MOTILAL OSWAL FINANCIAL SERVICES

7 November 2023
2QFY24 Results Update | Sector: Healthcare

Max Healthcare

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MAXHEALT IN
Equity Shares (m)	970
M.Cap.(INRb)/(USDb)	580.5 / 7
52-Week Range (INR)	630 / 411
1, 6, 12 Rel. Per (%)	8/16/24
12M Avg Val (INR M)	1444

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	58.8	68.8	78.6
EBITDA	16.1	18.9	22.2
Adj. PAT	11.2	13.9	16.4
EBIT Margin (%)	22.9	23.5	24.4
Cons. Adj. EPS (INR)	11.6	14.4	17.0
EPS Gr. (%)	27.5	24.3	17.9
BV/Sh. (INR)	83.2	97.3	114.3
Ratios			
Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	15.2	15.9	16.0
RoCE (%)	17.2	14.8	15.4
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	51.8	41.7	35.4
EV/EBITDA (x)	35.6	30.2	25.3
Div. Yield (%)	9.7	8.3	7.1
FCF Yield (%)	3.0	0.3	1.7
EV/Sales (x)	9.7	8.3	7.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	23.8	23.8	23.8
DII	11.4	11.9	21.2
FII	60.4	59.9	49.3
Others	4.5	4.5	5.8

FII Includes depository receipts

CMP: INR597 TP: INR700 (+17%) Buy

EBITDA on path to achieve newer highs

Efforts across all fronts yielding positive results in 2QFY24

- Max healthcare (MAX) delivered better-than-expected 2QFY24 financial performance. Healthy improvement in ARPOB, elevated occupancy at newly added beds as well as at existing beds drove EBITDA per bed to newer highs at INR7.5m (up 17% YoY/6.5% QoQ).
- We increase our FY25 earnings by 3% factoring in a) increased realization for institutional patients, b) faster pick-up in occupancy and better operational efficiency. We value MAX on an SoTP basis (25x 12M forward EV/EBITDA for hospital business, 18x 12M forward EV/EBITDA for diagnostic business, 4x 12M forward EV/sales for Max@home) to arrive at a price target of INR700.
- MAX is well-positioned to deliver 16%/17%/21% sales/EBITDA/PAT CAGR over FY23-25. This growth is underpinned by several key factors: a) addition of beds, b) improved realization per patient, and c) the optimization of case mix/payor mix. These strategies are expected to drive sustained profitability and consistent earnings growth for the company. Further, MAX continues to be on the look-out for any M&A opportunities, which can also aid better return ratios going forward. We reiterate our BUY rating on the stock.

Improved realization and superior execution drives profitability YoY/QoQ basis

- For 2QFY24, Max network revenues (including trust business) grew 17% YoY to INR17.2b (our est: INR16.5b).
- EBITDA margin expanded 100bp YoY at 28.2% (our est. 26.9%).
- Accordingly, EBITDA grew 21% YoY to INR4.8b (our est. INR4.4b).
- Adjusted PAT grew 25% YoY to INR3.5b (our est. INR3.2b), led by strong operational performance, interest income for 2QFY24 (vs. interest expense in 2QFY23) and higher 'other income' (up 30% YoY).
- EBITDA per bed (annualized) stood at INR7.5m (up 17% YoY and up 7% QoQ)
- In 1HFY24, Revenue/EBITDA/PAT grew 17%/19%/26% to INR33.4b/INR9b/INR6.6b. Moreover, EBITDA margin expanded 50bp YoY to 27.3%.
- In 2QFY24, ARPOB stood at INR74.6K (up 13% YoY/flat QoQ). ARPOB growth was driven by: a) a broad-based YoY improvement across all specialties and hospitals, and b) an increase in the share of Oncology. Occupancy came in at 77% in 2QFY24 (vs. 78% in 2QFY23) and it was at 74% in 1QFY24.

Highlights from the management commentary

- MAX is on track to start Max Dwarka (300 bed) hospital by 4QFY24.
- The improvement in case mix has led to better realization from CGHS patients (up 28% YoY) for the quarter.
- Typically, 2H is better than 1H for MAX.
- MAX continues to evaluate inorganic opportunities and something can be expected over the near term.
- Shalimar bagh hospital is running with 78% occupancy (including recent bed additions) and at much superior profitability.

