was born. We piloted it and the first 3,000 patients were achieving greater compliance and better results with HbA1c below 6.0 within the first three months.<sup>8</sup> Although diabetes is not reversible, below 6.0 is considered under control. Our doctors came back and said, ‘Wow! We are really excited about this and see implications for population health to avert complications arising from uncontrolled diabetes and we would like to scale this.’ It was then that we decided to create a separate team and give it the required focus and resources.”

### DIABETES CARE MANAGEMENT

AHLL adopted a holistic approach to treating diabetes at various stages of development, ranging from pre-diabetics to Type 2. Since diabetes is a lifestyle disease, it combines integrated clinical care with improved behavioral approaches. It provides counseling on diet, nutrition, food habits, sleep patterns and exercise to help patients cope better. The goal is to prevent further complications and help diabetics lead a completely normal life.

It has two tiers of care depending on the level of complexity of diagnosis. “Sugar Clinics” are simplified clinics that are geared at treating pre-diabetics or diabetics with minor complications. They range in size and are co-located

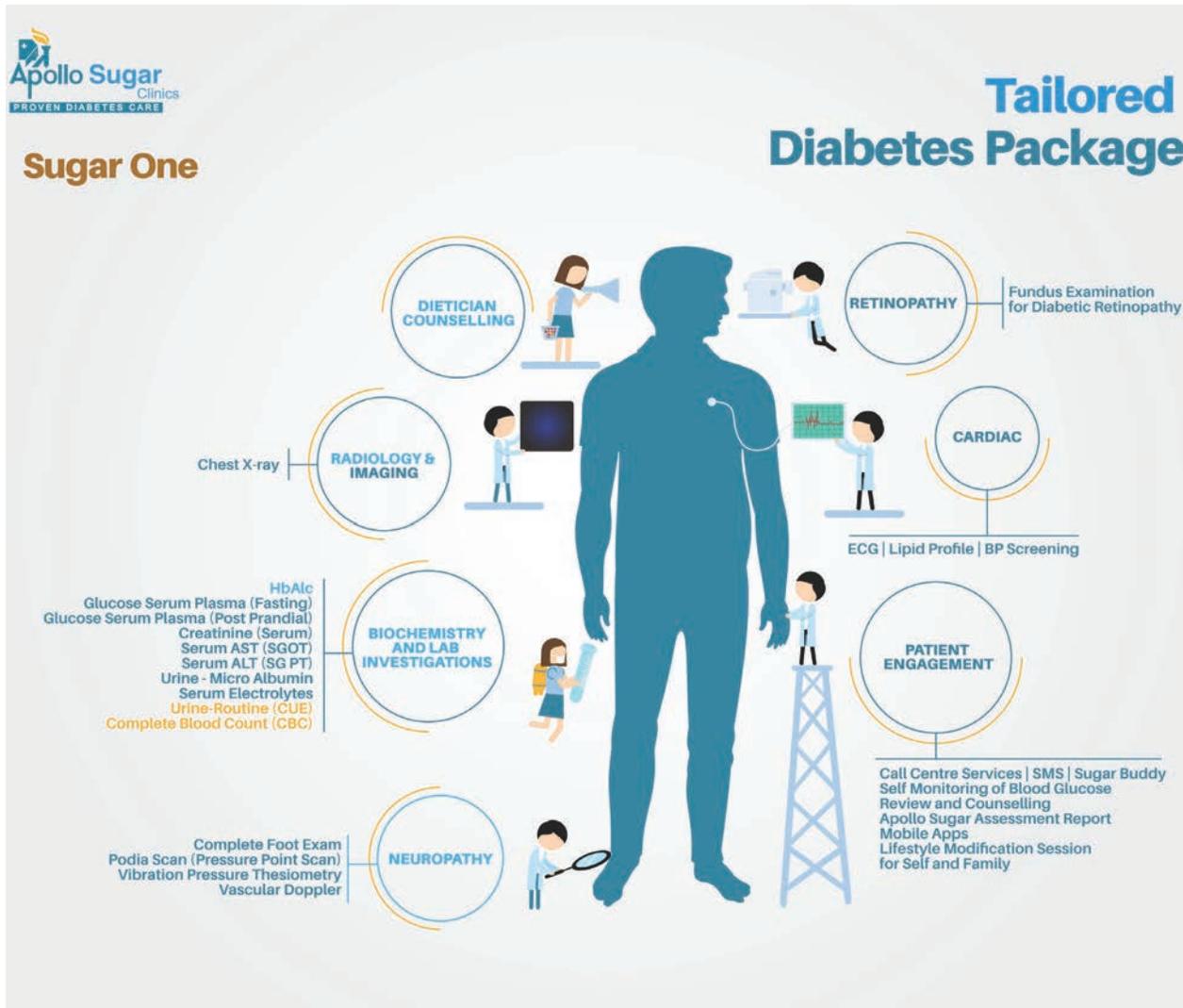
as a “Shop-within-a-Shop” at either Apollo Clinics or Apollo Hospitals. Its Advanced Diabetes Management Centers are tertiary care centers, located at Apollo Hospitals, which address the major complications. It is staffed by specialist doctors that care for complications of the foot, kidney, thyroid and eyes.

