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PRIVATE EQUITY INVESTMENTS IN INDIA'S HEALTHCARE SECTOR: REGULATORY CONSTRAINTS AND INVESTMENT STRUCTURING

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Abstract

Over the last decade, India has become one of the most important targets of the private equity (PE) investment in the healthcare sector. The fast rise in the need of healthcare, the increase in the level of income, and the lack of infrastructure in the field of social healthcare have stimulated significant institutional capital flows towards the hospital chains, diagnostics chains, and healthcare services platforms. Although, the role of a private equity investment in the development of healthcare infrastructure and operational efficiency is significant, the sphere of investments is regulated by complex corporate regulations including corporate law, foreign investment regulations, and professional medical regulations. This paper investigates regulatory limitations and the system of structuring the investments that are linked with the involvement of the private equity in the healthcare industry in India.

The first part of the study is to analyze the legal frameworks that govern the healthcare investment and the chosen legal frameworks are corporate governance of the Companies Act, 2013, foreign investment regulation of the Foreign Exchange Management Act, 1999 and the Consolidated Foreign Direct Investment Policy of the Department of Promotion of Industry and Internal Trade, and professional regulation of the National Medical Commission Act, 2019. The paper also reveals major issues in structuring an investment such as the decoupling of ownership of the economy versus the clinical authority, the asset light hospital model, and the concept of a consolidating strategy in the diagnostic networks. The paper uses case studies of key healthcare investments to demonstrate how the investors of the private equity can design transactions in order to overcome regulatory limitations and contribute to the development of the sector.

Lastly, the paper makes a comparative study with the United States and suggests the regulatory reforms that can enhance the governance protections and regulatory clarity in the healthcare investment structures. The article posits that a middle ground in regulatory policies is required to promote the involvement of the private capital and protect the autonomy of the medical patients and the welfare of Indian healthcare system in the new ecosystem.

I. INTRODUCTION

In the last ten years the healthcare industry in India has become one of the largest markets to invest in through private equity (PE). The high growth rate of the sector, coupled with increased need of healthcare services and the structural gaps in the infrastructure of the public healthcare, have presented considerable opportunities to institutional investors. Healthcare platforms that include hospital chains, diagnostic labs, fertility clinics, telemedicine platforms, and pharmaceutical services companies have increasingly become the targets of private equity funding. The rationale behind these investments is the stable nature in the demand of the sector, growth

potential in the long term, and scalability in the chain based operational designs. Concurrently, however, healthcare is among the most regulated industries in India and the overlap of healthcare regulation with foreign investment regime, competition legislation, and corporate structuring practices can frequently provide tricky legal issues to investors undertaking transactions.

The expanding healthcare sector of India gives the rationalization of the continued PE interest. The healthcare need in India has increased by a very high margin because of the demographic factors, urbanization, rising income, and the rise of lifestyle diseases. Historically, healthcare spending by the Indian government has been relatively low in comparison with other major economies, and consequently, the country has been largely dependent on the provision of healthcare by the private sector. Consequently, the number of privatized hospitals, diagnostics chains, and other healthcare service providers of special care has grown swiftly to address the unmet demand. In India, the private sector now comprises a significant part of healthcare provision, such as most of the outpatient provision and a significant part of inpatient hospital capacity. This increasing function of private healthcare providers has in turn become a natural target of the private equity investors to explore a stable and scalable field to invest their capital.[763]

An important characteristic of healthcare private equity investment has been the formation of structured healthcare platforms that are based on chain-based approaches. In the past, the healthcare industry in India was highly fragmented and there were high numbers of standalone hospitals and diagnostic centers, which operated independently. However, in recent twenty years, mega-hospital chains have grown at the expense of smaller hospitals, developed multi-city networks, and standardized management systems. The latter has been made possible by the contribution of the private equity funds. Healthcare companies have received growth capital through the actions of institutional investors to facilitate the expansion of infrastructure, adoption of technologies, and geographical diversification. These investments have played a major role in changing the delivery of healthcare through its fragmented local providers into professionally run healthcare platforms at scale

Some of the most successful healthcare businesses in India have also enjoyed the contribution of the involvement of private equity in their growth initiatives. Large hospital networks like Narayana Health, Apollo Hospitals Enterprise Limited, and Manipal Hospitals have had institutional investors who funded them at different levels of their growth. Investment by private equity in such healthcare platforms has usually been in the forms of minority investments, strategic alliances or pre-initial public offering (IPO) placements. These investments enable PE funds to enjoy the long term potential of value creation of healthcare infrastructure and healthcare companies to enjoy accessing capital to expand, modernize, and acquire.