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Consolidated - Quarterly Earning Model **(INR m)**

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	% Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Gross Sales	**13,903**	**14,717**	**14,640**	**15,490**	**16,220**	**17,190**	**16,690**	**18,660**	**58,750**	**68,759**	**16,483**	**4.3**
YoY Change (%)	5.5	9.6	13.5	26.9	16.7	16.8	14.0	20.5	13.6	17.0	12.0	
Total Expenditure	10,228	10,712	10,590	11,150	11,930	12,350	12,100	13,471	42,680	49,851	12,049	
EBITDA	**3,675**	**4,005**	**4,050**	**4,340**	**4,290**	**4,840**	**4,590**	**5,189**	**16,070**	**18,909**	**4,434**	**9.2**
Margins (%)	26.4	27.2	27.7	28.0	26.4	28.2	27.5	27.8	27.4	27.5	26.9	
Depreciation	650	630	630	690	640	660	668	778	2,600	2,746	643	
Interest	200	140	70	-20	-30	-170	-55	80	390	-175	-45	
Other Income	30	100	130	30	70	130	140	141	290	481	70	
PBT before EO expense	**2,855**	**3,335**	**3,480**	**3,700**	**3,750**	**4,480**	**4,117**	**4,472**	**13,370**	**16,819**	**3,906**	
Extra-Ord expense	110	120	180	-20	190	190	0	0	390	380	0	
PBT	**2,745**	**3,215**	**3,300**	**3,720**	**3,560**	**4,290**	**4,117**	**4,472**	**12,980**	**16,439**	**3,906**	
Tax	456	-1,896	610	530	660	910	576	648	-300	2,795	664	
Rate (%)	16.6	-59.0	18.5	14.2	18.5	21.2	14.0	14.5	-2.3	17.0	17.0	
Reported PAT	**2,289**	**5,111**	**2,690**	**3,190**	**2,900**	**3,380**	**3,541**	**3,824**	**13,280**	**13,644**	**3,242**	
Adj PAT	**2,381**	**2,835**	**2,837**	**3,173**	**3,055**	**3,530**	**3,541**	**3,824**	**11,226**	**13,949**	**3,242**	**8.9**
YoY Change (%)	15.6	31.6	12.2	53.5	28.3	24.5	24.8	20.5	27.5	24.3	14.4	
Margins (%)	17.1	19.3	19.4	20.5	18.8	20.5	21.2	20.5	19.1	20.3	19.7	

E: MOSL Estimates; *Network financials from 1QFY22

Conference call highlights

- The company has planned to add ~300 beds by the end of FY24 and an additional 819 beds by the end of FY25. Particularly, excavation work has been completed at Nanavati and Gurgaon, while excavation work at Mohali is underway. At Max Smart/Saket, the relocation of trees is proceeding as scheduled, and construction for the project is set to commence in Dec'23.
- International patients formed 9%/5% of revenue/bed share for the quarter.
- Out of incremental 2,700 beds, Dwarka, Mohali, and Gurgaon (cumulative 1000 beds) do not have any EWS obligation.

