

Maximizing Operational Efficiency in Healthcare: The Impact of Private Equity

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ABSTRACT

Private equity investment in the healthcare sector has emerged as a powerful tool for growth and development. Healthcare organizations are increasingly turning to PE investors for strategic, operational, and financial expertise, as well as to capital funds to scale-up operations. The case study of Surya Hospitals illustrates one such successful partnership between a PE investor and a healthcare organization. The investment from SeaLink Capital Partners enabled the promoters of Surya Hospital to take the business to the next level. Private equity investments have the potential to revolutionize the way healthcare organizations do business. By creating win-win situations for all stakeholders, PE investments are helping to drive innovation and create value for the industry at large. The case study of Surya Hospitals demonstrates this potential and could be a template for other healthcare service organizations looking to leverage private equity investments.

KEYWORDS

Administration, COVID-19, Digital, ESG, India, Investment, Neonatal Intensive Care, Pediatric Care, Private Equity, Profitability, Quality, Revenue Growth, Strategy, Survey, Value Creation

BACKGROUND

Private equity investment is the investment of capital into a private company. Private equity firms provide capital to companies in exchange for equity ownership, board representation, and sometimes operational control. The goal of private equity investments is to increase the value of the company or organization and to generate returns for their investors. Such investments are typically long-term investments which last for five to seven years. Many private equity firms also specialize in sectors such as healthcare. This enables them to be operationally very involved in the business.

Private equity investment in the healthcare sector has emerged as a powerful tool for growth and development in India. Private equity investments can help healthcare companies grow, expand,

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and innovate by providing capital and strategic guidance. Such investments can also help healthcare companies access new markets, increase efficiency, and reduce costs.

In this paper, we showcase a case study of how a healthcare services provider has leveraged private equity investment to achieve business success. We will explain how a comprehensive operational focus can create significant improvements in a clinically oriented hospital, leading to a wide range of beneficial business outcomes.

Surya Hospitals: A Leading Woman and Child Focused Player in India

Surya Hospitals (“Surya” or “the Company”) is Western India’s largest mother and childcare hospital chain with focus on high-risk maternity and neonatal and pediatric intensive care. (Surya, 1985) It was founded in 1985 by a renowned pediatrician, Dr. Bhupendra Avasthi. Over the years, Surya has built one of India’s largest Level-3 Neonatal Intensive Care Unit (“NICU”) and is well known for its focus on clinical outcomes with best-in-class neonatal survival rates.

India has extremely high infant mortality rates compared to the developed world. India has 27 deaths per 1000 live births compared to the US which has 5 deaths per 1000 live births. (IMR, 2020) Surya is a center of excellence for high-risk births with state-of-the-art facilities and deeply experienced medical talent. ~60% of NICU patients in Mumbai are referrals from other hospitals for complex births / premature deliveries. Over the years, Surya has completed over 25000 deliveries, had over 30000 infants successfully discharged from the NICU and over 12500 children discharged from the Pediatric Intensive Care unit (“PICU”). Surya has mortality rate under 2% for highly premature babies. Surya has the distinction of successfully providing care to India’s most premature triplets at 24 weeks (Triplets, 2013) and many other severely premature babies with birthweight less than 500 grams. Surya has been able to attract highly reputed pediatricians, obstetricians, and gynecologists due to exclusive focus on these areas and clinical excellence

The Company operates woman and child focused hospitals across Mumbai (65 NICU, 14 PICU and 63 Ward operational beds), Pune (35 NICU, 17 PICU and 58 Ward operational beds) and Jaipur (35 NICU, 10 PICU and 65 Ward operational beds) (fig 2). Surya operates through three doctor engagement models comprising (i) full-time engagement model with doctors working exclusively with the Company at a fixed salary, (ii) exclusive consultant model with doctors practicing exclusively at Surya under a fee for service pay structure and (iii) visiting consultant (non-exclusive) model with doctors consulting and performing procedures at Surya under a fee for service pay structure while continuing their practice at other hospitals

All three of Surya’s facilities (fig 1) are National Accreditation Board for Hospitals & Healthcare Providers certified (NABH, 2022). Surya is also a teaching hospital for Diplomate of National Board in Paediatrics and Neonatology. Surya’s vision is “to be the center-of-excellence in providing quality health care for women and children in the country.”