<sup>7</sup> International Diabetes Federation. IDF Diabetes Atlas, 7 ed. Brussels, Belgium: International Diabetes Federation, 2015.

<sup>8</sup> According to the American Diabetes Organization, “HbA1c is a measure of glucose control over the prior 2 to 3 months. The test measures the amount of glucose that has attached to a portion of the hemoglobin molecule in the blood.” The indicator tells the doctor how well or poorly a diabetic’s glucose level has been controlled over a longer period of time. The higher the level of HbA1c, the greater the risk of developing diabetes-related complications. Below 6 is considered normal. 6.0 to 6.4 is considered pre-diabetes. Above 6.5 is considered diabetes.

AHLL offers patients three packages of care. “Sugar One,” is a comprehensive diagnosis package performed in one day. It checks for all the diabetes related complications, provides a doctor consultation, as well as diet and lifestyle counseling. See Figure 1. “Sugar 90” helps patients to better control their diabetes, as evidenced by reduced HbA1c levels and provides support to manage the condition for 90 days. “Sugar 360” helps patients manage the condition for one year. The long term care programs have demonstrated the ability to significantly improve the control of diabetes. For example, for patients enrolled in Sugar 360, HbA1c values come down by an average of 34 percent between the enrollment and the third visit.

**FIGURE 1: SUGAR ONE - A COMPREHENSIVE DIABETES DIAGNOSIS PACKAGE**



The incidence of diabetes varies across regions and is higher in the south of India, due to genetics and a very high rice-eating population. Rice, having a very high glycemic index, has resulted in a much higher incidence of diabetes in certain parts of India. As a result, AHLL commenced Sugar operations in Southern India.

## APOLLO DIAGNOSTICS

The Given the critical role that diagnostics play in accurately detecting, preventing and managing diseases, Apollo wanted to upgrade the quality of diagnostics available in the market and expand its accessibility to a wider network of doctors and patients.

The diagnostic laboratory market in India is highly fragmented and lacks a national provider. Almost 90 percent of the market is comprised of small operators and a number of labs are of poor quality. AHLL also saw a critical unmet need in the market—there was an absence of quality providers of the most commonly needed, basic tests that were in high demand by doctors, such as the blood profile and glucose test.

Most large players avoided the basic tests because it raised costs. To provide the results within four to six hours as doctors prefer, more labs were needed and the labs needed to be located in close physical proximity to the collection point. As a result, the competition tended to focus on higher-end testing, such as specialty tests for the thyroid, Hba1c and maternity markers, which could be turned around within 24 to 72 hours. Apollo Diagnostics wanted to serve doctors and patients better and is creating a network that can do both basic testing and specialty tests with a turnaround time of 6 hours.

AHLL also wanted to raise the quality of the test results. The way that the local industry was collecting blood samples was antiquated. It would draw the blood through a needle into a generic tube and later split up and label the samples. This method is not as accurate and leaves room for human error as patient samples could easily get transposed. AHLL adopted modern technology that is significantly more precise. It collects blood samples in vacuum tubes that are specially coated with a substance that is appropriate for the test being performed and ensures stability of the sample. It invested heavily in infrastructure and created a system that is highly-automated and tech-enabled. It bar-codes samples at the collection point and they move through the network appropriately labeled.

