

Max Healthcare

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR560

TP: INR650 (+16%)

Buy

Improved realization per bed drives earnings growth

Work in progress for meaningful bed additions

- Max healthcare (MAX) reported a miss on earnings for 1QFY24, primarily due to increased opex. Having said this, MAX has been on track to enhance ARPOB on the back of increased high end treatment and a greater proportion of international patients. Additionally, with the growing demand for healthcare services MAX's focal cities, we expect occupancy to improve moving forward.
- We maintain our earnings estimate for FY24/FY25. We value MAX at 25x EV/EBITDA to arrive at a price target of INR650 on 12M roll-forward basis.
- While better realization and improving operational efficiency are the major factors driving 21% earnings CAGR over FY23-25, it is implementing efforts for bed additions (780 beds; 23% increase from current bed size) to growth momentum over the next three to five years. It continues to evaluate the inorganic opportunities as well. We reiterate our **BUY** rating on the stock.

Stable EBITDA per bed QoQ, despite seasonal weakness and higher opex

- For 1QFY24, Max network revenues (including trust business) grew 17% YoY to INR16.2b (our est: INR16.3b).
- EBITDA margin was flat YoY at 26.4% (our est. 28.5%).
- Accordingly, EBITDA grew 17% YoY to INR4.3b (our est. INR4.6b).
- Adjusted PAT grew 28% YoY to INR3b (our est. INR3.3b), led by strong operational performance, interest income for 1QFY24 (vs. interest expense in 1QFY23) and higher other income (>2x YoY).
- In 1QFY24, ARPOB grew 13% YoY (6% QoQ) to INR75K. This implies volume growth of 4% YoY for the quarter. ARPOB growth was driven by a) a higher volume of treatments in Oncology, Orthopedics, & Cardiac indications (+200bp YoY as % of sales), b) price revisions in the institutional (CGHS) segment (0.6% of ARPOB), and c) a greater proportion of international patients (+110bp YoY as % of sales)
- Despite an increase in ARPOB, EBITDA margin remained flat YoY as higher-end treatments led to increased opex. Having said this, EBITDA per bed on a YoY basis grew 14% YoY to INR7m.

Highlights from the management commentary

- On a QoQ basis, there is an increase in opex due to annual increments. Additionally, 1Q is a seasonally weak quarter when compared to 4Q. Despite these factors, the EBITDA per bed remains consistent QoQ at INR7m.
- In Max Shalimar facility, revenue/EBITDA grew 37%/43% YoY in 1QFY24 on the back of bed additions (~122 in recent months) and superior case mix.
- The 180-bed Mohali hospital has excavation activities underway. The management indicated that the hospital would be completed in 4QFY25.
- The Nanavati 300-bed hospital is also expected to be completed by 4QFY25.
- At the end of 1QFY24, the FCF from operations stood at INR2.6b, of which INR0.4b was deployed toward ongoing capacity expansion projects. Net cash position improved to INR9.6b.



Bloomberg	MAXHEALT IN
Equity Shares (m)	970
M.Cap.(INRb)/(USDb)	543.1 / 6.6
52-Week Range (INR)	630 / 306
1, 6, 12 Rel. Per (%)	-10/18/35
12M Avg Val (INR M)	1880

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	58.8	70.1	79.7
EBITDA	16.1	19.8	22.3
Adj. PAT	11.2	14.6	16.6
EBIT Margin (%)	22.9	24.4	24.3
Cons. Adj. EPS (INR)	11.6	15.0	17.1
EPS Gr. (%)	27.5	29.8	13.8
BV/Sh. (INR)	83.2	98.1	115.2

Ratios

Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	15.2	16.6	16.0
RoCE (%)	17.2	15.4	15.4
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	48.4	37.3	32.7
EV/EBITDA (x)	33.2	26.7	23.3
Div. Yield (%)	9.1	7.6	6.5
FCF Yield (%)	3.2	0.5	1.8
EV/Sales (x)	9.1	7.6	6.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	23.8	23.8	50.6
DII	11.9	19.4	19.4
FII	59.9	52.0	23.3
Others	4.5	4.9	6.6

