THE ROLE OF FINANCIAL RATIOS IN PREDICTING LONG-TERM VIABILITY OF PRIVATE HEALTHCARE INSTITUTIONS IN INDIA

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ABSTRACT

The financial stability and long-term viability of private healthcare institutions have become essential for preserving quality treatment and increasing access in India's quickly developing healthcare industry. The predictive significance of financial parameters in evaluating the long-term sustainability of private healthcare facilities in India is investigated in this study. To find out how well they forecast financial sustainability over a five-year period, key financial parameters such as profitability, liquidity, solvency, and efficiency ratios are examined. The study uses trend analysis and ratio analysis to assess the effects of these measures on institutional sustainability and resilience using data from a sample of private hospitals. The results show that while efficiency ratios show operational strengths and shortcomings, profitability and solvency ratios are important markers of long-term stability. The recommendations in this paper's conclusion help private healthcare administrators make strategic decisions that improve fiscal health by optimizing financial performance through targeted ratio management. This study adds to the body of knowledge on healthcare finance by providing a framework that allows stakeholders to forecast financial viability and rank the actions that are most important for long-term growth.

Keywords: Private Healthcare Institutions, Sustainability in Healthcare, India Healthcare Sector, Healthcare Finance, Financial Ratios.

1. INTRODUCTION

In India's quickly growing healthcare industry, private healthcare facilities are essential to providing high-quality treatment and increasing access to healthcare services. For these institutions, preserving long-term survival and financial stability is still a major problem, particularly in light of shifting market dynamics and competitive pressures. A healthcare facility's financial health may be assessed using financial ratios, which provide important information on operational efficiency, liquidity, profitability, and solvency. The long-term viability of private healthcare providers can be better understood by stakeholders by methodically looking at these financial factors. The predictive accuracy of important financial parameters in evaluating the long-term financial sustainability of private healthcare facilities in India is examined in this study. In order to ascertain how well these ratios predict financial sustainability, it uses trend and ratio analysis to data from a sample of private hospitals over a five-year period. In order to give private healthcare executives useful information for strategic decision-making, this study attempts to determine which ratios are most important in promoting resilience and financial health. Healthcare organizations may strengthen their financial position and ensure that they are robust and able to satisfy the healthcare demands of a changing population by optimizing performance through targeted ratio management.

Research Objectives:

- To evaluate the financial performance for specific period.
- To examine the liquidity position of the company.
- To examine the profitability position of the company.
- To carryout financial statement analysis with reference to selected ratios.
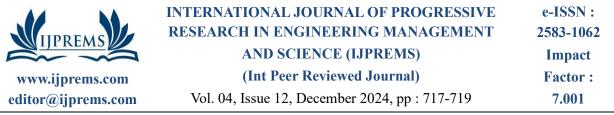
2. REVIEW OF LITERATURE

Methodology:

This study is quantitative nature meaning it primarily deals with financial statement for the past three years. This study is based on secondary data which is taken from website and the annual reports. The data is analysed by the ratio analysis and the performance of the company is clearly explained for the study period.

Primary:

A primary source is an original material created at the time of a historical event or shortly after. These include original documents, creative works, government documents, and artifacts. Historians use primary sources, such as diaries, letters, memoirs, speeches, interviews, and unpublished works, to interpret and analyse past events. Published sources like

newspaper articles, photographs, recordings, research reports, and literary works also serve as primary sources, offering firsthand accounts and direct insights into historical events.

Secondary:

Secondary sources are created by individuals who did not directly experience or participate in the events being studied. They analyse and interpret primary sources, often including pictures, quotes, or graphics from these originals. Secondary sources are a step removed from the event, providing interpretation, analysis, and conclusions about primary sources. Examples include textbooks, edited works, interpretive books and articles, histories, biographies, literary criticism, legal reviews, political analyses, and commentaries.