As of March 2017, AHLL has already established 44 labs in multiple cities and serves 500,000 patients per year. It expects to grow to 70 labs next year. In addition, AHLL saw opportunities in offering hospital lab management services for mid-sized hospitals that are typically managing 100 to 150 beds in smaller towns. The smaller hospitals gained quality and economies of scale. It began this service a year and half ago and is currently managing labs in 17 hospitals.

## CROSS-MARKETING SYNERGIES

With the aim of providing patients with better care and positioning consumers for earlier preventative care, Apollo has leveraged its network to mine data which can be used to improve care.

For example, AHLL connects with Apollo Pharmacy patients who purchase diabetic drugs and provides them with information about Sugar's disease-management solutions. Through Apollo Clinics, women who come to be tested for pregnancy or to have monitoring ultrasounds are informed about Apollo Cradle's "natural is priceless" initiative. This helps women better manage pregnancy weight gain—a big problem in India—and increase their chances of having a natural delivery with fewer complications. AHLL has used cross-marketing strategies to generate leads with the belief that if something is detected, the probability that the consumer will seek successful treatment at an Apollo facility is higher.

Apollo Cradle's "natural is priceless" initiative, helps women better manage pregnancy weight gain—a big problem in India—and increase their chances of having a natural delivery with fewer complications.