FII Includes depository receipts

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Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Gross Sales	13,903	14,717	14,640	15,490	16,220	16,925	17,890	19,084	58,750	70,119	16,266	-0.3
YoY Change (%)	5.5	9.6	13.5	26.9	16.7	15.0	22.2	23.2	13.6	19.4	17.0	
Total Expenditure	10,228	10,712	10,590	11,150	11,930	12,084	12,684	13,577	42,680	50,275	11,630	
EBITDA	3,675	4,005	4,050	4,340	4,290	4,841	5,206	5,507	16,070	19,844	4,636	-7.5
Margins (%)	26.4	27.2	27.7	28.0	26.4	28.6	29.1	28.9	27.4	28.3	28.5	
Depreciation	650	630	630	690	640	660	698	748	2,600	2,746	683	
Interest	200	140	70	-20	-30	-45	-55	-45	390	-175	1	
Other Income	30	100	130	30	70	70	70	70	290	280	87	
PBT before EO expense	2,855	3,335	3,480	3,700	3,750	4,295	4,633	4,874	13,370	17,553	4,038	
Extra-Ord expense	110	120	180	-20	190	0	0	0	390	190	0	
PBT	2,745	3,215	3,300	3,720	3,560	4,295	4,633	4,874	12,980	17,363	4,038	
Tax	456	-1,896	610	530	660	730	788	774	-300	2,952	686	
Rate (%)	16.6	-59.0	18.5	14.2	18.5	17.0	17.0	15.9	-2.3	17.0	17.0	
Reported PAT	2,289	5,111	2,690	3,190	2,900	3,565	3,846	4,100	13,280	14,411	3,352	
Adj PAT	2,381	2,835	2,837	3,173	3,055	3,565	3,846	4,100	11,226	14,569	3,352	-8.9
YoY Change (%)	15.6	31.6	12.2	53.5	28.3	25.8	35.6	29.2	27.5	29.8	40.8	
Margins (%)	17.1	19.3	19.4	20.5	18.8	21.1	21.5	21.5	19.1	20.8	20.6	

E: MOFSL Estimates



Conference call highlights

- Apart from the inclusion of 44 new beds at Shalimar Bagh, there are plans to further increase the total number of beds by an additional 40 for FY24.
- Management highlighted routine capex of INR1b for FY24 (spent INR700m in 1QFY24). The overall capex is expected to be INR9b for FY24.
- International patients formed 9% of the revenue and 5% of the bed share.

Exhibit 1: ARPOB continues to strengthen YoY/QoQ

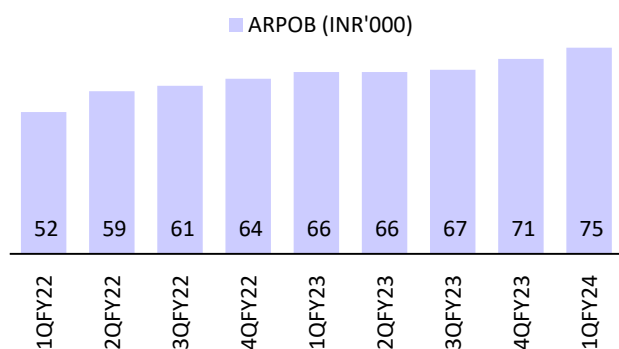


Exhibit 2: Occupancy stable sequentially in 4QFY23

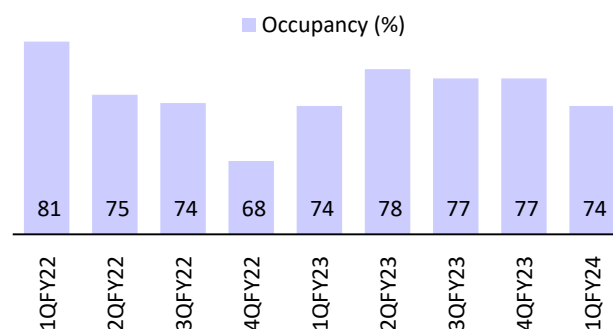
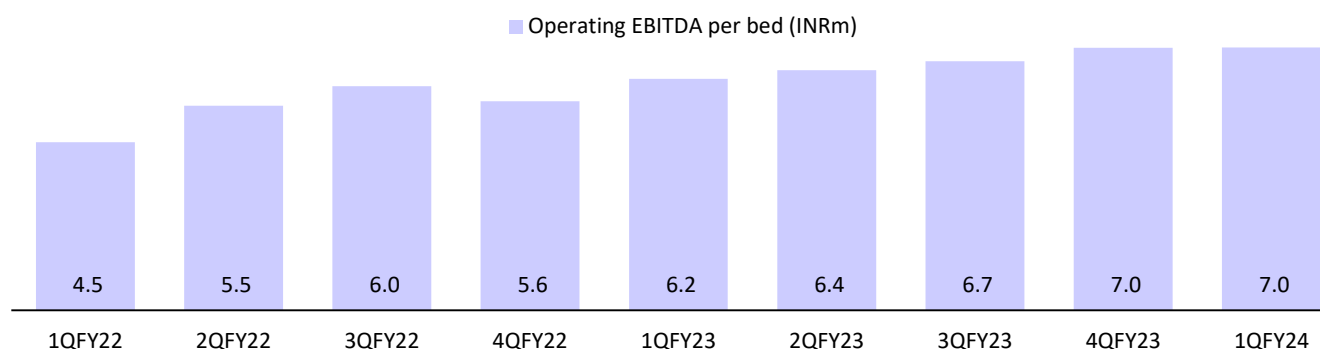