Industry overview:

The Indian healthcare industry is undergoing a period of rapid growth, driven by a confluence of factors. Rising healthcare costs have led to a growing demand for affordable healthcare delivery systems, while technological advancements such as telemedicine, rapid health insurance penetration, and government initiatives like e-health have transformed the industry. Government initiatives like tax benefits and incentives for the healthcare sector have also played a significant role in driving growth. The growing population and increasing awareness of health issues have further fuelled demand for healthcare services.

Key segments within the Indian healthcare industry include hospitals, health insurance, and pharmaceuticals. The hospital market has witnessed substantial growth, driven by factors such as rising disposable incomes, increasing urbanization, and the growing number of private hospitals. According to IBEF, the Indian hospital market was valued at US$ 98.98 billion in 2023 and is projected to grow at a CAGR of 8.0% until 2032. Health insurance premiums have also seen a significant increase, reflecting a growing preference for health insurance coverage. Health insurance premiums underwritten by health insurance companies grew to Rs. 2,63,082 crore (US$ 31.84 billion) in FY24. The pharmaceutical industry in India is also experiencing robust growth, driven by factors such as increasing R&D investments, rising exports, and the growing generic drug market.

3. PROJECT DETAILS

1) Current Ratio: The **current ratio** is a financial metric used to evaluate a company's ability to meet its short-term obligations with its short-term assets. It's calculated by dividing current assets by current liabilities.

Ideal current ratio in healthcare industry is 1.2 to 2

2) Debt to Equity: The **Debt-to-Equity Ratio** is a financial ratio that indicates the relative proportion of a company's debt to its shareholders' equity. It is calculated by dividing total liabilities by shareholders' equity.

Ideal debt to equity ratio is between 0.3 and 0.8

3) Fixed Asset to Net Worth Ratio: The **Fixed Asset to Net Worth Ratio** measures the proportion of a company's net worth that is invested in fixed assets, such as property, plant, and equipment. It is calculated by dividing fixed assets by shareholders' equity (net worth).

Ideal fixed asset to net worth ratio is 0.50 or lower

4) Capital Gearing Ratio: The **Capital Gearing Ratio** (or simply **gearing ratio**) measures the extent to which a company's capital structure is financed through debt compared to equity. It highlights the level of financial leverage.

Ideal capital gearing ratio is between 25% and 50%

5) Solvency Ratio: The **Solvency Ratio** measures a company's ability to meet its long-term obligations and sustain operations over time. It evaluates the proportion of a company's total assets that are financed by debt.

Ideal solvency ratio is 1.5

Challenges:

Data Reliability and Availability: Private healthcare organizations may not publicly share detailed financial information, limiting access to consistent and reliable data. Differences in accounting practices among institutions can also affect the accuracy and comparability of the data.

Financial Metrics by Sector: Standard financial ratios may not fully capture the unique characteristics of the healthcare sector, like regulations, specific cost structures, or patient care responsibilities. Adjusting these ratios to reflect these factors can be challenging.

Impact of External Factors: External factors like government policies, changing laws, economic downturns, and shifts in healthcare demand can heavily impact healthcare facilities. These variables can limit the ability of financial ratios to reliably predict long-term sustainability.

4. CONCLUSION

The purpose of this study was to uncover important indicators of financial stability and sustainability by analysing the function of financial ratios in forecasting the long-term survival of private healthcare organizations in India. According to the findings, liquidity ratios provide information on short-term stability, whereas profitability, solvency, and efficiency ratios are important for evaluating long-term health. The difficulty of using traditional financial analysis in the healthcare industry is highlighted by issues such the scarcity of data, sector-specific financial requirements, and the impact of outside variables.

The report emphasizes how private healthcare organizations must take a balanced approach, incorporating both non-financial and financial considerations into strategic choices. Healthcare administrators may enhance their institutions' resilience and financial health by keeping an eye on important financial ratios and taking outside factors into account. This will eventually help their institutions provide high-quality treatment in a sustainable manner. Overall, this study offers a fundamental paradigm for healthcare financial evaluation, adding insightful information to the literature on healthcare finance and providing useful advice to stakeholders looking to improve the long-term sustainability of Indian healthcare institutions.

5. REFERENCE

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