Besides the hospital chains, the sphere of private equity investment has grown among a wide variety of healthcare subsectors. Diagnostic laboratories constitute one of the sectors of health care investment with the highest growth rate. Chains of organized diagnostics have been growing rapidly because of the growing knowledge about preventive care, the spread of health insurance provisions, and laboratory technology advancement. Another area that has attracted intensive investment by the private equity funds is in specialized healthcare services including fertility clinics, cancer centers, dialysis network, and day-care surgery centers. Moreover, the emergence of digital health technologies introduced new areas of investment in telemedicine platforms, electronic health record system, and online pharmacy services. Such

[763] Ministry of Health and Family Welfare, National Health Accounts Estimates for India (2019–20) (2022)

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diversified investment opportunities have contributed to healthcare being one of the most appealing areas to invest in terms of deploying private equity in the entire healthcare ecosystem in India.

One of the reasons behind the interest of the private equity in healthcare is the comparatively stable demand pattern in the sector. Healthcare services are inelastic in demand, unlike cyclical industries which are directly connected to the macroeconomic fluctuations. Medical care and diagnostic services are always required irrespective of the overall economic environments thus healthcare business is relatively robust in case of economic slumps. To the extent that private equity investors want to create value over the long term, this demand stability minimizes downside risk and increases the appeal of healthcare assets. Furthermore, investments in the healthcare infrastructure generally yield consistent cash flows once these operational scale is reached and thus they fit the term of the private equity investment.

Scalability of healthcare business models is another key motivation of the private equity investment. Standardized operating systems, centralized purchasing mechanisms, as well as integrated technology platforms can enable hospitals chains, diagnostics networks and specialty clinics to grow. When a healthcare platform has a good brand and operation model, it can extend the model to other cities by greenfield expansion or acquisition of already existing facilities. Such expansion strategies are often actively supported by the participation of the private equity funds that contribute capital, governance skills, and strategic advice. Such mechanisms allow PE investors to transform healthcare providers into scalable platforms that can operate in the regional or national markets.

Although these are the appealing features, the investment of the private equity in healthcare is also characterized by a lot of complexities regarding regulation. In its direct connection to the health of the population and patient safety, healthcare is a very regulated industry. The medical fraternity is required to adhere to a broad spectrum of rules regarding licensing, medical standards, medical infrastructure and price controls. Moreover, foreign investments, especially those of foreign investors, are also found to be subject of the foreign investment framework of India administered by the Foreign Exchange Management Act of 1999[764] as well as the Consolidated Foreign Direct Investment (FDI) Policy of the Department of Promotion of Industry and internal Trade[765]. Merger control is also a provision of Competition Act, 2002[766] enforced by Competition Commission of India in transactions involving large healthcare takers.

These overlapping regulatory frameworks present significant limitations to investors in the form of a private equity investor in the structure of investments in healthcare companies. Investors should strategize transaction structures keenly to address the foreign investment limitations, industry-based licensing provisions as well as the competition legislation provisions. Further, the governance rights which are commonly negotiated by the private equity investors, including board representation, veto rights, and exit mechanisms, should be designed in accordance with the Indian corporate and securities law regimes, including the Companies Act, 2013[767] and regulations by the securities and Exchange board of India[768].

II. LEGAL FRAMEWORK

Law Regulating the Investment of the Healthcare Industry in India by the Asian country, on the one hand, and the role of a private investor, on the other hand.

The healthcare sector of the Indian economy represents one of the areas where the jurisdiction of various regulatory regimes

[764] Foreign Exchange Management Act, 1999, No. 42 of 1999, § 6
[765] Consolidated Foreign Direct Investment Policy, issued by the Department for Promotion of Industry and Internal Trade (2020).
[766] Competition Act, 2002, No. 12 of 2003, §§ 5–6
[767] Companies Act, 2013, No. 18 of 2013.
[768] Regulations issued by the Securities and Exchange Board of India governing private placements and investor rights.

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intersect with the investment of a private equity. In contrast to a number of other industries in which investment structure is dominated by corporate and securities law, healthcare transactions face another tier of regulation that involves medical practice, hospital licensing, and professional regulation. Therefore, the investment regulations and legal norms of healthcare delivery and professional ethics influence private equity transactions in healthcare companies. Regulatory framework of healthcare investment in India can be broadly interpreted in terms of the three domains, which are closely interconnected: corporate law, foreign investment regulation, and medical professional regulation.

A. Corporate Law Framework

At a bottom level, healthcare firms in India are generally established as a limited company, either as privately or as a public limited company, as per the Companies Act, 2013. This law forms the foundation of the legal system that regulates incorporation, management, and funding of corporate organizations in all industries and fields, such as hospitals, diagnostic chains, and healthcare service providers. Investments in healthcare companies by the private equity operators are thus constituted in the corporate governance and issue of capital as specified in the Companies Act.

One of the usual avenues of entry by the private equity investors is via preferential allotments of shares offered by the healthcare company. Preferential allotment enables firms to raise funds by issuing shares to a chosen group of investors as opposed to conducting public offerings. These issuances should be in accordance with statutory guidelines concerning board approvals, shareholder resolutions, valuation guidelines and disclosures required under the Companies Act.[769] Shareholders agreements such as rights and obligations of investor and promoters of healthcare company are usually negotiated in detail by the investor of the healthcare company and the promoters.