SeaLink Capital Partners: An Operationally Focused Private Equity Firm

SeaLink Capital Partners (“SCP”) was founded in 2015 by experienced private equity executives who wanted to focus on investing in fast growing Healthcare and Information Technology companies. (SCP, 2015) SCP combined its active ownership model with a strong partnership-based approach to go beyond financial investment and drive long-term value creation for all stakeholders. SCP helps operational improvement in portfolio companies with defined performance modules in go-to-market strategy, salesforce effectiveness, supply chain improvement, talent management, and financial controls. The founding team had been collaborating since 2006 and had invested approximately \$1B across multiple investments, creating substantial value for their shareholders and other associated stakeholders. The team has extensive experience in healthcare investments across the value cycle of investing, value creation, and exit. In 2018, SCP invested capital into Surya Hospitals to help accelerate Surya’s growth and strengthen its competitive edge. (SCP Investment, 2018).

Figure 1. Location of Surya hospital units

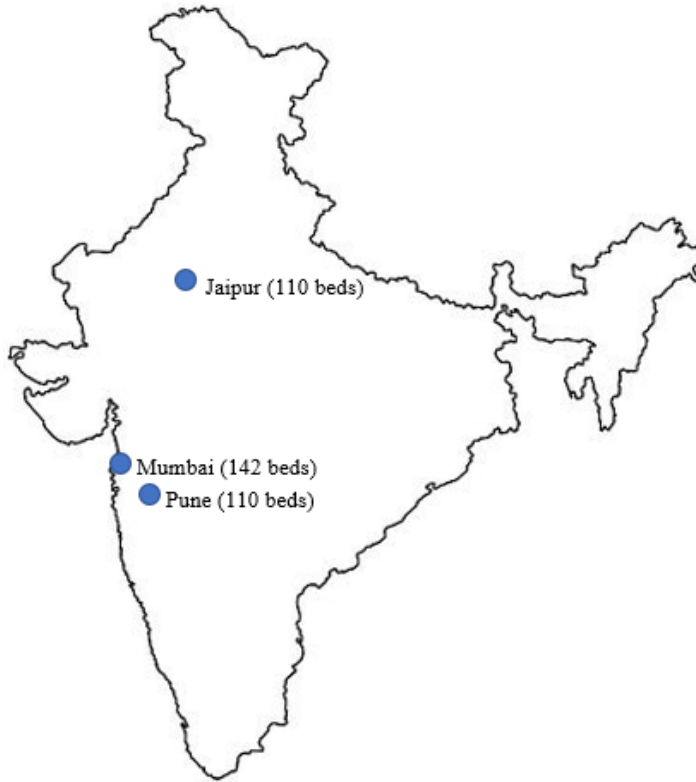


Figure 2. Images from Mumbai, Pune, and Jaipur hospitals



Value Creation and Strategic Initiatives

Post investment, SCP developed a 100-day plan (fig 3) along with the Surya management team to help focus on select high impact initiatives in the initial 6 months. The 100-day plan outlined goals and objectives for the first 100 days following the investment. The plan included milestones, deadlines, measurable outcomes, and clear owners for each of the initiatives.

Post the 100-day plan, SCP has continued to provide strategic support to the Company across various initiatives over the past 4 years.

Quality: During due diligence, SCP brought in an expert from Harvard Medical School, Dr. Sharon Kleefield, to assess and provide guidance on a holistic quality improvement plan. SCP started monitoring monthly infection and mortality rates, medical errors, and hand hygiene indicators across all three facilities and collaborated closely with medical administrators at Surya to establish strong quality control mechanisms. Thanks to relentless focus and measurement of quality, metrics such as hand hygiene improved from 60% to 95+ compliance rates

Organization Performance Survey: SCP ran a proprietary Organization Performance Survey (OPS) across all employees at Surya. SCP uses this tool in portfolio companies to unearth insights from within the organization itself. It helps drive constructive discussions with leadership on organization strengths & development opportunities using objective metrics. SCP OPS has 30 questions covering 8 key building blocks ranging from Goals to Motivation to Culture & Values. In the case of Surya, a few areas to improve included effective execution and the need for systems, processes, and controls as shown in Figure 4.