Photo © AHLL

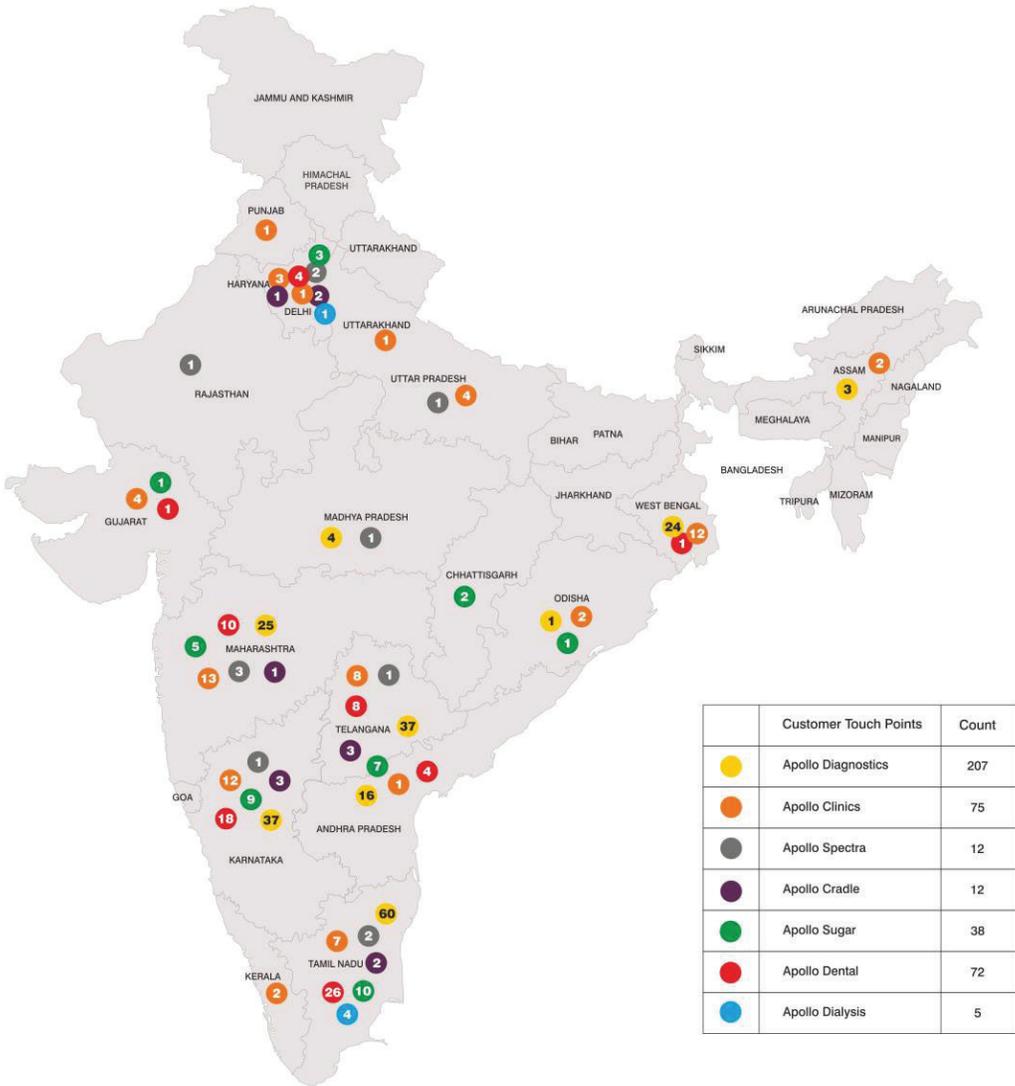


# SELECTED FEATURES OF THE BUSINESS MODEL

## GROWTH STRATEGY

AHLL currently has a presence in 17 out of 29 states and seven union territories. See Figure 2. As it grows, it takes into consideration city population, economic segmentation and buying behavior. It began in Chennai, in the South of India, where the first Apollo hospital was established and has expanded regionally in clusters. The cluster approach also allows AHLL to leverage synergies across formats. For instance, when Clinics, Diagnostics, and Sugar are located in the same city, Sugar is embedded inside Clinics and Diagnostics takes over the pathological processing.

**FIGURE 2: MAP OF AHLL'S FOOTPRINT**



Depending on the location, it will pursue a blend of franchise and organic growth. In large cities where it has the potential to do multiple clinics, AHLL will establish and manage its own clinics as a network. In smaller, remote towns, where it is only feasible to set up one clinic, it manages expansion through franchises.

## FRANCHISE MANAGEMENT

AHLL currently manages 40 franchisee-owned clinics. Most of the clinics in India are single-doctor clinics, leaving few opportunities for acquisition of multiple specialties in the primary clinic market. As a result, when AHLL looks to expand, they seek entrepreneurs who have a strong service mindset, experience running medium-sized businesses in the service industry and have a desire to get into healthcare. While this appears counterintuitive, AHLL found that partners who are not doctors can integrate and manage the business aspects of multiple specialties under one roof more effectively. They have found that multi-specialty franchise clinics that are run by doctors survive but they do not thrive. As a result, AHLL prefers to rely on doctors for clinical management in this this type of multi-specialty clinic.

For single specialties, such as Sugar, the approach is different. Here, AHLL prefers to enter into business partnerships with doctors, typically endocrinologists and senior diabetologists. The advantage of working with a senior doctor is that the physician already has an established business with a good reputation in that market. This allows AHLL to scale up faster—without the complications of integrating it into a multi-specialty environment.

## TARGET MARKET

AHLL found that it took some time for the market to evolve toward a concept that shifted primary care to a branded corporate chain of clinics. Over time, it has seen that clinics in very large urban markets—where people are younger, more mobile, and living in nuclear households—are more successful in attracting patients and perform better financially. In markets where the population is older and already has an established relationship with a long-time doctor, uptake has been slower. This is why AHLL is very selective about location.





## COMPETITION

Given that AHLL is pioneering new integrated formats, competition for Clinics, Sugar, Diagnostics and Dental is largely fragmented at the individual doctor's office level. AHLL's advantage is (1) the assurance that the patient will be seen by a quality doctor, (2) convenience of being able to access quality services in a single facility (3) the holistic, versus episodic, nature of the disease management program and (4) significantly improved accuracy of AHLL's diagnostic tests

For Cradles and Spectra the main competitors are large multi-specialty hospitals and small nursing homes, facilities that are licensed to do basic surgeries and other specialty hospitals. The main differentiators for Cradles are clinical quality and the patient experience. It has Level 3, the highest end, Neonatal Intensive Care Units (NICU). For Spectra, it has nearly eliminated hospital acquired infection.