The agreement of such shareholders usually include measures that provide the rights of private equity investors such as board representation, veto powers to make important decisions in the company and information rights. Corporate governance wise, these mechanisms enable the investors to oversee the running of the firm and protect their investment. Nonetheless, within the healthcare industry, governance structures can also be interluded with professional regulation standards in the context of clinical decision-making processes. Examples include investors wanting to control strategic decisions connected with expansion, investment in capital or mergers and acquisitions, and medical personnel in the company having their own control over clinical decisions and patient care. This managerial versus clinical autonomy dichotomy is a common motif of healthcare investment formations.

Also, private equity investors usually enter into contractual safeguards, including anti-dilution rights, exit, and reserved issues which must be approved by investors. Such rights should be well drafted to meet statutory requirements on the rights of shareholders, directors and minority protection as prescribed in the Companies Act. As a result, the legal layer that is used to structure and manage healthcare investments is built upon corporate law.

B. Foreign Investment Law.

The large percentage of capital invested by the private equity in the healthcare sector in India is contributed by the foreign investment funds. This means that therefore, investments in healthcare are often subjected to the scope of foreign exchange and foreign direct investment (FDI) policies in India. The major law that regulates the cross-border movement of capital in India is the Foreign Exchange Management Act, 1999, which provides the legal

[769] Companies Act, 2013, No. 18 of 2013, §§ 42, 62

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basis of controlling the foreign exchange dealings and investments.[770]

The rules of operations of foreign investment are provided in the Consolidated FDI Policy of the Department of Promotion of Industry and Internal Trade[771], and subordinating regulations of the Reserve Bank of India. The current FDI policy framework, foreign investment in healthcare services is typically allowed on the automatic route, that is, foreign investors do not need a prior government approval in order to invest in this sector, and this relatively liberal investment regime has been one of the key factors behind the increased involvement of the private equity in the development of hospital chains and healthcare service providers

But despite the automatic route foreign private equity investments still face a number of regulatory restrictions. One of the regulatory conditions is on the price regulation when issuing and transferring shares of foreign investors. When issuing shares to foreign investors, the issuances should be governed by foreign exchange regulations so that they should be valued according to the stipulated valuation norms to make sure that they are issued at an amount not below the fair market value. These price controls affect the structuring of investment instruments like equity shares, compulsorily convertible preference shares and convertible debentures in transactions in the private equity market.

Another regulation aspect of importance is associated with exit mechanisms. The typical exit horizon of a private equity investor is set and the investor negotiates a contractual right to exit e.g. in the form of put options or buyback plans. Nonetheless, the foreign exchange laws do limit some kind of guaranteed returns or guaranteed exit arrangements to foreign investors especially in situations where the arrangement might be construed as debt-like instruments instead of equity investments. In turn, the exit rights should be properly designed by the private equity investors in accordance with the foreign exchange regulations and the relevant guidance of the Reserve Bank of India.

C. Medical Ethics Regulation.

Besides corporate and investment regulatory laws, healthcare firms are also required to abide by professional regulatory laws that ensure that medical practice is regulated within the sector. The medical education, standards of practice, and licensing of physicians in India are governed by legal organizations (statutory) including the National Medical Commission which supersedes the previous Medical Council of India. In India, medical education standards, professional behavior, and licensing requirements of medical practitioners are controlled by the National Medical Commission.[772]

Doctors who are practising medicine should be able to have valid professional licenses and abide by the ethical standards that govern medical practice under this regulatory regime. These professional standards focus on the autonomy of making medical choices and provide ethical responsibilities concerning patient care, professionalism, and the absence of conflict of interests. Regarding investment, these professional regulations suggest a significant boundary between corporate governance and clinical autonomy.

The common areas of governance by private equity investors in business activities include financial management, expansion policies, and performance of the business. Clinical decisions on how to treat the patient however, are still in the professional aspect of licensed medical practitioners. This division brings a governance conflict in healthcare firms where profitability and growth interests of investors need to coexist with moral and professional principles of medical practice. Under some circumstances, there has been a worry whether corporate ownership of hospitals can in any way affect

[770] Foreign Exchange Management Act, 1999, No. 42 of 1999, §6.

[771] Consolidated FDI Policy, issued by the Department for Promotion of Industry and Internal Trade (2020).

[772] National Medical Commission Act, 2019, No. 30 of 2019.

clinical decision-making, or can be used to guide profit-driven healthcare delivery.

Taken together, these overlapping regulatory regimes create a complex legal environment for private equity investment in India's healthcare sector. Corporate law governs the structuring of investment transactions and shareholder rights, foreign investment regulations determine the permissibility and structure of cross-border capital inflows, and professional regulatory frameworks impose ethical and licensing requirements on healthcare delivery. Understanding how these regulatory domains interact is essential for analyzing the structuring challenges and regulatory constraints faced by private equity investors in healthcare transactions.