Enhancing Management Bandwidth: SCP helped Surya bolster management bandwidth by creating a defined organization structure with clearly defined roles and responsibilities. SCP also conducted preliminary interviews to fill gaps in high level key positions in the hospital. The Company added facility directors at Mumbai and Pune with end-to-end responsibility for operations of the facility and a central HR Head to streamline recruiting and drive doctor engagement. The new structure helped with strategic overhaul and allowed for faster decision making. SCP also revamped the incentive

Figure 3. Sample page that introduced the 100-day plan to the Surya management

Introducing the 100 Day Plan

- The 100 Day Plan is a partnership tool that acts as a catalyst for early stage alignment and action
- SCP has successfully used this tool in all our prior investments in partnership with the management teams
- This is a team effort between SCP and the Surya leadership team.
- It is not an SCP 100 day plan but a Surya hospitals 100 day plan
- Key goals include :
 - Early alignment on key short-mid term priorities for the company based on key diligence findings
 - Details specific initiatives, targets, resources, and milestones
 - Provides full transparency between Surya leadership and management and SCP on progress and capabilities across multiple priorities
 - Helps mitigate key risks in the business

A prioritized roadmap for partnership, which can be built upon over time to capture future priorities

Figure 4. Output from the OPS that was conducted by SCP at Surya; the data for Surya is not only compared among various departments, but also to a database

	Helios Score	Database Median
My company has a compelling vision and a clear strategy	73%	75%
Senior leadership of the company sets ambitious but realistic goals for my company	90%	76%
Decision-making is appropriately delegated to middle management	66%	63%
In my company, decisions get made in a timely fashion	61%	56%
Senior leadership can frequently be found out among the "front lines" of the operations (i.e. with customers, at centers, etc.)	73%	67%
My company has sufficient leadership (both capacity and capability) to drive business growth and deliver performance improvement	80%	79%
My department has people with the right skills and talent to deliver on its goals	73%	81%
My department has the right systems, tools and processes to deliver on its goals	61%	72%
Different groups/centers in my company coordinate and cooperate together effectively	66%	61%
When forced to make a tradeoff, my company typically place quality requirements (for products and services) over cost concerns	54%	69%
My company is very focused on maintaining cost discipline across our business	73%	75%
My company does a good job of appropriately setting priorities	63%	88%
I am clear about what I'm responsible and accountable for	85%	93%
I am given sufficient authority to make decisions and fulfill my responsibilities	83%	61%
The performance of people in my department is evaluated against clear targets/performance goals	73%	76%
I get adequate and actionable feedback about my strengths and development priorities	78%	78%
High performers in my company are rewarded appropriately (financially and via other means - non-financial recognition, promotions, etc.)	46%	66%
My rewards for performance are closely tied to the performance of the company	68%	73%
Every initiative taken up in my department has clear targets and an implementation plan	76%	84%
My department has regular business progress reviews to ensure that problems are quickly identified and solved	68%	84%
My department's relevant operating measures (e.g. productivity, sales, capacity, service levels, clinical outcomes) are clearly defined	61%	75%
My company effectively monitors and quickly adjusts to changes in our industry	68%	67%
My company is strong at innovation	66%	68%
My company consistently identifies what is important to our customers and meets their needs	85%	65%
I believe my company is better than our primary competitors	71%	75%
My company has a clearly defined code of conduct for employees that is strictly adhered to, and people behave ethically	73%	86%
The company encourages safe and responsible work practices	80%	83%
I would recommend working here to others	71%	70%

 10% or more higher than the Median Database Score (except scores below 70%)

 10% or more lower than the Median Database Score (except scores above 70%)

structure for senior management – with added focus on SCP also provided the Company with interim CEO and CFO support when the Company was going through transition in senior leadership.

Consumables Sourcing: The Company targeted reduction in procurement costs through improved consumables sourcing by initiating an RFP process and structuring the supply chain through central procurement management. SCP provided introduction to various pharmaceutical and medical products distributors for procurement management contracts.