AHLL is enjoying first mover advantage. While some elements of its formats are being copied on a stand-alone basis, none of its competitors are replicating AHLL's integrated strategy. None are in a position to benefit from the synergies that the group is generating across the different business formats, or referrals from the main AHLL hospital network.

## NO INTRA-NETWORK CANNIBALIZATION

When AHLL was exploring adding the Spectra and Cradle concepts, it heard many concerns from its colleagues at Apollo Hospitals about potential for cannibalization of lucrative services. Doctors asked: "If we set up diagnostics centers or surgical hospitals that can deliver services at a lower price point than the hospital, wouldn't we be cannibalizing our hospital business?"

AHLL management had a different view. Neeraj Garg explains, “The reality is that the Indian market is very large and even though Apollo is one of the largest providers, it still has a small market share. By setting up Spectras in the community and setting up services in a way that is complementary and most appropriate, we can lead the market with convenience, affordability, clinical quality and a better experience. If we don’t do it, somebody else will, because this is how healthcare is evolving. Further, if the hospital is able to increase its inpatient revenues at the cost of shifting outpatient care to smaller formats, this would be better for patients and for the bottom line. So a decision was taken to create processes and structures that reinforce each other to minimize that cannibalization.”

AHLL decided to focus the types of surgeries that Spectra offers around specialties such as: ear, nose and throat, urology, general surgery; Apollo Hospitals concentrate on cardiovascular, neurology, oncology and cancer. There is some overlap in orthopedic surgery but by ensuring that the doctors’ operating at Apollo Spectra are distinct from those operating at Apollo Hospitals, the net effect has been largely additive and Apollo’s overall market share in those cities has increased.



AHLL has created its own six-month program to certify nurses on more advanced skills such as infection control. This has contributed to near-zero hospital infection rates at its Spectra hospitals.

### SKILLS GAP

The “War for Talent” is a challenge AHLL faces every day as it tries to grow the business. The biggest barrier to growth and performance is finding appropriate quality of talent at the right time and at the right cost. Even though Apollo runs 12 nursing schools and colleges, supply is inadequate and demand is so high that even Apollo Hospitals cannot fill vacant positions from these nursing colleges. Thus, AHLL is dependent on the open market. It has come to the conclusion that it is not possible to hire the right candidate with all the needed skill sets from outside, so it has decided to aggressively upskill and upgrade talent internally until they are capable of achieving the standards AHLL is looking for.

Nurses, phlebotomists (technicians who draw blood), and diabetes educators are the three most common positions that are highly skill dependent and for which it has created structured programs. AHLL created its own six-month program to certify nursing superintendents and nurses on more advanced skills. The course is offered on Sundays—the only day off nurses get but the interest in participating was high. It has created regional in-house diabetes educators who train the staff at Sugar clinics. In addition, it runs courses in partnership with Becton Dickenson, a very large provider of diagnostics’ consumables, for phlebotomists. This is over and above on-the-job training that is provided, which is a continuous exercise. It places a lot of emphasis on making learning fun.

### INTEGRATED IT PLATFORM

Integrating the flow of information across all the AHEL and AHLL platforms was a bigger challenge than expected; however, AHLL has created a cloud-based, data efficient platform that is based on a unique patient identification number that is common across all AHLL formats. Using a cloud-based data warehouse, Apollo has now been able to integrate patient information across its’ tertiary care hospitals and the various AHLL formats - Cradle, Spectra, Clinics, Diagnostics and Sugar. Dental and Dialysis will be phased-in later in 2017. For labs, AHLL is creating a custom solution that is independent and will be subsequently integrated. This solution will allow seamless flow of patient information across all the formats, including Apollo Hospitals.