III. Issues of Investment Structuring in Healthcare.

The nature of the healthcare industry, where the companies are based also influences the choices of private equity to invest in the sector by not only the attractiveness of the industry but also the regulatory and ethical limitations that are attached to healthcare delivery. The investors need to ensure that they design transactions in such a way that they do not breach corporate law, foreign investment regulations, and the professional jurisdiction of medical practice. These limitations affect the distribution of control rights by the private equity funds, the formation of an ownership structure, and the development of models of functioning in the healthcare environments. Consequently, more complicated methods of structuring healthcare investments tend to separate economic control and clinical decision-making, decrease capital intensity, and allow platform-based expansion in a scalable form. There are three significant structuring issues that are predominant in healthcare transactions, namely the corporate practice of medicine issue, the structuring of asset-light hospital platforms, and consolidation plans in diagnostic services.

A. Corporate Practice of medicine and Clinical Governance.

One of the most common problems in healthcare investment is the so-called problem of the corporate practice of medicine. In some jurisdictions, there are laws that ban direct control of medical practice by non-medical corporations because they wish to maintain independence of the clinical decision-making. Even though India lacks a formal statutory prohibition similar to the corporate practice of medicine statutes practiced of other jurisdictions, regulatory and ethical laws that pertain to medical professionals underscore the fact that clinical decisions must also be maintained within the control of licensed practitioners and not the control of investors, as well as corporate management. The concept is based on professional regulation of medical practitioners under the National Medical Commission Act, 2019[773] and the ethical principles, which are provided regarding medical professionals.

According to these professional guidelines, physicians should exercise discretion when treating their patients and have a moral responsibility towards the following aspects pertaining to patient-related issues, professional integrity and conflict of interest. This makes financial considerations not to affect clinical decisions, which is stressed in the Code of Ethics that governs medical practitioners, thus posing a structural governance challenge to the private equity investors. Although investors usually desire a control of strategic and financial decisions in the portfolio companies, they should not enter into arrangement of governance that would be construed to indicate that they are exerting control in the decision-making process of clinical decisions.

This has caused healthcare investments in a way that separates economic rights and clinical authority. Equity interests that are owned by the private equity investors usually have economic

[773] National Medical Commission Act, 2019, No. 30 of 2019.

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gains in terms of dividends, exit rights, and valuation appreciation. Nevertheless, operations structures make clinical authority to be in the hands of qualified medical professionals in the organization. Such segregation is usually manifested in corporate governance systems implemented by health care companies. The investors can gain board representation and control over strategic issues like expansion, capital distribution, mergers, and operational efficiency, and specifically leave the clinical decision-making to the hospital medical boards or professional committees.

These governance schemes often contain clauses in technique of contract called reserved matters. Reserved matters are decisions that must be passed by the certain stakeholders. In healthcare dealings, these provisions can be used to draw a line between financial and clinical issues and the investors have the veto power over the key financial decision-making processes whereas the medical practitioners still have the ability to make decisions about the treatment, clinical practices, and patient-care standards. Researchers of healthcare governance have observed that these structures are made to balance between the investor control and the ethical discretion of medical professionals[774].

This conflict of governance has taken more centre stage with the growing involvement of institutional investors in the healthcare delivery systems. As noted by commentators, the presence of private capital to increase the infrastructure investment and operational efficiency in the healthcare institutions, regulatory protections are needed to ensure that profit incentives do not affect the welfare of patients or professional ethics[775]. Private equity investors therefore need to design governance structures in such a way that balances the interests of profit making and the professional regulation standards required.

B. Asset-Light Hospital Systems.

The other notable structuring method in the healthcare investments is the formation of asset-light hospital platforms. Hospital facilities are capital intensive in nature and demand a lot of capital in terms of land purchase, construction, medical equipment and compliance with law. These capital requirements can be of significant importance to the viability of an investment by the investors in the case of private equity investors who seek scalable platforms with appealing returns.

To overcome this difficulty, some of the healthcare firms that are sponsored by private equity take the form of structures where operational management and the real estate are segregated. In these set-ups, the hospital operating company has control over clinical services, patient care, staffing and administration and the underlying hospital real estate is owned by another separate entity. The operating company can be leasing the premises to the real estate holding entity under long-term lease arrangements. This arrangement enables the investors to commit capital on operational expansion and provision of healthcare services instead of committing a considerable amount of capital in real estate assets.

Asset-light structures have several benefits as an investment point. To begin with, they lower the capital intensity of healthcare growth, which enables hospital platforms to grow faster on several locations. Second, by segregating operating assets and real estate, financial flexibility can be improved because real estate assets can be obtained using separate financing facilities or real estate investment vehicles. Third, these structures can also help establish strategic arrangements among the operators of hospitals and healthcare infrastructure investors who focus on healthcare real estate.