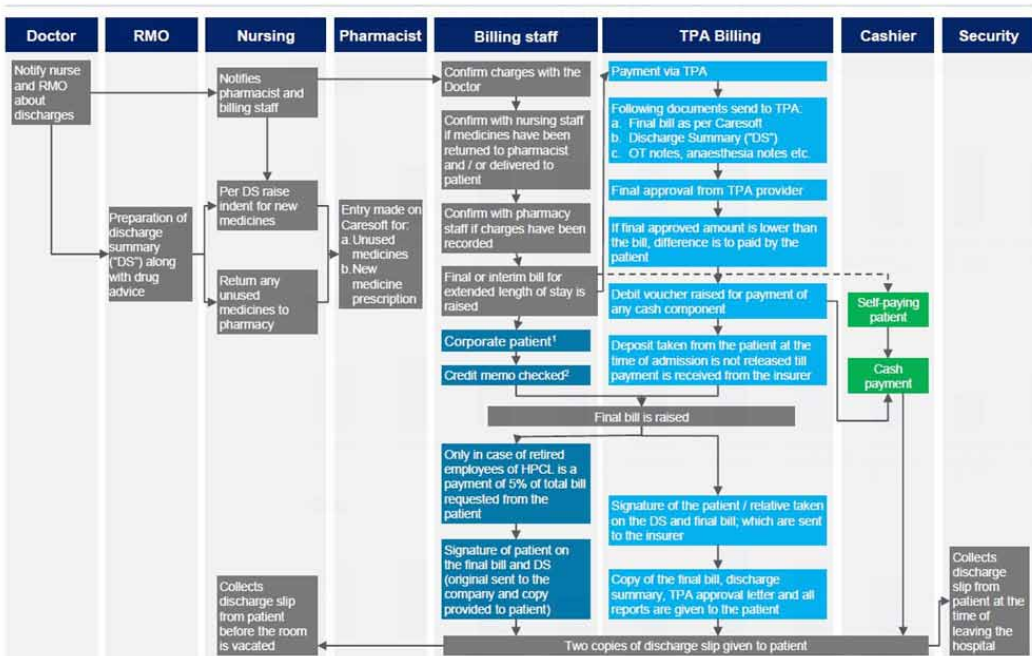
Patient Flow Optimization: SCP worked extensively with the Company to streamline the patient flow process through identification of bottlenecks in the admission and discharge processes. Using evidence-based data, such as workflow analyses, time and motion studies, surveys, and interviews, SCP identified existing bottlenecks that affect patient flow as shown in Figure 5. After analyzing the data, SCP developed and implemented process redesign strategies, including changes to staff assignments, rearranging locations of certain hospital services, and staggered scheduling.

Sales and Marketing: The Company built dedicated sales teams across all facilities for continuous engagement with the doctor network. Surya needed to collaborate closely with the medical community to highlight the clinical excellence and quality protocols followed at Surya and encourage them to refer their highly premature babies to Surya allowing these infants to get the highest standard of care. SCP guided management on effective sales force training, branding and communication as well as implementation of a sales force automation tool. SCP had a member of its team be part of the Surya sales team for a few weeks to understand the prevailing situation and then suggest improvements to the selling process. SCP also worked with the team on network mapping and territory redesign. In addition, SCP also revamped the sales incentive schemes to help incentivize the sales teams appropriately.

Patient Satisfaction Survey: SCP introduced a patient survey across all facilities to understand patient pain-points and focus on enhancing satisfaction across all centers. By utilizing Net Promoter Score (NPS, 2022) and regularly following up on areas of improvement, Surya was able to improve

Figure 5. Sample flow chart created by SCP to identify bottlenecks in patient flow

Discharge Process



Note: ¹ Corporate patients refer to patients covered by public sector companies. At the time of admission of corporate patients, a credit note is provided to Surya Hospitals by the company. Payment is received from the company once all documents are shared. Surya Hospitals has an MoU with these companies. ² Certain expenses such as consumables and cafeteria expenses are at times not covered in which case, at the time of discharge the patient is asked to pay for these charges. Until receipt of credit, discharge is not given.

customer satisfaction dramatically to an NPS of 58% in 2019 from under 20%. of Surya continues to actively track patient satisfaction. A sample of the latest customer satisfaction survey across various metrics is below in Figure 6.