Exhibit 3: Operating EBITDA per bed up 14% YoY



Source: MOFSL, Company

Robust growth outlook over next 3-5 years

ARPOB growth to be led by price hikes/optimization of payor mix

- In 1QFY24, ARPOB stood at INR75K (up 13% YoY/up 6% QoQ). ARPOB growth was driven by a) a higher volume of treatments in Oncology, Orthopedics & Cardiac indications, and b) price revisions in the institutional (CGHS) segment.
- Payor mix improved considerably with a) International revenue share increasing 110bp YoY to ~9% of revenues, b) moreover, institutional segment revenue share increased 100bp YoY to 18.4%, despite a reduction in bed share to 29.7% (vs 30.3% in 1QFY23) due to partial revision in prices.
- An annual price hike supported by strong demand in the Delhi-NCR region and the recent price hikes for patients under the PSU segment would aid further growth in ARPOB over the medium term.
- We expect an 9% CAGR in ARPOB to INR79k over FY23-25.

Aggressive bed expansion plan to aid growth over next 4-5 years

- In 1QFY24, occupancy came in at 74% (flat YoY; 77% in 4QFY23). This is despite addition of 44 beds to capacity through internal reconfiguration. This is in addition to the 92-bed Oncology Block commissioned at Shalimar Bagh in Mar'23. Moreover, MAXHEALT expects 40 more beds to be added through internal reconfiguration in FY24.
- 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 INR83b over FY23-25.

Huge scope of growth in Diagnostics business

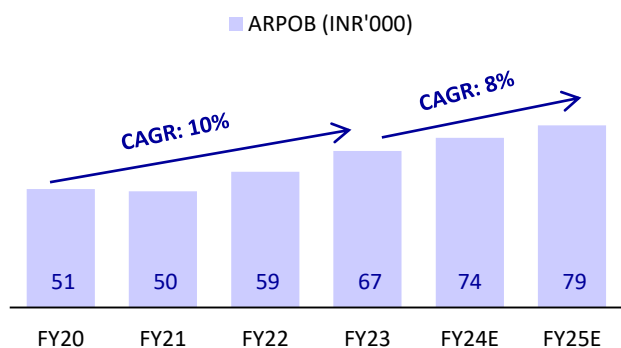
- MaxLab revenue grew 31% YoY to INR340m in 1QFY24, largely led by an increase in footfalls. On a like-to-like basis, the revenue (excl. Covid-19 related tests) grew 39% YoY and 10% QoQ. The geographic footprint has been further expanded to 36 Cities.
- We expect MaxLab revenue to reach INR1.6b at a 20% CAGR over FY23-25.
- Moreover, Max@Home revenue grew 24% YoY in FY23, led by critical care and medical rooms services lines. We expect a 16% revenue CAGR in this segment over FY23-25.