Industry studies have observed that asset-light models have been on the rise among the private healthcare providers of emerging

[774] Einer Elhauge, The Fragmentation of U.S. Health Care: Causes and Solutions, 44 Harv. J. on Legis. 1 (2007) (discussing governance tensions between investor oversight and medical autonomy).

[775] David M. Studdert et al., Profit-Driven Health Care and Medical Professionalism, 352 New Eng. J. Med. 151 (2005).

markets since they allow the healthcare operators to build capacity and yet not carry the full risk of owning the real estate[776]. It has been noted that in India, the emergence of large healthcare networks has been followed by a hybrid structure of ownership through lease, joint venture and infrastructure partners. These models enable healthcare platforms that have received the support of private equity to grow their activities keeping the capital spending levels manageable.

C. Diagnostic Chain and Platform Consolidation.

The diagnostics sector has also seen particular investment of the private equity in the healthcare sector. Hospitals have a unique investment prospect compared to diagnostic laboratories since it generally has fewer regulatory and ownership limitations connected with the clinical practice. Although laboratory testing should be done in accordance with the standards of accreditation and quality, in general, diagnostic businesses are service platforms and not clinical treatment facilities. This regulatory landscape has transformed diagnostics to be one of the most appealing sub-sectors to the investment of the private equity.

Consolidation of the diagnostics market through the acquisition of smaller laboratories and collection centers by larger ones has been an active activity among the private equity investors who have established platform companies to consolidate the market under the integrated networks. The diagnostic platforms usually depend on the central laboratory infrastructure with a distributed network of sample collection centers. Platform consolidation strategies also allow diagnostic companies to expand geographically through franchise-based models. Collection centers may be operated by franchise partners who collect samples and transmit them to central laboratories operated by the parent company. This approach enables rapid expansion without requiring full ownership of every testing facility. Scholars analyzing the diagnostics industry have observed that such network-based models significantly enhance scalability while maintaining operational efficiency.[777]

From an investment perspective, diagnostics chains are particularly attractive because they combine relatively predictable demand with scalable operational models. Preventive healthcare awareness, rising health insurance coverage, and increased physician reliance on diagnostic testing have all contributed to the growth of the diagnostics sector in India. Private equity investors have therefore played a major role in consolidating fragmented laboratory markets into organized diagnostic networks.

In summary, structuring private equity investments in healthcare requires navigating a complex combination of regulatory, ethical, and operational considerations. Investors must carefully balance corporate governance rights with professional autonomy in clinical decision-making, design asset-light expansion strategies to manage capital intensity, and leverage scalable platform models in segments such as diagnostics. These structuring approaches demonstrate how private equity investors adapt transaction design and operational models to address the regulatory and institutional characteristics of healthcare markets.

IV. Case studies of PE Investments in Healthcare

The review of key deals in the healthcare sector of India by major investors in the healthcare sector demonstrates that the investors design deals to help them bypass regulatory hurdles and control economically healthcare platforms. The private equity decisions in hospitals and diagnostic chains are usually based on well-planned ownership structures, governance modalities, and exit strategies that align the interests of the investors with the regulatory

[776] World Health Organization, Private Sector Participation in Health Systems (2018)

[777] Bain & Company & Indian Private Equity and Venture Capital Association, India Private Equity Report (2023) (discussing consolidation trends in diagnostics and healthcare services).

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provisions that have been put in place in the foreign investment and healthcare provision. Investment cases of Manipal Hospitals, Narayana Health, and Dr. Lal PathLabs show how the private equity funds negotiate the deal to balance the investor rights, regulatory requirements, and operational scalability.

A. Structuring Private Equity Investment in Manipal Hospitals.

The Manipal Hospitals private equity investment is one of the most important cases of healthcare platform consolidation in India. The hospital system has expanded to become one of the largest privately-owned healthcare groups in the nation by organic growth and acquisition. In 2019, Temasek Holdings and TPG Capital organized a consortium to invest close to 2 billion in the Manipal Hospitals platform.[778]

Structurally speaking, the deal exhibits some of the characteristics of large private equity healthcare investments. First, investment was done as a mix of both the primary capital infusion and purchase of secondary shares, which made it possible to inject cash to the hospital network and partially withdraw old investors. This type of hybrid structure is typical in a private equity transaction in that it reconciles the interests of new investors, current shareholders, and promoters.

Second, the investment took the form of equity involvement in the hospital operating company as opposed to direct ownership of clinical operations. The hospital entities are usually incorporated under the Companies Act, 2013 wherein the share issuance, rights of governance, and shareholders agreement are all provided. Under Indian law, an issuance of equity shares or compulsorily convertible preference shares is conducted as part of the preferential allotment. These instruments offer economic ownership but allow flexibility in the organisation of investor rights.