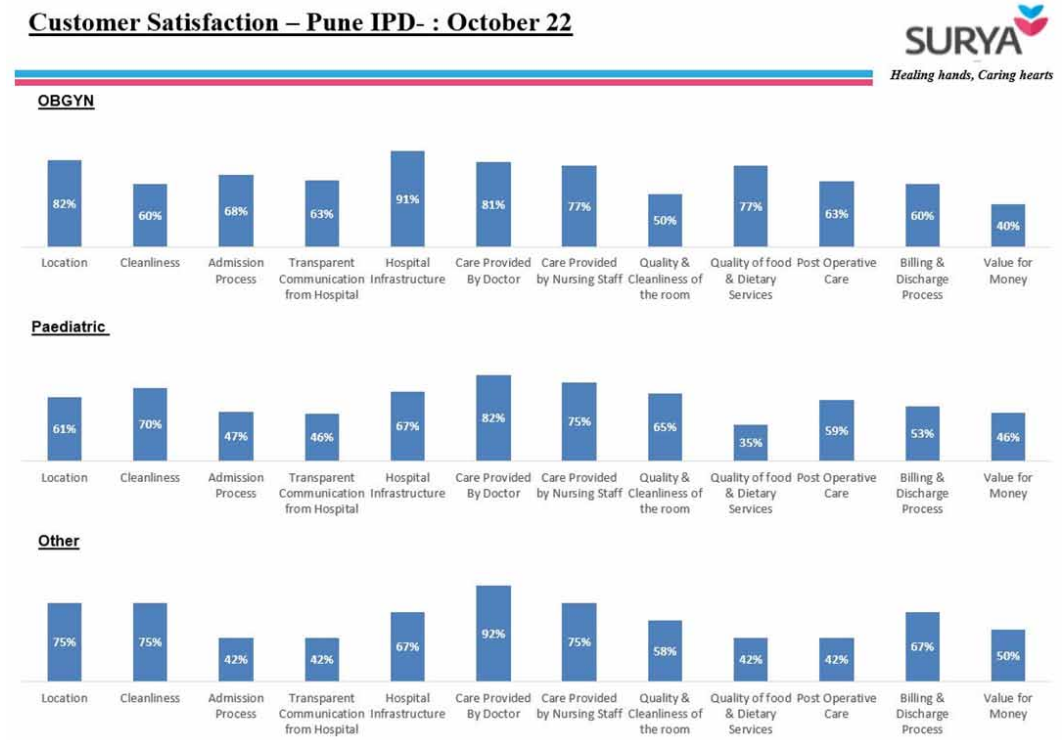
Doctor satisfaction survey: SCP helped administer a doctor satisfaction survey which helped uncover key areas for improvement in doctor relationship management. One of the areas for improvement was in the timeliness of payments to the doctors and better scheduling of the operating theatres. By addressing both issues and reducing payment cycles from 30+ days to a week, doctors' satisfaction dramatically increased, and they began to increase their work at the hospital.

Support during COVID: SCP collaborated closely with management to develop a comprehensive plan to protect its patients, doctors, and employees from the spread of COVID-19. This included creating an Isolation Ward, establishing protocols for COVID-positive patients, and preparing for a complete lockdown with skeletal support staff. SCP also helped the Company launch many initiatives to help preserve cash-flow, such as reducing costs, increasing efficiency, increasing revenue, and exploring alternative financing options. While not designated a COVID hospital, the Company was able to launch a successful vaccination campaign that provided a strong service to the community.

Environmental, Social & Governance (ESG): Various activities were initiated with a strong emphasis on a holistic approach to Surya' stakeholders

- Every hospital has a dedicated Medical Social Worker, who works with families of patients with limited financial means to ensure they get access to the best quality of care. Surya has partnered with third-party crowdfunding organizations for this purpose. This allows almost 20% of babies from economically challenged families to get the best quality treatment.

