

MANAGEMENT DISCUSSION AND ANALYSIS

(A) INDUSTRY STRUCTURE & DEVELOPMENTS

Overview

Global

Many public and private health systems have been experiencing revenue pressure, rising costs, and stagnating or declining margins for years. The trend is expected to persist, as increasing demand, funding limitations, infrastructure upgrades, and therapeutic and technology advancements strain already limited financial resources. Combined health care spending in the world's major regions is expected to reach USD \$8.7 trillion by 2020.

Health care spending by a Country varies widely. Unfortunately, higher spending levels do not always produce better health outcomes and value. For example, the United States at 16.9 percent of GDP in 2016 continues to spend considerably more on healthcare than comparable countries but it is in the lower half of the Organization for Economic Cooperation and Development (OECD) countries' life expectancy rankings. US health spending now exceeds USD \$3 trillion per year with growth rates projected to accelerate through 2024. Major spending categories are led by hospital care (USD \$1 trillion), physicians (USD \$634.9 billion), and prescription drugs.

India

India is one of the fastest growing healthcare markets in the world. Rising income levels, an ageing population, increasing insurance coverage and the imbalance in demand-supply presents a big opportunity for healthcare providers to increase bed capacity and investments in this sector.

Indian healthcare delivery system is categorised into two major components - Public and Private. The public healthcare system comprises limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of primary healthcare centres (PHCs) in rural areas. The private sector provides majority of secondary, tertiary and quaternary care institutions with a major concentration in metros, tier I and tier II cities. India is cost competitive compared to its peers in Asia and Western countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe.

Market Size

The hospital industry in India stood at Rs 4 trillion (US\$ 61.79 billion) in FY17 and is expected to reach Rs 8.6 trillion (US\$ 132.84 billion) by FY22. India is experiencing 22-25 per cent growth in medical tourism and the industry is expected to reach US\$ 9 billion by 2020.

There is a significant scope for enhancing healthcare services considering that healthcare spending as a percentage of Gross Domestic Product (GDP) is rising. Rural India, which accounts for over 70 per cent of the population, is set to emerge as a potential demand source.

Recently the Government of India approved the continuation of National Health Mission with a budget of Rs 31,745 crore (US\$ 4.40 billion) under the Union Budget 2019-20. The Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY), the largest government funded healthcare program targeting more than 500 million beneficiaries, was allocated Rs 6,400 core (US\$ 887.04 million), under the Union Budget 2019-20.

(B) OPPORTUNITIES AND THREATS:

Opportunities

Deeper Value of offerings:

There is significant scope to enhance the value offering for patients by leveraging on technology. This need not necessarily be cost led but can also include faster recovery, lower trauma, more comprehensive offerings from service providers and higher quality of care with better outcomes. Those providers who are able to elevate their offerings on multiple parameters will have an advantage compared to other service providers.

Increase in NCDs:

The rising number of Non-communicable diseases (NCD) patients suffering from diabetes, cardiovascular diseases and cancer in India is directly proportionate to the changing lifestyle patterns of the working population. This is a huge challenge for the Indian healthcare service providers who will need to address the rising incidence of NCDs. At the same time, it presents an opportunity for service providers.

Disparities between Urban and Non- Urban Areas:

More than 70% of the Indian population is residing in the rural areas, yet 80% of the healthcare facilities locate in the cities. Urban-rural divide is a big reason why a majority of the population do not have access to quality healthcare and medical infrastructure. Patients in such semi-urban areas have the ability and the willingness to pay for good quality healthcare services, however, due to lack of options end up travelling to the cities in search of appropriate treatment. Healthcare service providers who are able to offer services of the desired quality in these areas will benefit from a ready demand for their services.

Increase in Demand for Elective Surgeries:

Given the steady increase in disposable incomes and growing health awareness, there has been a manifold expansion in demand for elective or planned surgeries as well as cosmetic surgeries. Patients are now willing to undergo discretionary and elective treatments to elevate their standard of living and pursue a lifestyle of their choice. This is steadily developing into a deep and lucrative segment of the healthcare services market.

Growing Population:

As India crosses the 100 million mark of its ageing population and is expected to be the home for around 143 million elderly by 2020, this fact will also contribute to the increasing demand for healthcare services.

Great potential for Medical Tourism:

The Indian Healthcare Industry is well poised to address medical tourism opportunity, with several accredited facilities is witnessing a large development of private medical healthcare facilities. Additionally, the inherent cost advantage with prevalence of quality healthcare services makes India a preferred destination among emerging markets. The opportunity is large and the country will have to take appropriate steps to improve procedural efficiency and enhance marketing of services to collect a sizeable share.

Threats**Increasing competitive intensity in the healthcare sector:**

The increasing trend of entrepreneurs and business houses to enter into the healthcare business has resulted in undercutting of prices/ reduced margins.

Increasing cost of resources:

The emergence of several domestic hospital chains combined with the entry of international players is leading to an increased number of competitors chasing finite resources such as land, quality medical professionals and potential acquisition targets. Demand growth is expected to outpace improved supply of these resources. A failure to acquire resources at fair and reasonable rates will impact the ability to suitably grow and expand our operations. Further, increases in operating costs can impact the Company's operations and financials.

Technology obsolescence:

Today 'Technology' is at the helm of any growing industry and it has to keep getting upgraded due to the high risk of obsolescence. One of the biggest problems faced by Indian players is availability of good technology and at reasonable costs. We however, use the latest treatment technologies in our hospital to provide top quality healthcare services.