Third, such investments are normally arranged to grant the governance rights through elaborate shareholders agreement which gives them board representation and reserved matters. The veto rights over major corporate decisions that include capital expenditure, acquisitions, and change of business strategy are often negotiated by investors. Nonetheless, clinical decision-making is still the prerogative of the medical fraternity and hospital management setups. This separation has been informed by the requirement that there should be adherence to the professional regulatory frameworks of the medical practice under the National Medical Commission Act, 2019[779], that places significance on the autonomy of the medical practitioners in the clinical decision-making process.

Lastly, the entry of foreign private equity into Manipal Hospitals had to be in accordance with the requirements of foreign investment in India as stipulated by the Foreign Exchange Management Act of 1999[780] under the automatic route and the Consolidated FDI Policy as administered by the department of promotion of industry and internal trade, albeit had to adhere to pricing and reporting policies that were required by the reserve bank of India.

B. Narayana Health: Minority Investment and Promoter Retention.

Another typical approach to private equity in healthcare, the type of investment structure followed by Narayana Health, is the minority investment with promoter-controlled operations. Narayana Health is a tertiary healthcare akin firm that was established by a cardiac surgeon, Dr. Devi Shetty, and it has a reputation of providing high volume, low cost tertiary healthcare services. The company drew investment of the global private equity firm TPG Capital during its period of growth.[781]

[778] Investment transaction involving Temasek Holdings and TPG Capital in Manipal Hospitals (2019), reported in financial disclosures and industry analyses.

[779] National Medical Commission Act, 2019, No. 30 of 2019

[780] Foreign Exchange Management Act, 1999, No. 42 of 1999; Consolidated FDI Policy issued by the Department for Promotion of Industry and Internal Trade.

[781] Investment participation by TPG Capital in Narayana Health during its expansion phase.

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The venture capital investments in medical organizations founded by entrepreneurs are usually designed to be minority investments, but not acquisitions. This is the way that investors can offer growth capital and keep the expertise and reputation of founding medical professionals who are essential to the credibility and patient trust of the institution. In healthcare corporations, both the clinical leadership and reputation of the founders can have a huge effect on patient trust and brand worth, so total promoter displacement is not an acceptable practice according to business and reputation standpoints.

The minority investment model is usually equipped with a structure of governance rights that ensure the interests of investors without disrupting the daily clinical processes. Such governance rights can be board representation, information rights and veto rights over designated corporate actions including issuance of new securities, major borrowings or acquisition. Simultaneously, the operational control of the hospital management and clinical practice is typically left to the founding promoters and professional management teams.

On regulatory front, minority private equity investments can also ensure that there are no chances of evoking merger control scrutiny under the Competition Act, 2002[782] in the event that the transaction does not lead to, and acquisition of control over, the healthcare Enterprise.6, however, large transactions involving hospital networks in question may still need to be notified to Competition Commission of India in case the asset or turnover thresholds as stipulated under Competition Act are breached. These factors will affect the way investors design the transaction size and ownership share in investing in large healthcare platforms.

C. Platform Structuring in Diagnostics: Dr. Lal PathLabs.

The model of platform consolidation and scalable operational networks is presented in the case of private equity investment in the diagnostics sector. Professional regulatory limitations of diagnostic chains tend to be less as compared to hospitals since laboratory testing does not include the same level of direct clinical decision-making as hospital-based treatment. As a result, there has been a high activity among the private equity investors in consolidating the diagnostic labs into structured platforms.

A good example of an investment strategy based on platforms is Dr. Lal PathLabs. The chain of diagnostics was greatly particularly funded by the private equity companies like WestBridge Capital and WestSpring capital management that assisted in funding the company to become a national network of diagnostics.

Structuring diagnostics businesses, as a rule, are based on hub-and-spoke operation schemes. This model operates with centralized laboratories, which are supported by the state of art diagnostic equipment, to handle samples picked by a network of collection centers that are distributed across the country. Its collection centers can either be owned by the company or franchised. This model allows the diagnostic companies to expand quickly and still have standardized testing procedures and quality control mechanisms.

The expansion by means of acquiring smaller regional laboratories, which is often backed by the private equity investors, consolidates the disorganized diagnostic markets into structured networks. These platform consolidation strategies enable the diagnostic companies to gain economies of scale, decrease the cost of operation and increase geographic coverage.

Private equity investors frequently support expansion through acquisitions of smaller regional laboratories, thereby consolidating fragmented diagnostic markets into organized

[782] Competition Act, 2002, No. 12 of 2003, §§ 5–6; administered by the Competition Commission of India.

networks. Such platform consolidation strategies allow diagnostic companies to achieve economies of scale, reduce operational costs, and expand their geographic reach.

Another important structuring feature in diagnostic investments is the use of capital market exits. Dr. Lal PathLabs eventually completed an initial public offering, allowing private equity investors to partially exit their investment while realizing returns from the company's growth trajectory. Public listings are governed by disclosure and listing regulations issued by the Securities and Exchange Board of India, which regulate capital raising and investor protection in public markets.[8]

Structuring Lessons from Healthcare PE Transactions

These case studies demonstrate that private equity investments in healthcare rely on sophisticated structuring techniques designed to address sector-specific regulatory constraints. Investors must separate economic ownership from clinical authority in hospital platforms, structure minority investments to preserve promoter leadership where necessary, and deploy platform consolidation strategies in segments such as diagnostics where scalability is easier to achieve. These structuring approaches allow private equity funds to deploy capital in healthcare infrastructure while maintaining compliance with regulatory and professional governance frameworks governing the sector.