## DIVERSIFICATION OF REVENUE STREAMS

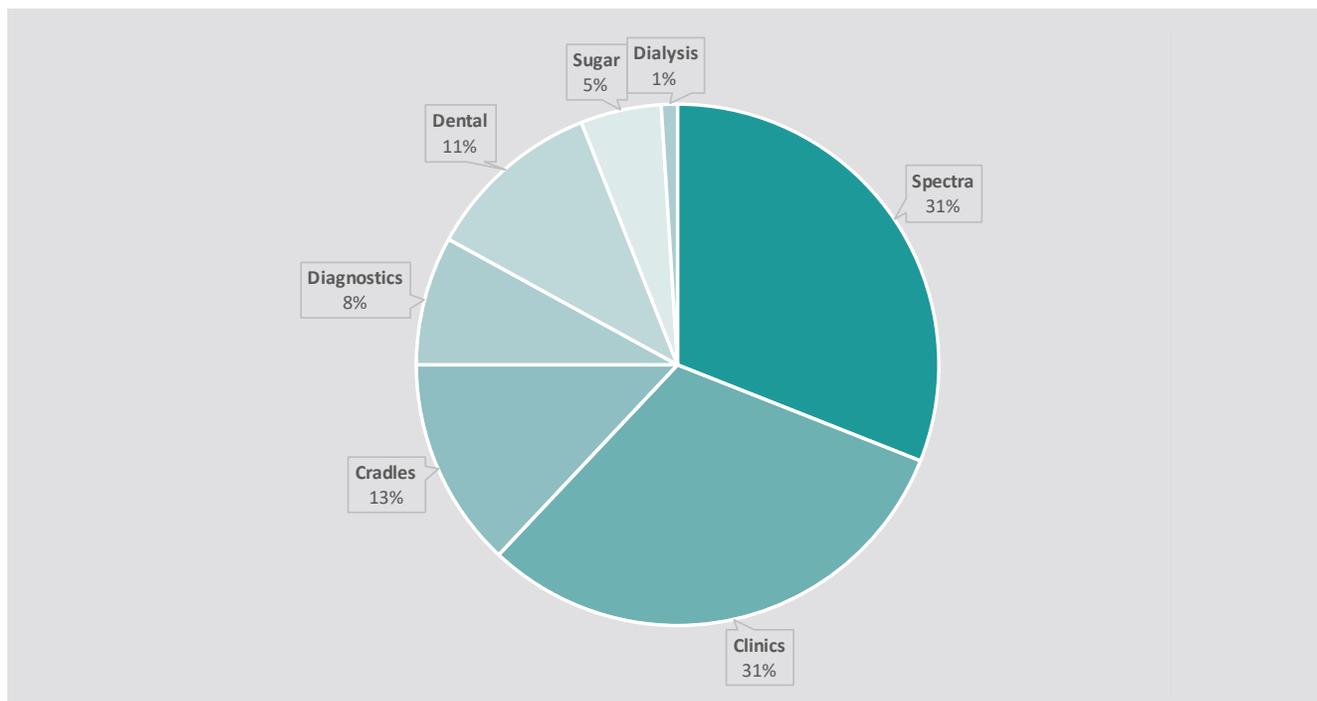
The company is diversified through its integrated approach of portfolio concepts and formats. In addition, it is continuously diversifying its service lines by format. For instance, in a clinic, there are consultation services, diagnostics, preventative Health Checks, vaccinations, dental treatments, physiotherapy, all of which represent different revenue streams for the company. AHLL tries to avoid looking at revenue as a single line item for a format, rather it breaks each format into several different revenue streams and balances the focus around each of those streams.

## REVENUES

At the end of its 2016 fiscal year, total unaudited revenues were estimated at Rs4.3 billion (\$64 million). In 2016, AHLL's two hospital formats, Spectra and Cradles, together brought in about 45 percent of revenues. Clinics and Spectra were each responsible for about 30 percent of revenues. Although the youngest formats—Diagnostics, Dental, Sugar and Dialysis are only about two years old—combined, they brought in a quarter of revenues. About 20 percent of Cradle's and about 40 percent of Spectra's revenues are paid by insurance. Corporate provided health contracts account for about one third of Clinic revenues. All other services are paid on an out-of-pocket basis because health insurance in India does not cover a large number of preventative care services.

