

# Max Healthcare

Estimate change



TP change



Rating change



**CMP: INR523**

**TP: INR600 (+15%)**

**Buy**

## Robust FY23; good progress in all operational aspects

### Efforts underway to add beds/enhance realization per operating bed

- Max Healthcare (MAXHEALTH) delivered a marginally better-than-expected operational performance in 4QFY23, aided by a steady improvement in average realization per operating bed (ARPOB) and an increased number of patients treated. Growth prospects remain robust on the back of price hikes, optimization of payor mix/case mix, and bed additions. Further, surplus cash provides scope for inorganic growth opportunities.
- We raise our earnings estimates by 6.5%/6% for FY24/FY25, factoring in 1) a tariff increase for patients from PSUs, 2) a faster ramp-up in occupancy for recently added beds at Shalimar Bagh, 3) ongoing cost management, and 4) scale-up in the non-captive pathology business. We value MAXHEALTH at INR600, based on SOTP (23x EV/EBITDA on 12M forward basis for hospital business, 17x EV/EBITDA for Max Lab, 2x EV/sales for Max @ Home).
- We remain positive on MAXHEALTH on the back of 1) significant land bank available in high demand areas of Delhi for brownfield expansion, 2) focused approach to improve profitability per bed, and 3) proven capability of a strong turnaround of hospital assets. **Reiterate BUY.**

### EBITDA per bed touches new high; good scope for further improvement

- For 4QFY23, Max network revenues (including trust business) grew 27% YoY to INR15.5b (est. INR14.6b).
- EBITDA margin was flat YoY at 28% (in line).
- Accordingly, EBITDA grew 28% YoY to INR4.3b (est. INR4b).
- Adjusted PAT grew 54% YoY to INR3.2b (est. INR2.9b), aided by a strong operational performance and interest income (v/s interest expense in 4QFY22).
- EBITDA per bed (annualized) stood at INR7m (+26% YoY and +5% QoQ).
- FY23 revenue/EBITDA/PAT rose 14%/20%/55% to INR59b/INR16b/INR13.7b.

### Highlights from the management commentary

- MAXHEALTH plans a capex of INR9b for bed capacity expansion and INR1.7b as maintenance capex for FY24. Total capex stood at INR4.2b in FY23.
- In addition to 92 beds added at Shalimar Bagh, there is scope to add 100 beds at various sites in FY24.
- It expects ARPOB to be on an uptrend on the back of a tariff increase for PSUs, payor mix/case mix optimization and an annual price hike.
- MAXHEALTH has ordered medical equipment for a 300-bed hospital at Dwarka, which is expected to be commissioned by 2QFY24.
- The 329-bed expansion at Nanavati Hospital is in progress and is expected to be commissioned by FY25-end.

Bloomberg	MAXHEALTH IN
Equity Shares (m)	970
M.Cap.(INRb)/(USDb)	508.2 / 6.2
52-Week Range (INR)	528 / 306
1, 6, 12 Rel. Per (%)	8/26/30
12M Avg Val (INR M)	1265

#### Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	58.8	70.3	78.8
EBITDA	16.1	19.7	22.5
Adj. PAT	13.7	14.3	16.6
EBIT Margin (%)	22.9	24.0	24.7
Cons. Adj. EPS (INR)	14.1	14.8	17.1
EPS Gr. (%)	55.3	4.6	15.9
BV/Sh. (INR)	83.2	98.0	115.1

#### Ratios

Net D:E	(0.0)	(0.2)	(0.2)
RoE (%)	18.5	16.3	16.1
RoCE (%)	16.6	14.4	14.7
Payout (%)	0.0	0.0	0.0

#### Valuations

P/E (x)	37.1	35.4	30.6
EV/EBITDA (x)	31.4	24.9	21.3
Div. Yield (%)	8.6	7.0	6.1
FCF Yield (%)	2.2	2.6	2.0
EV/Sales (x)	8.6	7.0	6.1

#### Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	23.8	23.8	50.6
DII	19.4	20.5	17.6
FII	52.0	50.1	14.6
Others	4.9	5.6	17.2