V. Comparative Analysis and Proposals of Reform.

The above discussion shows that the healthcare sector investment in India by the private equity is in a very complex regulatory ecosystem influenced by corporate law, foreign investment regulation and the professional medical governance. Although the Indian regulatory landscape allows large-scale capital inflow and involvement of the domestic sector in the healthcare infrastructural development, investors have to endure the uneven regulatory regulation and unresolved conflicts between commercial regulation and clinical independence. Comparative approach - especially in the framework of the involvement of the private equity in such a healthcare system as the United States - reveals possible regulatory lapses in the Indian system and provides helpful suggestions of reform.

A. Making the Comparison: U.S. Healthcare System and Private Equity.

The United States offers a good comparative study since private equity investment in the healthcare sector has undergone a thorough examination by the regulators and scholars. In the United States, the regulations of healthcare investments are not controlled by the laws of corporates and securities only, but the sector-related regulations, including the corporate practice of medicine doctrine and federal healthcare fraud laws. Corporate practice of medicine doctrine limits non-physician ownership or control of medical practice in various states in the United States, and administrative and management services are provided to medical practice by management services organizations (MSOs) in which medical practice is controlled by physician-owned entities[783].

This division between economic and clinical control is an indication of an effort in regulation to maintain medical autonomy without permitting the involvement of the private capital in healthcare infrastructure. Moreover, U.S. healthcare investments are also under regulatory control under the Federal statutes of the Stark Law and the Anti-Kickback Statute, which aim to avoid the development of incentives that encourage excessive use of healthcare services or undermine patient welfare because of profit-oriented structure of investments.[784]

India has no explicit statutory doctrine analogous to the corporate practice of medicine restriction in force in a number of

[783] Mark A. Hall, Institutional Control of Physician Behavior, 137 U. Pa. L. Rev. 431 (1988).
[784] Stark Law, 42 U.S.C. § 1395nn; Anti-Kickback Statute, 42 U.S.C. § 1320a-7b(b).

jurisdictions in the U.S., however, similar issues are suggested by professional regulation of medical professionals pursuant to the National Medical Commission Act, 2019[785] and the professional ethics codes governing medical practitioners. Accordingly, the private equity investors can exercise high levels of corporate governance in the hospital based companies as clinical decision making continues to rest in the mandate of licensed medical practitioners formally.

The difference underlines a significant structural aspect of the Indian regulatory regime in that foreign direct investment in healthcare services may be generally made under the automatic route under the Consolidated Foreign Direct Investment Policy [786]under management of the Department for Promotion of Industry and Internal Trade, however, the regulatory regime lacks detailed statutory guidance as to the extent to which investor control can be exercised over the governance of health care. As it was shown in the preceding sections of this paper, thus to provide a balance between the investor control and the clinical autonomy, the regulatory system fleetly depends on the contractual mechanisms of

B. Reform Proposals: Governance Protection and Regulatory Transparency.

Since the role of the private equity capital in the development of the healthcare infrastructure is growing, a number of reforms can strengthen the regulatory framework of the healthcare investment without eliminating the advantages of the involvement of the capital of a private capital. The two areas are especially important: the governance safeguards covering clinical autonomy and more regulatory clarity in healthcare investment structures.

To enhance this, first, the governance safeguards must be reinforced in a manner that implies that corporate ownership structure entails not impair the professional autonomy of medical practitioners. Although Indian law acknowledges the notion of autonomy among professionals based on the ethical provisions imposed by the National medical commission, explicit institutional governance systems would improve the regulation. As an illustration, hospitals with large institutional funding may be obliged to have the independent clinical governing committees to monitor medical procedures and standards of care. These would assist in making sure that financial interests would not affect the clinical decisions and would give the investors the check on the non-clinical operating issues.

Second, clarity in regulatory requirements on structures of investments in the healthcare sector would lower the level of uncertainty among investors, not to mention enhanced regulatory compliance. Currently, the structure of private equity deals in healthcare would have to balance between various regulatory frameworks such as company laws in the Companies Act, 2013, foreign investment regulations in the Foreign Exchange Management Act, 1999, and specific industry rules and regulations[787]. The provision of institutional investment in the field of healthcare by issuing sector-specific instructions on how to invest in the sector such as regulatory instructions given to other infrastructure sectors would offer more assurance of the governance rights, investment structure and compliance needs.

