

COVID-19 impact on the Indian healthcare industry: Deloitte

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Over 7.5 million people have been infected by COVID-19 globally. In India, the number of cases have risen exponentially from 470 in March to over 2.9 lakhs, within a span of three months. Despite the implementation of lockdown measures including travel bans in India and worldwide, there have been over 4 lakh deaths and an increasing number of cases, especially when lockdown measures are being relaxed in varying capacities across countries.

Impact on healthcare companies in India

While public policy measures have been implemented to contain the spread of COVID-19, the measures have resulted in significant operational disruption for many companies including those in the Indian healthcare industry. Staff quarantine, supply-chain failures, and sudden reductions in customer demand have generated serious complications for companies across a wider range of sectors than initially anticipated. For most, the revenue lost in this period represents a permanent loss and has put sudden, unanticipated pressure on working capital lines and liquidity.

Despite the current crisis being a healthcare issue, the private healthcare system in the country continues to reel under the negative impact of COVID-19. There has been a significant drop in both in-patient and out-patient footfall for private hospital chains—be it single specialty, multi-specialty, tertiary-care hospitals or even diagnostics businesses, during this lockdown.

This sudden decline in business has had an immediate effect on hospitals' ability to sustain fixed costs. The inability of new centres/hospitals to start generating cash, debt repayment obligations, decreased levels of medical tourism, and increased scheme revenues (which represents credit revenue) are some of the many factors impacting cash flow.

Steps taken by healthcare companies to face these challenges

In an effort to sustain these challenges, hospitals have begun implementing measures to reduce or defer costs, with a view to reserve cash in hand. In the context of consumables, supplier consolidation for better rates and renegotiation of credit periods

for pharmacy and consumables are some measures instituted by hospitals to conserve their cash flow. On the personnel cost front, changes are being made to doctor-engagement models by moving doctors to fully variable models based on the revenue they generate.

In the case of other staff/employees, increments and variable pay have been calibrated while evaluating shared services, in an attempt to further reduce overall employee costs. With respect to other fixed costs, initiatives such as renegotiation of rent rates, vendor consolidation (for outsourced services such as housekeeping and security services), and deferral or staggered payment of annual maintenance costs have been administered. Most discretionary spends such as advertisement and sales promotions have largely been ceased.

In such circumstances, there is also an increased focus on monitoring daily, weekly, and monthly cash flows relative to the budgets. Any deviations from the budget are carefully monitored to assess the impact on the cash flow. Revenue and other KPIs are also being monitored with a sharp focus. Hospitals may also have to get used to “the new normal” with increased hygiene measures and staff safety, resulting in costlier procedures.

Expectations from the government

With no immediate sign of the pandemic regressing, the situation can become tense. Hospitals across segments—big or small—have limited reserves and require support from the government. Through faster payments for treatments under government schemes; speedy TPA claim processing and settlement ; GST rate reduction on COVID-19-related supplies such as testing kits, drugs, and consumables; faster GST refund to manufacturers on accumulated tax credit due to inverted duty structure; cheaper credit facilities for larger hospitals (akin to the scheme offered to MSMEs); and standardisation of COVID-19 costs across the country, the government could nip the effects of the pandemic on an already fragile healthcare system.

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