Figure 6. Results from recent NPS survey at Pune; Management team tries to survey at least 10% of all customers every month; Care provided by doctor has consistently been excellent at Pune while there is room for improvement in Quality of food & dietary services provided at the hospital



- The Company now conducts background verification checks for all employees across each of its facilities in Mumbai, Pune, and Jaipur. This has helped further ensure the safety and security of all its patients
- SCP also instituted a policy for regular electrical audits and fire drills across each of its facilities
- SCP established a strong governance mechanism with comprehensive review at the Company through quarterly Board Meetings and monthly operating reviews with management
- SCP implemented a series of initiatives to improve nurse welfare at Surya. These included providing better access to professional development opportunities, better recognition and appreciation for nurses, improved communication from management, and improved living conditions at the nurses' hostel. These initiatives helped improve nurse recruitment and retention
- The Company also started simple initiatives on reducing electricity consumption, reduction of plastic usage and reduction of water usage.

Management Information System (MIS): SCP worked with the management team to prepare a standard reporting document covering financial, quality, and operational metrics for in-depth monthly review of the business across all facilities. The MIS included comprehensive monthly financial reports, including income statements, cash flows, and variances to prior period and to budgets. Additionally, the document included detailed operational and quality metrics allowing for a comprehensive overview of the overall health of the business. There were several key performance indicators (KPIs) focused on cost reduction, customer service, safety, and performance excellence outlined in the document. The KPIs included full-time employee turnover, customer complaints, on-time deliveries, and net promoter scores.

Digital initiatives: SCP guided management on implementing various digital initiatives. They hired a third-party vendor to help with designing and updating existing website content, improving the website usability, designing new features and functionality, implementing search engine optimization (SEO) strategies, and integrating advanced analytics. There was also additional focus on improving google review and ratings (which moved from 3.6 to 4.6 on a scale of 5) to improve patient outreach. Surya also started teleconsulting and online chatbots to help with the overall patient experience.

Expansion: SCP have actively been involved in Surya's expansion plans. SCP helped Surya management with expansion strategy into adjacencies like IVF, birthing, and fetal medicine to build a fully integrated Woman and Childcare player in India. SCP also worked with management to identify the best micro-locations to expand into in their existing cities. Surya is currently in the process of opening its third and fourth center in Mumbai in 2023 and 2024 respectively which will increase its capacity by 30%

RESULT AND CONCLUSIONS

After the investment by SCP in June 2018 and their active operational involvement, Surya's revenue has grown 1.9x in 4 years in spite of 18 months of significant impact due to COVID. The Company's profitability measured by Earnings before Interest, Depreciation and Amortization (EBITDA, 2022) grew 4.2x in 4 years. The Company also repaid its debt and currently does not have any debt on its balance sheet. The Company is also on track to open two new hospitals in the next two years.

While demonstrating exceptional financial results, the hospital continues to have exceptional clinical results and has been recognized by multiple publications (Awards, 2022)

- Dr. Bhupendra Avasthi was awarded Best Paediatrician in India by the MedScape India National Awards 2019
- In the All-India Critical Care Hospital Ranking Survey for 2020, Surya Mumbai was ranked #1 for Obstetrics, Gynecology and Pediatrics in their respective cities. Surya Mumbai was also ranked #2 nationally for Obstetrics, Gynecology and Pediatrics
- Surya was awarded #1 & #2 for Paediatrics and #2 & #3 for OBGYN in Western India in the Times Health Survey 2022
- Surya Mumbai was rated the second-best Pediatric hospital in India in the Outlook India Health rankings for 2022
- Surya Pune was rated the best Mother and Child hospital in Pune in the Times Health Icons survey of 2022; Three of their doctors were rated best Neonatologist and Pediatrician, best Reproductive medicine specialist, and best Obstetrician and Gynecologist

SCP's partnership with Surya has shown the benefits of having private equity investment in healthcare. A critical aspect of the deal was the focus on operational efficiency. The investors identified key gaps in the business operations, and helped Surya implement the changes necessary to improve its existing services and advance toward a more competitive position. This not only led to improved internal processes, but also improved the quality of services for Surya's customers. By creating win-win situations for all stakeholders, private equity investments are helping to drive innovation and create value for the industry at large. Private equity can fully commit to quality and standards through investments in technology, data analytics, and management practices that support quality initiatives and enhance clinical excellence. Private equity is not just a source of capital to a company but also a source of insights built via extensive due diligence and deep operational involvement by a fully aligned partner. The case study of Surya Hospitals demonstrates this potential and could be a template for other healthcare services organizations looking to leverage private equity investments.