FII Includes depository receipts

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE		
<b>Gross Sales</b>	<b>13,172</b>	<b>13,433</b>	<b>12,902</b>	<b>12,203</b>	<b>13,903</b>	<b>14,717</b>	<b>14,640</b>	<b>15,490</b>	<b>51,710</b>	<b>58,750</b>	<b>14,598</b>	<b>6.1</b>
YoY Change (%)					5.5	9.6	13.5	26.9		13.6	19.6	
Total Expenditure	9,860	10,023	9,573	8,814	10,228	10,712	10,590	11,150	38,270	42,680	10,475	
<b>EBITDA</b>	<b>3,312</b>	<b>3,411</b>	<b>3,328</b>	<b>3,389</b>	<b>3,675</b>	<b>4,005</b>	<b>4,050</b>	<b>4,340</b>	<b>13,440</b>	<b>16,070</b>	<b>4,123</b>	<b>5.3</b>
Margins (%)	25.1	25.4	25.8	27.8	26.4	27.2	27.7	28.0	26.0	27.4	28.2	
Depreciation	586	619	612	634	650	630	630	690	2,480	2,600	709	
Interest	487	489	441	452	200	140	70	-20	1,120	390	158	
Other Income	270	253	506	227	30	100	130	30	470	290	180	
<b>PBT before EO expense</b>	<b>2,509</b>	<b>2,556</b>	<b>2,781</b>	<b>2,531</b>	<b>2,855</b>	<b>3,335</b>	<b>3,480</b>	<b>3,700</b>	<b>10,310</b>	<b>13,370</b>	<b>3,436</b>	
Extra-Ord expense	0	79	11	410	110	120	180	-20	500	390	0	
<b>PBT</b>	<b>2,509</b>	<b>2,476</b>	<b>2,770</b>	<b>2,121</b>	<b>2,745</b>	<b>3,215</b>	<b>3,300</b>	<b>3,720</b>	<b>9,810</b>	<b>12,980</b>	<b>3,436</b>	
Tax	449	390	253	327	456	-1,896	610	530	1,430	-300	576	
Rate (%)	17.9	15.7	9.1	15.4	16.6	-59.0	18.5	14.2	14.6	-2.3	16.8	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
<b>Reported PAT</b>	<b>2,059</b>	<b>2,087</b>	<b>2,518</b>	<b>1,717</b>	<b>2,289</b>	<b>5,111</b>	<b>2,690</b>	<b>3,190</b>	<b>8,380</b>	<b>13,280</b>	<b>2,860</b>	
<b>Adj PAT</b>	<b>2,059</b>	<b>2,153</b>	<b>2,527</b>	<b>2,067</b>	<b>2,381</b>	<b>2,835</b>	<b>2,837</b>	<b>3,173</b>	<b>8,807</b>	<b>13,679</b>	<b>2,860</b>	<b>10.9</b>
YoY Change (%)					15.6	31.6	12.2	53.5	274.9	55.3	38.4	
Margins (%)	15.6	16.0	19.6	16.9	17.1	19.3	19.4	20.5	17.0	23.3	19.6	