Exhibit 1: ARPOB continues to strengthen YoY/QoQ

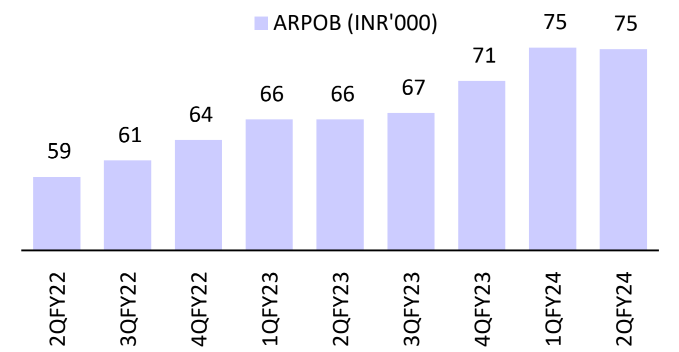


Exhibit 2: Occupancy stable sequentially in 4QFY23

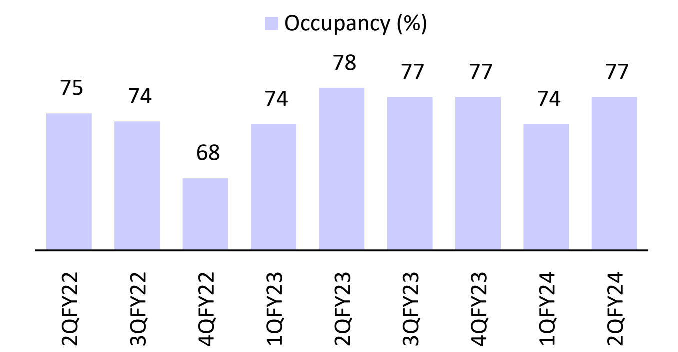
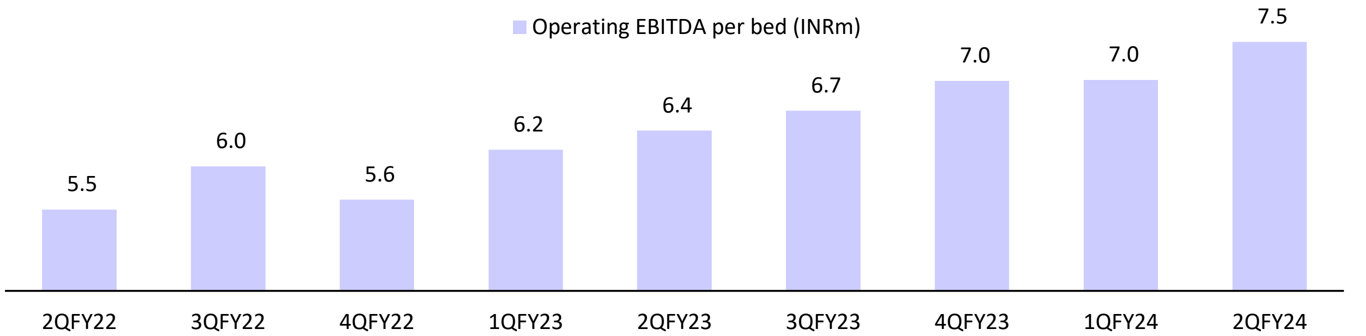


Exhibit 3: Operating EBITDA per bed up 14% YoY



Source: MOFSL, Company

Strong execution across all fronts

Enough steam to further drive ARPOB growth

- In 1HFY24, ARPOB grew 13% YoY to INR75K. ARPOB growth was driven by a) increased traction from medical tourism, b) case mix optimization, c) price revisions, including those in the Institutional (CGHS) segment, d) improved share of oncology in IPD, and e) increased OPD footfalls. Moreover, the number of robotic surgeries, which are high ARPOB procedures, have doubled over the last year.
- Payor mix improved considerably with a) International revenue share increasing 90bp YoY to more than 9% of revenues, b) insurance share increasing 70bp YoY to 39% and c) institutional segment revenue share increased 150bp YoY to 18.2%, despite a reduction in bed share, due to price revision in the CGHS segment.
- We expect momentum to sustain with 8% CAGR in ARPOB to INR78k over FY23-25.

Bed addition program back on track

- In 1HFY24, occupancy came in at 75% (vs. 76% in 1HFY23) despite OBDs growing a modest 3% YoY in addition to bed capacity expansion through internal reconfiguration.
- MAX is implementing capex to add another 1,169 beds, with 300/350/190/329 beds in Gurugram/Saket Smart/Mohali/Nanavati.
- Accordingly, we expect the hospital segment to grow on the back of bed additions and ARPOB growth, leading to sales CAGR of 16% to INR82b over FY23-25.