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Karthik Narayanaswamy is a co-founder and Partner at SeaLink Capital Partners. He leads the firm's investments in Healthcare Services and Consumer verticals. In addition, he also focuses on operational due diligence and post-investment operational value creation. At SCP, Karthik has been integrally involved in the investments in NephroPlus, Surya Hospitals, THB, Ki Mobility, and Global Dental Services Prior to co-founding SeaLink Capital Partners in 2015, Karthik was a Principal with KKR Capstone operating out of the Hong Kong and Mumbai offices, where he was involved with due-diligence and operations improvement projects across investments in India. These included investments in Alliance Tires, TVS Logistics, and Dalmia Cement. He also co-led KKR's Green Portfolio Program across Asia and focused on driving profitable environmental programs in KKR's portfolio companies. Prior to that, Karthik was a Case Team Leader with Bain & Company in India where he was part of the founding teams of the New Delhi and Mumbai offices. At Bain & Company, Karthik focused on performance improvement, private equity due-diligence, and organization restructuring. Karthik has also spent time with Goldman Sachs Investment Partners in Mumbai where he focused on retail, BPO, and energy investments. Karthik started his career at Capital One Financial in Richmond, Virginia. Karthik holds a Bachelor of Technology in Computer Science and Engineering from Indian Institute of Technology, Bombay.

Heramb R. Hajamavis is the founder and Managing Partner of SeaLink Capital Partners (SCP). He is passionate about collaborating and partnering with entrepreneurs to accelerate their growth with global best practices. Heramb founded SCP in 2015 based on his very successful track-record of forming partnerships with entrepreneurs and delivering consistent and high returns to investors. Over his career, he has led and played an instrumental role in investments in companies such as THB, Ki Mobility, JM Financial, Surya Hospitals, NephroPlus, Gland Pharma, Alliance Tires, TVS Logistics, Magma Fincorp, Mahindra & Mahindra and Sudhir Gensets. Heramb was the head of KKR's Indian private equity business from 2010 to 2014. Prior to KKR, he was with Goldman, Sachs & Co. based out of their New York, Hong Kong and Singapore offices where he focused on evaluating investment opportunities for the firm's global private equity and mezzanine debt funds. Most recently, he was a founding member of Goldman Sachs' India office and served as Managing Director and Co-Head of private equity. His prior experience also includes being part of the senior management team at Centennial Communications Corp. (a NASDAQ listed telecom services provider focused on the United States and the Caribbean; subsequently acquired by AT&T). Heramb has served on several committees such as National Committee on Venture Capital & Private Equity, Sub-Committee on Issues Pertaining to Foreign Investment in India and on a special taskforce focused on healthcare financing as part of the US – India Health Initiative. Heramb currently serves as an Independent Director on the Board of Sundram Fasteners (a leading publicly listed high-precision components manufacturer for the auto, aerospace, and defense industry with \$1.5+ billion market capitalization) and on the Board of India Nippon Electricals (a leading electronics and electricals components manufacturer with \$125 million market capitalization); Global Advisory Board of TVS Supply Chain Solutions (a leading global logistics firm with over a \$1 billion in revenues); Advisory Board of StataDX (a Boston based early-stage company focused on point-of-care diagnostics technology developed by the Wyss Institute at Harvard University for rapid diagnosis of brain trauma and stroke); Advisory Board of Manush Labs (a social impact accelerator); Mentor, Microsoft GrowthX Program Heramb earned an S.B. from the Massachusetts Institute of Technology (MIT) and an MBA from Harvard Business School (HBS). Heramb was awarded an Aspen Institute Fellowship in 2008.