Reiterate BUY

- We maintain our earnings estimate for FY24/FY25. We value MAX at 25x EV/EBITDA to arrive at a price target of INR650 on 12M roll-forward basis.
- While better realization and improving operational efficiency are the major factors driving 21% earnings CAGR over FY23-25, it is implementing efforts for bed additions (780 beds; 23% increase from the current bed size) to growth momentum over the next three to five years. It continues to evaluate the inorganic opportunities as well. **We reiterate our BUY rating on the stock.**

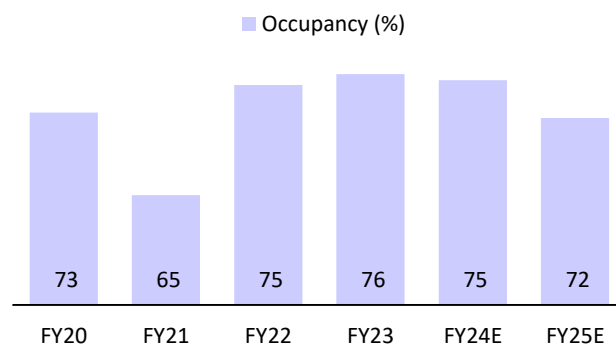
Story in charts

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



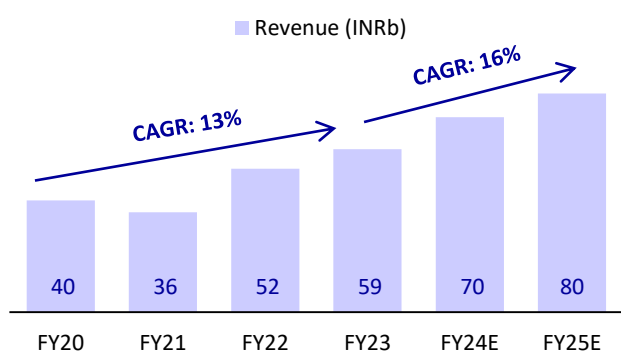
Source: MOFSL, Company

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



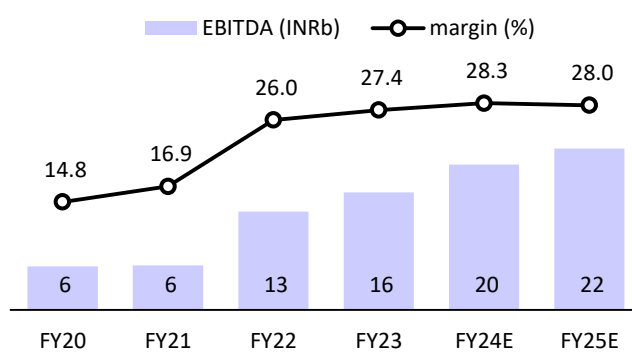
Source: MOFSL, Company

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



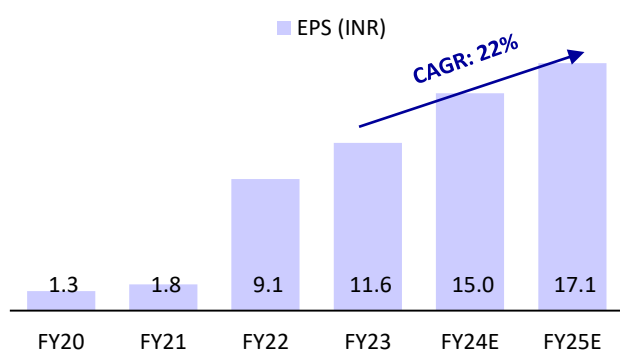
Source: MOFSL, Company

Exhibit 7: Expect EBITDA margin to expand ~60bp to 28% over FY23-25



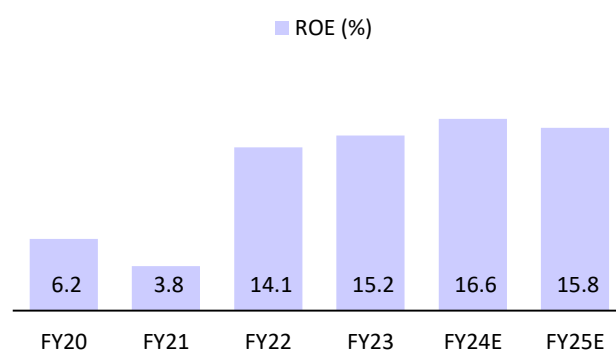
Source: MOFSL, Company

Exhibit 8: EPS to clock 22% 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	70,119	79,688
Change (%)	NA	12.1	-10.6	43.6	13.6	19.4	13.6
Total Expenditure	32,507	34,310	29,920	38,270	42,680	50,275	57,375
% of Sales	90.5	85.2	83.1	74.0	72.6	71.7	72.0
EBITDA	3,412	5,954	6,090	13,440	16,070	19,844	22,313
Margin (%)	9.5	14.8	16.9	26.0	27.4	28.3	28.0
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	17,098	19,349
Int. and Finance Charges	1,788	3,135	1,870	1,120	390	-175	-115
Other Income	210	1,013	280	470	290	280	558
PBT bef. EO Exp.	-23	1,743	2,340	10,310	13,370	17,553	20,021
EO Items	-410	-520	-2,790	-500	-390	-190	0
PBT after EO Exp.	-433	1,223	-450	9,810	12,980	17,363	20,021
Total Tax	183	-32	500	1,430	-300	2,952	3,444
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	14,411	16,578
Adjusted PAT	-17	1,308	1,755	8,807	11,226	14,569	16,578
Change (%)	NA	NA	34.2	401.8	27.5	29.8	13.8
Margin (%)	0.0	3.2	4.9	17.0	19.1	20.8	20.8

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	85,415	101,993
Net Worth	8,339	33,860	57,380	67,180	80,700	95,111	111,689
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	99,431	114,009
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	32,022	42,608
Inventory	430	940	740	830	1,040	1,225	1,398