E: MOFSL Estimates

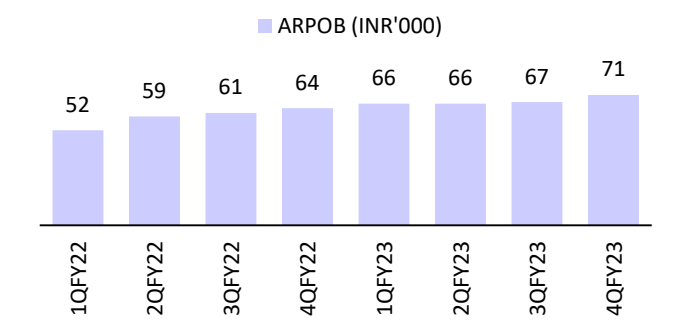
\*Network financials from 1QFY22



Conference call highlights

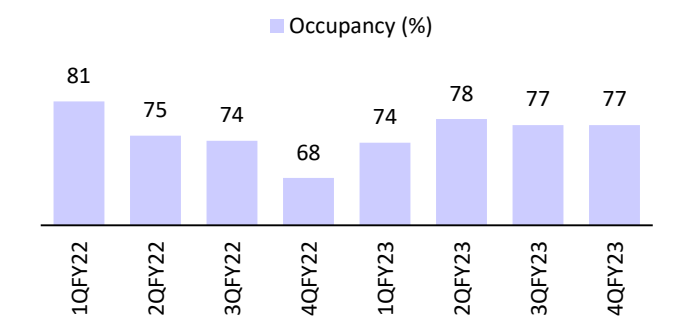
- The Vikrant site project is on a fast track and all regulatory approvals are expected in the next 6-8 weeks.
- It had INR7.3b in net cash at the end of FY23.
- International patients accounted for 9% of total revenue in FY23. The flow of international patients is robust in Delhi and MAXHEALTH is well placed to cater to this flow.
- MAXHEALTH hospitals with the highest ROCE are in Mohali and Dehradun.

Exhibit 1: ARPOB continues to strengthen YoY/QoQ



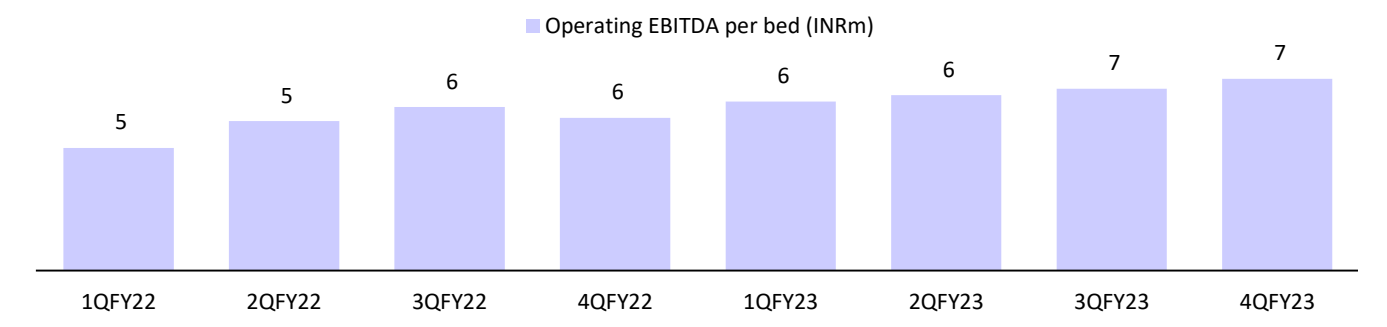
Source: MOFSL, Company

Exhibit 2: Occupancy stable sequentially in 4QFY23



Source: MOFSL, Company

Exhibit 3: Operating EBITDA per bed remains on uptrend



Source: MOFSL, Company

## Robust growth outlook over next 3-5 years

### ARPOB: enough scope to strengthen from current levels

- In FY23, MAXHEALT delivered ARPOB of INR67.4k (+15% YoY) thanks to case mix and payor mix optimization.
- Revenue from the insurance segment grew 22% YoY, with its share increasing to 38% in FY23 from 37% in FY22. Moreover, the revenue share of the international segment increased to 8.5% in FY23 from 5.5% in FY22.
- Further, the recent price hikes for patients under the PSU segment and an annual price hike supported by strong demand in Delhi-NCR region would aid further growth in ARPOB over the medium term.
- We expect an 8% CAGR in ARPOB to INR79k over FY23-25.

### Aggressive bed expansion plan to meet rising demand

- In Mar'23, MAXHEALT commissioned a 92-bed Oncology Block at Max Shalimar Bagh, which became profitable in the first month of launch, with EBITDA margin of 35%+ on incremental revenue due to operating leverage.
- MAXHEALT is aggressively expanding, with 300 beds to be added in FY24 in the Dwarka facility. Moreover, in FY25, it plans to add another 1,169 beds, with 300/350/190/329 beds in Gurugram/Saket Smart/Mohali/Nanavati.
- Thus, on the back of better ARPOB and bed addition, we expect the hospital segment's sales to reach INR82b at a 16% CAGR over FY23-25.