In addition, the policymakers are expected to encourage the transparency in the ownership systems of health care. With the widespread involvement of private equity investors in hospitals and diagnostics networks, the disclosure of ownership relations and governance networks may enhance transparency and confidence of people in medical organizations. Increased transparency would also help the regulators to keep track of

[785] National Medical Commission Act, 2019, No. 30 of 2019.
[786] Consolidated Foreign Direct Investment Policy issued by the Department for Promotion of Industry and Internal Trade.
[787] Companies Act, 2013, No. 18 of 2013; Foreign Exchange Management Act, 1999, No. 42 of 1999.

whether the investment structures are operating within ethical and professional standards to healthcare delivery.

To sum it up, the role of the private equity investment in the infrastructure growth of healthcare institutions and enhancing the efficiency of healthcare operations in the Indian market have become even more significant. Nevertheless, the regulatory environment of healthcare investment has to change to accommodate the increasing overlap of financial capital and the provision of medical services. The one that is a mix of governance protections to safeguard the autonomy of the medical profession and better regulation of the healthcare investment framework would serve as a way of balancing the advantages of including the contribution of the private capital and the ethical demands of the healthcare provision process

VI. CONCLUSION

Over the last 10 years, the healthcare industry in India has witnessed a revolution that has been brought about by the use of the private equity. As it has been mentioned in the course of this paper, institutional capital has had a vital impact on funding hospital growth, diagnostic network consolidation, and aiding the creation of scalable healthcare platforms. In a country whereby the infrastructure of the public healthcare is still not developed compared to the needs of the individual population, the capital of the privates has assisted in filling big gaps in investment in medical infrastructures or in the technology and service provision. The increasing role of the presence of the private equity investors in the hospital chains, diagnostic labs, and other digital healthcare services are the indicators of high demand nature of the sector, predictability of service usage, and prospects of the sector in the long-term.

The investigation in this paper, however, reveals that investment in healthcare by the private equity is subject to a distinctively complicated regulatory setup. In contrast to the majority of industries that are regulated primarily by corporate and financial standards, the investments in the healthcare sphere have to be organized within a multi-layered scheme that involves the corporate governance regulation standards of the Companies Act, 2013, the foreign investment regulations of the Foreign Exchange Management Act, 1999, and the professional regulation of the sphere of the National Medical Commission Act, 2019. Moreover, huge deals can be subject to the Competition Commission of India which is under the Competition Act, 2002 of merger control. The combination of these regulatory regimes poses serious structuring problems on investors who are interested in deploying capital in healthcare businesses.

The investors in the private equity sector have addressed the constraints by assuming complex transaction structures as evidenced in the previous parts of this paper. To achieve medical autonomy and still keep investors in check with board representation and contractual management rights, investors tend to separate economic ownership and clinical control. Other typical mechanisms that investors use to control capital intensity and regulatory risk have also surfaced to include asset-light operational structures, minority investment models, and platform consolidation strategies. Major healthcare investments Case studies Case studies indicate that these structuring methods enable the involvement of the private equity funds in the development of the healthcare infrastructure without violating the professional and regulatory frameworks of medical practice.

Meanwhile, there are significant policy concerns associated with the growing presence of the private capital in the provision of healthcare, specifically in terms of governance, accountability, and the maintenance of the professional ethics of the medical field. Healthcare is not a typical commercial sector since it will impact directly on patient welfare and health outcomes to the population. As the privatization of hospitals and diagnostic

platforms thrives through the growth of the ownership of these organizations by private equity firms, regulators ought to make sure that financial motivations do not jeopardize the autonomy of clinical decision-making and the ethical duty of medical practice. The above comparative analysis with the United States shows that jurisdictions where the amount of capital invested by the privates is high in healthcare tend to have more distinct regulatory provisions aimed at separating the control of investors and medical decisions.

In this regard, the regulatory framework in India could use more clarity on the governance structures that can be used in healthcare investment transaction. Although the existing framework allows extensive private investment through the Consolidated FDI Policy that falls under the Department of Promotion of Industry and Internal Trade, a very little sector-specific guidance is provided on the issue of investor governance rights and clinical autonomy. This can be achieved by introducing explicit governance standards with regard to regulation, disclosure in ownership of healthcare facilities and institutional control system which would increase the public confidence in healthcare facilities and ensure an appealing investment climate.

The dilemma that faces policymakers is to create a proper balance between inviting the involvement of the private capital and protecting the ethical principles of healthcare delivery. The Indian healthcare system can benefit greatly in terms of healthcare infrastructure, operational efficiency and technological innovation with the help of the private equity investment. Nevertheless, these trends in investments should be accompanied by changes in the regulatory framework in order to make sure that the healthcare institutions are controlled by patient welfare, professional independence, and public accountability.

With the healthcare sector in India growing steadily in reaction to the increasing demand and demographic trends, the role of the private equity investment as a fundamental source of institutional growth and consolidation is also likely to be in high demand. An authoritative strategy involving both facilitation of investment and an effective governance protection can provide that the private profits are used constructively to produce a modern, accessible, and ethically-based service delivery system in health care.