Account Receivables	2,818	3,245	3,157	4,533	4,340	6,147	6,986
Cash and Bank Balance	194	4,110	6,660	6,150	15,650	16,949	25,473
Loans and Advances	111	330	7,222	5,679	1,967	7,700	8,751
Curr. Liability & Prov.	12,762	10,730	19,609	18,233	17,147	20,365	23,180
Account Payables	4,746	4,664	3,946	5,667	6,438	7,584	8,655
Other Current Liabilities	7,585	5,487	7,574	8,369	5,940	7,089	8,057
Provisions	431	579	8,089	4,197	4,768	5,691	6,467
Net Current Assets	-9,209	-2,105	-1,830	-1,040	5,850	11,658	19,429
Appl. of Funds	21,182	53,150	70,240	78,210	87,020	99,432	114,009

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	15.0	17.1
Cash EPS	1.9	3.5	4.0	11.6	14.3	17.9	20.2
BV/Share	8.6	34.9	59.2	69.3	83.2	98.1	115.2
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	415.2	309.3	61.6	48.4	37.3	32.7
Cash P/E	295.2	159.9	138.7	48.1	39.3	31.4	27.8
P/BV	65.1	16.0	9.5	8.1	6.7	5.7	4.9
EV/Sales	8.7	8.5	13.6	10.6	9.1	7.6	6.5
EV/EBITDA	91.8	57.5	80.1	40.6	33.2	26.7	23.3
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	2.9	10.2
Return Ratios (%)							
RoE	-0.2	6.2	3.8	14.1	15.2	16.6	16.0
RoCE	23.9	13.5	14.6	13.5	17.2	15.4	15.4
RoIC	21.1	16.3	18.2	13.8	19.2	19.0	20.0
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	39	40
Leverage Ratio (x)							
Current Ratio	0.3	0.8	0.9	0.9	1.3	1.6	1.8
Interest Cover Ratio	0.9	1.2	2.1	9.8	34.5	-97.9	-168.8
Net Debt/Equity	1.5	-0.2	0.1	0.0	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)						
OP/(Loss) before Tax	1,743	2,340	10,310	13,370	17,363	20,021
Depreciation	2,087	2,160	2,480	2,600	2,746	2,964
Interest & Finance Charges	3,135	1,870	1,120	390	-455	-672
Direct Taxes Paid	32	-500	-1,430	300	-2,952	-3,444
(Inc)/Dec in WC	-3,188	2,275	-1,300	-3,330	-4,508	752
CF from Operations	3,811	8,145	11,180	13,330	12,194	19,621
Others	0	0	0	0	0	0
CF from Operating incl EO	3,811	8,145	11,180	13,330	12,194	19,621
(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	2,844	9,851
(Pur)/Sale of Investments	-21,358	21,360	0	0	0	0
Others	1,013	280	470	290	280	558
CF from Investments	-21,269	17,580	-6,410	-1,700	-9,070	-9,212
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	1,299	8,524
Opening Balance	0	4,110	6,660	6,150	15,650	16,949
Closing Balance	4,110	6,660	6,150	15,650	16,949	25,473

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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