### Diagnostics business to grow significantly

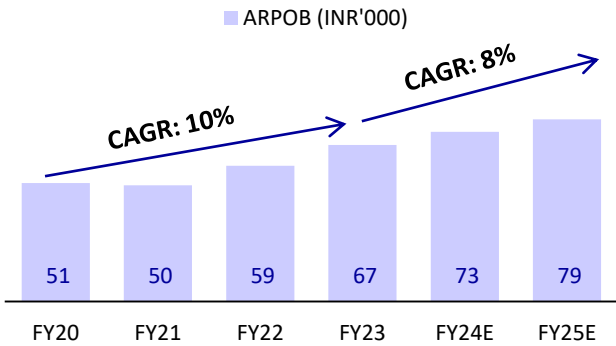
- MaxLab revenue grew 9% YoY to INR1.1b in FY23, largely led by an increase in footfalls. At FY23-end, there were nearly 400 partner-run collection centers and 23 company-owned collection centers.
- We expect MaxLab revenue to reach INR1.6b at a 20% CAGR over FY23-25.
- Moreover, Max@Home revenue grew 25% YoY in FY23, led by critical care, Physio & rehab, medicine delivery and new offerings. We expect a 16% revenue CAGR in this segment over FY23-25.

### Reiterate BUY

- We raise our earnings estimates by 6.5%/6% for FY24/FY25, factoring in 1) a tariff increase for patients from PSUs, 2) a faster ramp-up in occupancy for recently added beds at Shalimar Bagh, 3) ongoing cost management, and 4) scale-up in the non-captive pathology business. We value MAXHEALTH at INR600, based on SOTP (23x EV/EBITDA on 12M forward basis for hospital business, 17x EV/EBITDA for Max Lab business, 2x EV/sales for Max @ Home business).
- We remain positive on MAXHEALTH on the back of 1) significant land bank available in high demand areas of Delhi for brownfield expansion, 2) focused approach to improve profitability per bed, and 3) proven capability of a strong turnaround of hospital assets. **Reiterate BUY.**