Diagnostics business to grow on the back of increased footfalls

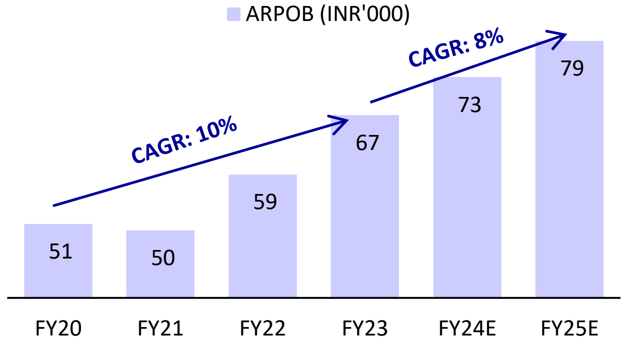
- In 1HFY24, MaxLab revenue grew 29% YoY to INR720m, largely led by an increase in the number of footfalls and average realization. On a like-to-like basis, the revenue (excl. Covid-19 related tests) grew 34% YoY. MaxLab had more than 1,010 partners at the end-1HFY24.
- We expect MaxLab revenue to reach INR1.6b at a 20% CAGR over FY23-25.
- Moreover, Max@Home revenue grew 22% YoY to INR820m, led by critical care and medical rooms services lines. We expect a 20% revenue CAGR in this segment over FY23-25.

Reiterate BUY

- We increase our FY25 earnings by 3% factoring a) increased realization for institutional patients, b) faster pick-up in occupancy and better operational efficiency. We value MAX on SoTP basis (25x 12M forward EV/EBITDA for hospital business, 18x 12M forward EV/EBITDA for diagnostic business, 4x 12M forward EV/sales for Max@home) to arrive at a price target of INR700.
- MAX is well-positioned to deliver 16%/17%/21% sales/EBITDA/PAT CAGR over FY23-25. This growth is underpinned by several key factors: a) the expansion of beds, b) improved realization per patient, and c) the optimization of case mix/payor mix. These strategies are expected to drive sustained profitability and consistent earnings growth for the company. Further, MAX continues to be on the look-out for any M&A opportunities, which can also aid better return ratios going forward. We reiterate our BUY rating on the stock.