High Capital investment requirements:

Establishing a health care facility involves investing substantial amounts of capital towards acquiring land especially in the metros and Tier I cities apart from investments in medical equipment and other costs. Further, ongoing investments are required to upgrade medical equipments and introduce new treatment technologies. Healthcare investments also involve a significant gestation period.

Potential loss on the Medical Tourism Opportunity:

Several countries in the Asia-Pacific region have realized the opportunity of attracting medical value travellers. These countries provide a number of incentives to domestic service providers in the form of subsidized capital, ease in permissions and tax benefits, given this fact coupled with their enhanced infrastructure and simplified visa norms, makes them well positioned to gain a larger share of the opportunity.

(C) SEGMENT- WISE PERFORMANCE

The Company has reviewed its business oversight mechanism and has realigned all its operations under single business unit located at Artemis Hospital, Sector- 51, Gurugram- 122001 based on the assessment of overall risks and rewards. Accordingly, the figures appearing in these financial statements relate to sales and services of abovementioned unit.

Company's Overview

Artemis Hospital (a unit of Artemis Medicare Services Limited), Sector- 51, Gurugram- 122001 established in 2007, spread across 9 acres, is a 395 bed; state-of-the-art multi-speciality hospital located in Gurugram, India. Artemis Hospital is the first Hospital in Gurugram which was accredited with JCI and NABH.

Designed as one of the most advanced in India, Artemis provides a depth of expertise in the spectrum of advanced medical & surgical interventions, comprehensive mix of inpatient and outpatient services.

Clinical Excellence

Artemis Hospital diligently adheres to meet the highest standards of clinical outcomes which it has set for itself in various specialties. Artemis is the first Hospital in Gurugram to receive JCI accreditation, USA constantly for the third time. Our Hospital is awarded for Infection Control. Artemis Hospital is the First Hospital in North India to be accreditation with National Marrow Donor Program (NMDP), USA. Artemis Hospital is first to introduce Masimo technology based on Clinical Surveillance System and equipped with North India's first M6 Cyber knife with successfully performance over 1000+ procedures.

The hospital has an impeccable track record and high success rates even in surgeries of high complexity such as transplants, cardiac care and oncology. This unwavering focus on clinical excellence enables Artemis Hospitals to continuously assess the quality of care provided to patients and allows it to objectively measure the consistency and success of healthcare delivery services.

Training & Continuing Medical Education

In addition to the focus on clinical excellence, Artemis ensures that its medical professionals and other staff are periodically trained on the newest techniques and procedures in the Medical field on a periodic basis.

Accreditations

Artemis Hospital has received accreditations from the Joint Commission International, USA ("JCI") for meeting international healthcare quality standards for patient care and management. Artemis hospital is NABH & NABL accredited. Our hospital has also received Green OT certification from Bureau Veritas. Our Hospital has the accreditation(s) which reiterates that the operational protocols are in line with global best practices.

(D) INDUSTRY OUTLOOK:

Looking ahead, the health care sector is expected to be the core of economy with a meaningful contribution to growth. The health care growth remains intact with increased income levels, ageing population, growing health awareness and changing attitude towards preventive health care.

(E) RISKS AND CONCERNS

At Artemis Hospital, we identify business sustainability risks and opportunities on an ongoing basis and integrate these into our existing risk management framework. The practice of Risk Management is undertaken by the Senior Management under the guidance of the Board of Directors. As risks cannot be totally eradicated, adequate measures are taken to mitigate areas of significant risks that have been identified. Multiple platforms have been established to help employees manage, monitor and mitigate risks appropriately. The comprehensive risk management practices ensure sustainability and longevity of the business.

(F) INTERNAL FINANCIAL CONTROLS AND THEIR ADEQUACY

In our view, your Company's Internal Financial Controls effecting the financial statements are adequate and are operating effectively. During the financial year under review, the financial controls are tested for operating effectiveness through ongoing management monitoring and review process and independently by the Internal Audit Function and no reportable material weakness in the design or operation was observed.

(G) DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The financial performance of the Company is given separately in Directors report.

(H) MATERIAL DEVELOPMENTS IN HUMAN RESOURCES/ INDUSTRIAL RELATIONS FRONT INCLUDING NUMBER OF PEOPLE EMPLOYED

The Human Resource strategy of Artemis is based on the firm belief that our people are our Core strength and is focused on shaping our talent for tomorrow. We aspire to provide excellent opportunities for professional and personal growth of our employees and encourage collaboration, creativity continuous learning and fun based work environment. As on 31st March, 2019, Artemis comprises total employee strength of 2061.

(I) DETAILS OF SIGNIFICANT CHANGES (I.E. CHANGE OF 25% OR MORE AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR) IN KEY FINANCIAL RATIOS, ALONG WITH DETAILED EXPLANATIONS:

Particulars	FY 19	FY 18	Change
Net Profit Margin	3.8%	5.3%	(29%)*

* Decline in 'Net Profit Margin' is due to Incremental of taxation, shifting from MAT to Normal taxation

(J) DETAILS OF ANY CHANGE IN RETURN ON NET WORTH AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR ALONG WITH A DETAILED EXPLANATION THEREOF:

PARTICULARS	2018-19	2017-18	Explanation for change
Return on Net Worth	11.11%	16.18%	Decline in 'Return on Net Worth' is primarily due to decline in Net Profit from Rs 27 Cr to 21Cr

CAUTIONARY STATEMENT:

The above statements are as perceived by the directors based on the current scenario and the input available. Any extraneous developments and force majeure conditions may have an impact on the above perceptions.