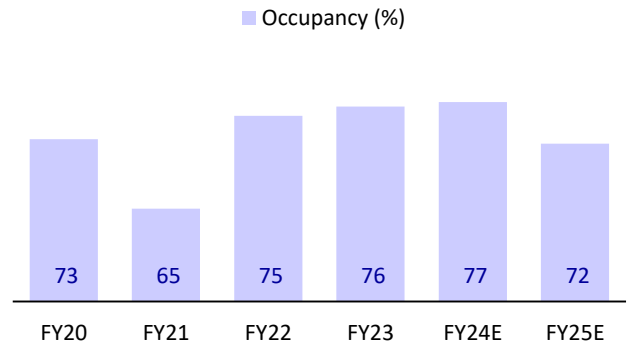
Story in charts

Exhibit 4: Expect 8% CAGR in ARPOB over FY23-25



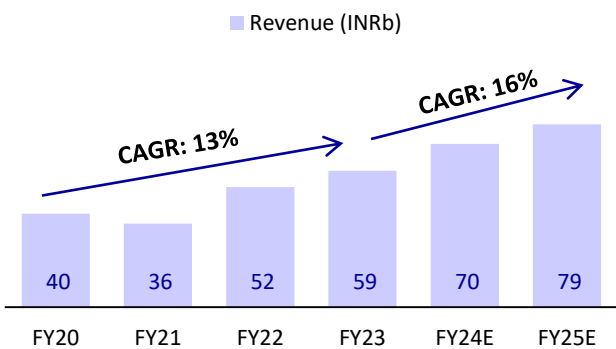
Source: MOFSL, Company

Exhibit 5: Expect occupancy to decline due to bed additions in FY25



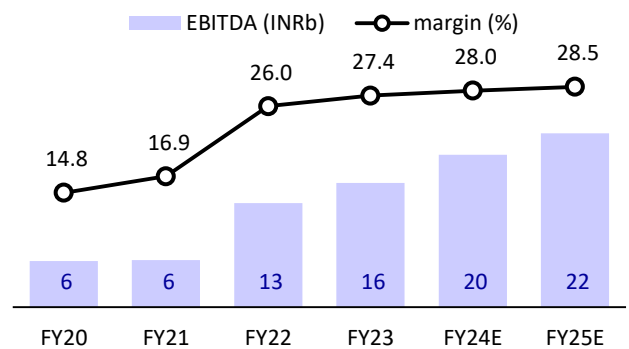
Source: MOFSL, Company

Exhibit 6: Network revenue to see 16% CAGR over FY23-25



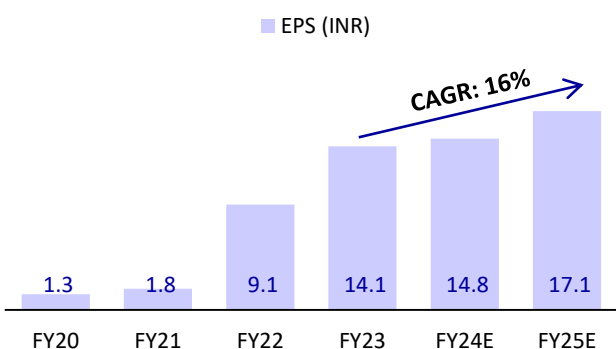
Source: MOFSL, Company

Exhibit 7: Expect EBITDA margin to expand ~110bp to 28.5% over FY23-25



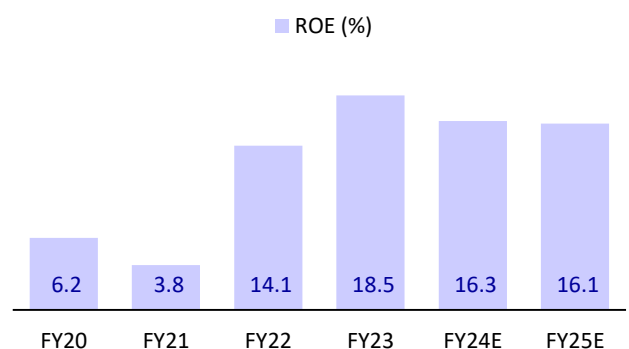
Source: MOFSL, Company

Exhibit 8: EPS to clock 16% CAGR over FY23-25



Source: MOFSL, Company

Exhibit 9: Expect ROE to stabilize at ~16% over FY23-25



Source: MOFSL, Company

## Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>35,918</b>	<b>40,264</b>	<b>36,010</b>	<b>51,710</b>	<b>58,750</b>	<b>70,325</b>	<b>78,841</b>
Change (%)	NA	12.1	-10.6	43.6	13.6	19.7	12.1
<b>Total Expenditure</b>	<b>32,507</b>	<b>34,310</b>	<b>29,920</b>	<b>38,270</b>	<b>42,680</b>	<b>50,634</b>	<b>56,372</b>
% of Sales	90.5	85.2	83.1	74.0	72.6	72.0	71.5
<b>EBITDA</b>	<b>3,412</b>	<b>5,954</b>	<b>6,090</b>	<b>13,440</b>	<b>16,070</b>	<b>19,691</b>	<b>22,470</b>
Margin (%)	9.5	14.8	16.9	26.0	27.4	28.0	28.5
Depreciation	1,856	2,087	2,160	2,480	2,600	2,785	2,964
<b>EBIT</b>	<b>1,556</b>	<b>3,866</b>	<b>3,930</b>	<b>10,960</b>	<b>13,470</b>	<b>16,906</b>	<b>19,506</b>
Int. and Finance Charges	1,788	3,135	1,870	1,120	390	12	20
Other Income	210	1,013	280	470	290	347	552
<b>PBT bef. EO Exp.</b>	<b>-23</b>	<b>1,743</b>	<b>2,340</b>	<b>10,310</b>	<b>13,370</b>	<b>17,241</b>	<b>20,038</b>
EO Items	-410	-520	-2,790	-500	-390	0	0
<b>PBT after EO Exp.</b>	<b>-433</b>	<b>1,223</b>	<b>-450</b>	<b>9,810</b>	<b>12,980</b>	<b>17,241</b>	<b>20,038</b>
Total Tax	183	-32	500	1,430	-300	2,931	3,447
Tax Rate (%)	-42.3	-2.6	-111.1	14.6	-2.3	17.0	17.2
Minority Interest	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>-615</b>	<b>1,256</b>	<b>-950</b>	<b>8,380</b>	<b>13,280</b>	<b>14,310</b>	<b>16,592</b>
<b>Adjusted PAT</b>	<b>-17</b>	<b>1,308</b>	<b>1,755</b>	<b>8,807</b>	<b>13,679</b>	<b>14,310</b>	<b>16,592</b>
Change (%)	NA	NA	34.2	401.8	55.3	4.6	15.9
Margin (%)	0.0	3.2	4.9	17.0	23.3	20.3	21.0