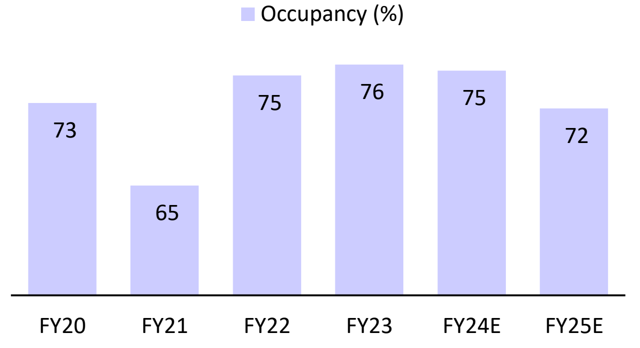
Story in charts

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



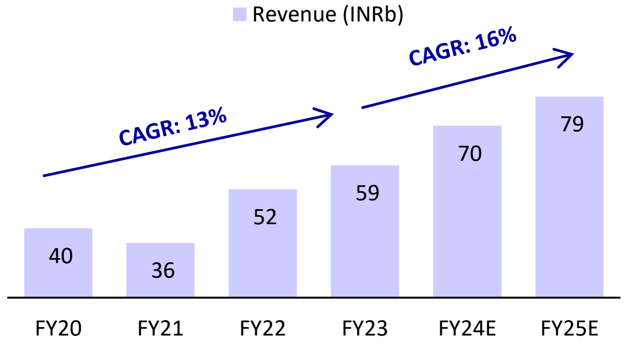
Source: MOFSL, Company

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



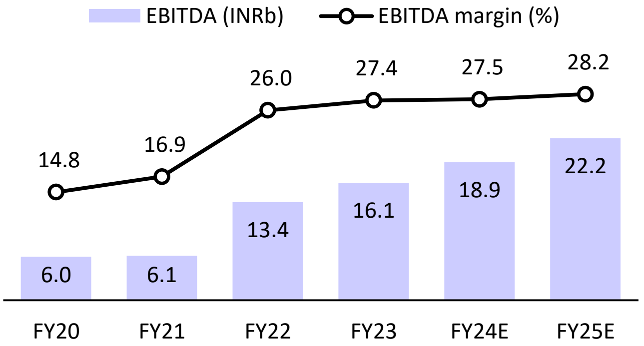
Source: MOFSL, Company

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



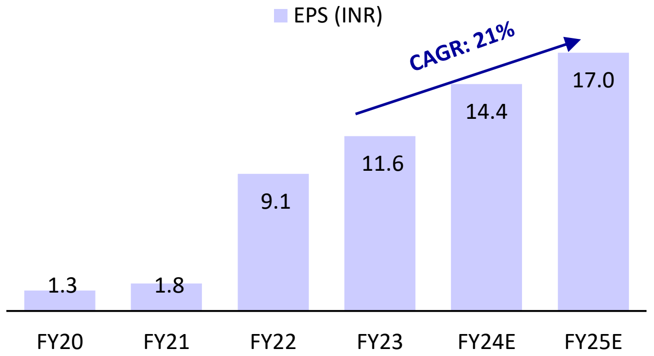
Source: MOFSL, Company

Exhibit 7: Expect EBITDA margin to expand ~80bp to 28% over FY23-25



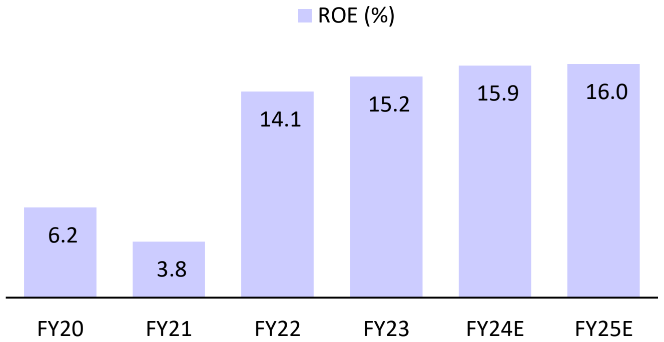
Source: MOFSL, Company

Exhibit 8: EPS to clock 21% 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**
Total Income from Operations	**35,918**	**40,264**	**36,010**	**51,710**	**58,750**	**68,759**	**78,559**
Change (%)	NA	12.1	-10.6	43.6	13.6	17.0	14.3
Total Expenditure	**32,507**	**34,310**	**29,920**	**38,270**	**42,680**	**49,851**	**56,406**
% of Sales	90.5	85.2	83.1	74.0	72.6	72.5	71.8
EBITDA	**3,412**	**5,954**	**6,090**	**13,440**	**16,070**	**18,909**	**22,154**
Margin (%)	9.5	14.8	16.9	26.0	27.4	27.5	28.2
Depreciation	1,856	2,087	2,160	2,480	2,600	2,746	2,964
EBIT	**1,556**	**3,866**	**3,930**	**10,960**	**13,470**	**16,163**	**19,190**
Int. and Finance Charges	1,788	3,135	1,870	1,120	390	-175	-115
Other Income	210	1,013	280	470	290	481	550
PBT bef. EO Exp.	**-23**	**1,743**	**2,340**	**10,310**	**13,370**	**16,819**	**19,855**
EO Items	-410	-520	-2,790	-500	-390	-380	0
PBT after EO Exp.	**-433**	**1,223**	**-450**	**9,810**	**12,980**	**16,439**	**19,855**
Total Tax	183	-32	500	1,430	-300	2,795	3,415
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
Reported PAT	**-615**	**1,256**	**-950**	**8,380**	**13,280**	**13,644**	**16,440**
Adjusted PAT	**-17**	**1,308**	**1,755**	**8,807**	**11,226**	**13,949**	**16,440**
Change (%)	NA	NA	34.2	401.8	27.5	24.3	17.9
Margin (%)	0.0	3.2	4.9	17.0	19.1	20.3	20.9