**FIGURE 3: ESTIMATED FY 2016 REVENUES**

(April 2016 - March 2017)



## FINANCIAL SUSTAINABILITY

The recent expansion in the network has driven a very rapid growth in revenues. Over the last three years (FY13-FY16), it experienced a compounded annual growth rate of 49 percent. While the network is still young, it has added about 75 percent of its facilities in the last three years, and is expected to become EBIDTA positive as the business matures in the next few years.<sup>9</sup>

<sup>9</sup> EBITDA is an acronym for Earnings before Interest, Taxes, Depreciation and Amortization. It is a measure of a company's cash flow and allows investors to see how much money a company is making before its deductions.



# THE ROLE OF IFC

Apollo and IFC have a long history of partnering together that began in 1998. Over a period of 20 years, IFC has made five investments totaling nearly \$190 million in equity and loans. Apollo's reach and drive for quality has made it an ideal long-term partner. The earlier investments achieved positive financial and social impact results and helped to catapult Apollo into a major national and strong global player.

In 2016, when AHLL was raising capital for expansion, it ran a competitive process and received various offers, including from IFC. Apollo values its longstanding strategic relationship with IFC and was interested in continuing to cultivate and leverage it. Ms. Reddy explained, "AHLL decided to partner again with IFC not only because of its wide reach in healthcare, but also because it was an ethical, long-term partner that appreciates the developmental and innovative role our companies play. We knew that AHLL would of course achieve commercial results, but it would need a little patience to get there and IFC was the right partner for that."

In addition, AHLL was interested in leveraging the breadth of IFC's global healthcare knowledge and experience. AHLL believes that many of the models it is building in India have good potential for expansion into other markets and once the operations have reached a comfortable growth stage, AHLL intends to expand its model internationally.

IFC was interested in continuing the relationship with Apollo because the investment would promote broader access to quality health services, would promote skill development of medical professionals and would create jobs. In addition, its holistic approach to prevention and chronic disease management could provide a demonstration effect.

The project was aligned with the World Bank Group's Country Partnership Strategy for India to promote social inclusion. Further, the WBG's Private Participation for Health in India Initiative identified India's hospital centric healthcare delivery system as a poor fit for addressing India's rising incidence of chronic diseases. It recommended exploring other, lower cost, models of delivering care that foster stronger linkages between primary care facilities, diagnostic centers, other providers and hospitals. By IFC investing in smaller format centers, this recommendation could begin to be implemented.

For this deal IFC also brought in its Asset Management Company, who provided 50 percent of the financing through a newly established private equity Asia Fund. Together, IFC and AMC took an equity stake of Rs 4.50 billion (\$67 million) to help AHLL grow the small format concept and expand the network to locations that are closer to where patients live.



# In Safe Hands

**Clinical  
Excellence**

**Tender Loving  
Care**

**Innovation**

**Global  
Standards**

# CONCLUSION

For three decades, Apollo has stood for a brand that responds to the needs of patients by filling gaps in the market. It is working to change the culture in India so that healthcare is not viewed through the lens of a single episodic event, but rather over the entire lifecycle of the individual. Today, Apollo is providing a lifetime of care across a continuum. It is imparting quality care to the tiniest of patients who need the highest-level neonatal care to survive. It is helping adults to detect diseases earlier through regular screening. It is helping mid-lifers to manage chronic lifestyle diseases and address targeted health issues through planned surgery and it is caring for seniors who need critical services in tertiary care hospitals.

While it is still early days in AHLL's journey, indications suggest that it will continue to play a defining role in a number of transformations that are underway in India. Service delivery is moving away from the hospital and into the clinic and the home. AHLL is leading a greater integration of care that is delivered by a team of professionals from different disciplines to provide a more holistic and effective approach to care. As the role of the patient also evolves from a passive recipient of care to that of an informed seeker of care, AHLL is helping patients to adopt behavioral and lifestyle changes that prevent illness and help them to successfully manage chronic conditions over a long term.

In many countries, insurance drives the changes in the marketplace but in India, AHLL is paving the way for a greater acceptance of procedures that are delivered in a way that will improve health outcomes at earlier stages and bring down costs both for the patient and for the overall healthcare system.

As Apollo works hard to provide healthcare solutions at each stage of human development, it is extending life expectancy and improving quality of life for millions of patients – because life is priceless.





# STAY CONNECTED

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