Consolidated - Balance Sheet							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	7,000	9,045	9,660	9,696	9,696	9,696	9,696
Total Reserves	1,339	24,815	47,721	57,484	71,004	85,314	101,906
<b>Net Worth</b>	<b>8,339</b>	<b>33,860</b>	<b>57,380</b>	<b>67,180</b>	<b>80,700</b>	<b>95,010</b>	<b>111,602</b>
Minority Interest	0	0	0	0	0	0	0
Total Loans	12,664	19,270	11,280	9,180	12,760	10,760	8,760
Deferred Tax Liabilities	179	20	1,580	1,850	-500	-500	-500
<b>Capital Employed</b>	<b>21,182</b>	<b>53,150</b>	<b>70,240</b>	<b>78,210</b>	<b>92,960</b>	<b>105,270</b>	<b>119,862</b>
Gross Block	24,756	25,767	29,900	37,100	39,210	43,885	52,510
Less: Accum. Deprn.	2,000	2,087	2,160	2,480	2,600	5,385	8,349
<b>Net Fixed Assets</b>	<b>22,756</b>	<b>23,680</b>	<b>27,740</b>	<b>34,620</b>	<b>36,610</b>	<b>38,500</b>	<b>44,161</b>
Goodwill on Consolidation	3,508	7,680	37,730	37,730	37,730	37,730	37,730
Intangibles	4,105	2,515	6,580	6,880	6,810	6,810	6,810
Capital WIP	0	0	0	0	0	4,675	5,820
<b>Total Investments</b>	<b>22</b>	<b>21,380</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,553</b>	<b>8,625</b>	<b>17,779</b>	<b>17,192</b>	<b>32,505</b>	<b>42,122</b>	<b>52,827</b>
Inventory	430	940	740	830	1,040	1,098	1,223
Account Receivables	2,818	3,245	3,157	4,533	4,340	6,165	6,912
Cash and Bank Balance	194	4,110	6,660	6,150	15,650	27,136	36,034
Loans and Advances	111	330	7,222	5,679	11,475	7,723	8,658
<b>Curr. Liability &amp; Prov.</b>	<b>12,762</b>	<b>10,730</b>	<b>19,609</b>	<b>18,233</b>	<b>20,715</b>	<b>24,587</b>	<b>27,506</b>
Account Payables	4,746	4,664	3,946	5,667	6,438	7,498	8,347
Other Current Liabilities	7,585	5,487	7,574	8,369	9,508	11,382	12,760
Provisions	431	579	8,089	4,197	4,768	5,708	6,399
<b>Net Current Assets</b>	<b>-9,209</b>	<b>-2,105</b>	<b>-1,830</b>	<b>-1,040</b>	<b>11,790</b>	<b>17,535</b>	<b>25,321</b>
<b>Appl. of Funds</b>	<b>21,182</b>	<b>53,150</b>	<b>70,240</b>	<b>78,210</b>	<b>92,960</b>	<b>105,270</b>	<b>119,862</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>0.0</b>	<b>1.3</b>	<b>1.8</b>	<b>9.1</b>	<b>14.1</b>	<b>14.8</b>	<b>17.1</b>
Cash EPS	1.9	3.5	4.0	11.6	16.8	17.6	20.2
BV/Share	8.6	34.9	59.2	69.3	83.2	98.0	115.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>							
P/E	NA	387.7	288.9	57.6	37.1	35.4	30.6
Cash P/E	275.7	149.3	129.5	44.9	31.1	29.7	25.9
P/BV	60.8	15.0	8.8	7.5	6.3	5.3	4.5
EV/Sales	8.2	8.0	12.7	9.9	8.6	7.0	6.1
EV/EBITDA	86.0	53.9	74.9	37.9	31.4	24.9	21.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	0.0	4.9	4.7	4.4	11.7	13.6	10.7
<b>Return Ratios (%)</b>							
RoE	-0.2	6.2	3.8	14.1	18.5	16.3	16.1
RoCE	23.9	13.5	14.6	13.5	16.6	14.4	14.7
RoIC	21.1	16.3	18.2	13.8	18.5	18.6	21.3
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.5	1.6	1.2	1.4	1.5	1.6	1.5
Asset Turnover (x)	1.7	0.8	0.5	0.7	0.6	0.7	0.7
Inventory (Days)	4	9	8	6	6	6	6
Debtor (Days)	29	29	32	32	27	32	32
Creditor (Days)	48	42	40	40	40	39	39
<b>Leverage Ratio (x)</b>							
Current Ratio	0.3	0.8	0.9	0.9	1.6	1.7	1.9
Interest Cover Ratio	0.9	1.2	2.1	9.8	34.5	1,437.6	999.3
Net Debt/Equity	1.5	-0.2	0.1	0.0	0.0	-0.2	-0.2

### Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>(INR m)</b>						
OP/(Loss) before Tax	1,743	2,340	10,310	13,370	17,241	20,038
Depreciation	2,087	2,160	2,480	2,600	2,785	2,964
Interest & Finance Charges	3,135	1,870	1,120	390	-335	-532
Direct Taxes Paid	32	-500	-1,430	300	-2,931	-3,447
(Inc)/Dec in WC	-3,188	2,275	-1,300	-3,330	5,740	1,113
<b>CF from Operations</b>	<b>3,811</b>	<b>8,145</b>	<b>11,180</b>	<b>13,330</b>	<b>22,500</b>	<b>20,136</b>
Others	0	0	0	0	0	0
<b>CF from Operating incl EO</b>	<b>3,811</b>	<b>8,145</b>	<b>11,180</b>	<b>13,330</b>	<b>22,500</b>	<b>20,136</b>
(Inc)/Dec in FA	-924	-4,060	-6,880	-1,990	-9,350	-9,770
<b>Free Cash Flow</b>	<b>2,887</b>	<b>4,085</b>	<b>4,300</b>	<b>11,340</b>	<b>13,150</b>	<b>10,366</b>
(Pur)/Sale of Investments	-21,358	21,360	0	0	0	0
Others	1,013	280	470	290	347	552
<b>CF from Investments</b>	<b>-21,269</b>	<b>17,580</b>	<b>-6,410</b>	<b>-1,700</b>	<b>-9,003</b>	<b>-9,218</b>
Issue of Shares	2,045	615	37	0	0	0
Inc/(Dec) in Debt	6,606	-7,990	-2,100	3,580	-2,000	-2,000
Interest Paid	-3,135	-1,870	-1,120	-390	-12	-20
Dividend Paid	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>5,516</b>	<b>-9,246</b>	<b>-3,183</b>	<b>3,190</b>	<b>-2,012</b>	<b>-2,020</b>
<b>Inc/Dec of Cash</b>	<b>-11,943</b>	<b>16,480</b>	<b>1,587</b>	<b>14,820</b>	<b>11,486</b>	<b>8,898</b>
Opening Balance	0	4,110	6,660	6,150	15,650	27,136
<b>Closing Balance</b>	<b>4,110</b>	<b>6,660</b>	<b>6,150</b>	<b>15,650</b>	<b>27,136</b>	<b>36,034</b>

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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