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	84,648	101,088
Net Worth	**8,339**	**33,860**	**57,380**	**67,180**	**80,700**	**94,344**	**110,784**
Minority Interest	0	0	0	0	0	0	0
Total Loans	12,664	19,270	11,280	9,180	6,820	4,820	2,820
Deferred Tax Liabilities	179	20	1,580	1,850	-500	-500	-500
Capital Employed	**21,182**	**53,150**	**70,240**	**78,210**	**87,020**	**98,664**	**113,104**
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	5,346	8,309
Net Fixed Assets	**22,756**	**23,680**	**27,740**	**34,620**	**36,610**	**38,539**	**44,201**
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
Total Investments	**22**	**21,380**	**20**	**20**	**20**	**20**	**20**
Curr. Assets, Loans&Adv.	**3,553**	**8,625**	**17,779**	**17,192**	**22,997**	**30,943**	**41,351**
Inventory	430	940	740	830	1,040	1,215	1,374
Account Receivables	2,818	3,245	3,157	4,533	4,340	6,028	6,887
Cash and Bank Balance	194	4,110	6,660	6,150	15,650	16,149	24,462
Loans and Advances	111	330	7,222	5,679	1,967	7,551	8,627
Curr. Liability & Prov.	**12,762**	**10,730**	**19,609**	**18,233**	**17,147**	**20,053**	**22,828**
Account Payables	4,746	4,664	3,946	5,667	6,438	7,520	8,509
Other Current Liabilities	7,585	5,487	7,574	8,369	5,940	6,952	7,943
Provisions	431	579	8,089	4,197	4,768	5,581	6,376
Net Current Assets	**-9,209**	**-2,105**	**-1,830**	**-1,040**	**5,850**	**10,891**	**18,524**
Appl. of Funds	**21,182**	**53,150**	**70,240**	**78,210**	**87,020**	**98,664**	**113,104**

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Basic (INR)							
EPS	**0.0**	**1.3**	**1.8**	**9.1**	**11.6**	**14.4**	**17.0**
Cash EPS	1.9	3.5	4.0	11.6	14.3	17.2	20.0
BV/Share	8.6	34.9	59.2	69.3	83.2	97.3	114.3
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
Valuation (x)							
P/E	NA	444.8	331.4	66.0	51.8	41.7	35.4
Cash P/E	316.2	171.3	148.6	51.5	42.1	34.8	30.0
P/BV	69.7	17.2	10.1	8.7	7.2	6.2	5.3
EV/Sales	9.3	9.1	14.5	11.3	9.7	8.3	7.1
EV/EBITDA	98.1	61.4	85.8	43.5	35.6	30.2	25.3
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	17.8	1.9	10.0
Return Ratios (%)							
RoE	-0.2	6.2	3.8	14.1	15.2	15.9	16.0
RoCE	23.9	13.5	14.6	13.5	17.2	14.8	15.4
RoIC	21.1	16.3	18.2	13.8	19.2	18.0	19.8
Working Capital Ratios							
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	0.7	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	40	40
Leverage Ratio (x)							
Current Ratio	0.3	0.8	0.9	0.9	1.3	1.5	1.8
Interest Cover Ratio	0.9	1.2	2.1	9.8	34.5	-92.6	-167.5
Net Debt/Equity	1.5	-0.2	0.1	0.0	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement						(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	1,743	2,340	10,310	13,370	16,439	19,855
Depreciation	2,087	2,160	2,480	2,600	2,746	2,964
Interest & Finance Charges	3,135	1,870	1,120	390	-656	-665
Direct Taxes Paid	32	-500	-1,430	300	-2,795	-3,415
(Inc)/Dec in WC	-3,188	2,275	-1,300	-3,330	-4,541	680
CF from Operations	**3,811**	**8,145**	**11,180**	**13,330**	**11,193**	**19,419**
Others	0	0	0	0	0	0
CF from Operating incl EO	**3,811**	**8,145**	**11,180**	**13,330**	**11,193**	**19,419**
(Inc)/Dec in FA	-924	-4,060	-6,880	-1,990	-9,350	-9,770
Free Cash Flow	**2,887**	**4,085**	**4,300**	**11,340**	**1,843**	**9,649**
(Pur)/Sale of Investments	-21,358	21,360	0	0	0	0
Others	1,013	280	470	290	481	550
CF from Investments	**-21,269**	**17,580**	**-6,410**	**-1,700**	**-8,869**	**-9,220**
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	175	115
Dividend Paid	0	0	0	0	0	0
CF from Fin. Activity	**5,516**	**-9,246**	**-3,183**	**3,190**	**-1,825**	**-1,885**
Inc/Dec of Cash	**-11,943**	**16,480**	**1,587**	**14,820**	**499**	**8,313**
Opening Balance	0	4,110	6,660	6,150	15,650	16,149
Closing Balance	**4,110**	**6,660**	**6,150**	**15,650**	**16,149**	**24,462**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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