

Max Healthcare

Estimate change 

TP change 

Rating change 

CMP: INR803

TP: INR930 (+16%)

Buy

Improved realization led to growth in earnings

On track to expand bed capacity

Bloomberg	MAXHEALT IN
Equity Shares (m)	970
M.Cap.(INRb)/(USDb)	780.5 / 9.4
52-Week Range (INR)	813 / 412
1, 6, 12 Rel. Per (%)	17/30/59
12M Avg Val (INR M)	1586

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	68.8	84.6	101.4
EBITDA	19.0	23.7	28.8
Adj. PAT	14.2	17.6	21.4
EBIT Margin (%)	23.8	24.2	25.0
Cons. Adj. EPS (INR)	14.6	18.1	22.1
EPS Gr. (%)	26.5	23.9	21.9
BV/Sh. (INR)	97.5	115.7	137.8

Ratios

Net D:E	(0.1)	(0.2)	(0.3)
RoE (%)	16.2	17.0	17.4
RoCE (%)	14.8	16.3	17.0
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	55.0	44.4	36.4
EV/EBITDA (x)	40.4	31.9	25.6
Div. Yield (%)	11.2	8.9	7.3
FCF Yield (%)	0.2	1.5	2.4
EV/Sales (x)	11.2	8.9	7.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	49.1	49.1	45.7
DII	18.9	18.0	13.8
FII	6.5	6.5	8.7
Others	25.5	27.2	31.8

FII Includes depository receipts

- Max Healthcare (MAX) delivered in-line 3QFY24 performance. Despite 3Q being a seasonally weak quarter, MAX had exhibited healthy mid-teens (15%) growth in both revenue and EBITDA. The EBITDA per bed continues to inch up, backed by payor mix/case mix optimization. The company remains on track with its bed expansion initiative.
- We raise our earnings estimate by 2%/4%/4% for FY24/FY25/FY26, factoring in a) improved ARPOB across institutional/international patients, and b) better operational efficiency. We also raise EV/EBITDA multiple to 28x (from 25x earlier) on the back of a) superior execution across both – operating hospitals as well as building hospitals, b) calibrated approach to drive profitable growth and deliver better-than-industry performance. Accordingly, we value MAX on SOTP basis (28x EV/EBITDA for hospital business, 20x EV/EBITDA for Max Lab, 4x EV/Sales for Max@home) to arrive at a TP of INR930.
- We remain positive on MAX as it remains one of the leading hospitals delivering consistent growth in earnings, driven by a combination of increased patient base as well as optimizing patient realization. Further, the potential for adding hospitals in the next five years is substantial, given a significant portion of it being brownfield projects. Reiterate BUY.

Volume of patients treated stable YoY/EBITDA per bed trends upwards

- For 3QFY24, Max network revenues (including trust business) grew 15% YoY to INR16.8b (in line).
- EBITDA margin was flat at 27.6% (our est. 27.5%).
- Accordingly, EBITDA grew 15% YoY to INR4.7b (in line).
- Adj. PAT grew 20% YoY to INR3.4b (est: INR3.5b), led by strong operational performance and interest income in 3QFY24 (vs. interest expense in 3QFY23).
- EBITDA per bed (annualized) stood at INR7.6m (+14% YoY and +1% QoQ).
- In 9MFY24, Revenue/EBITDA/PAT grew 16%/17%/24% to INR50b/INR14b/INR10b. EBITDA margin expanded 30bp YoY to 27.4%.
- In 3QFY24, ARPOB stood at INR76.8K (+15% YoY/+3% QoQ). The growth in ARPOB was driven by a) a general improvement in ARPOB across all specialties and hospitals compared to 3QFY23, and b) an increase in the share of Oncology, contributing to both YoY and QoQ growth in ARPOB. The occupancy came in at 73% in 3QFY24 (vs. 77% in 3QFY23) and was 77% in 2QFY24.

Highlights from the management commentary

- The 15% CAGR in ARPOB over the past three years comprise price hikes (3%), increased OPDs (2%), oncology-led growth (3%), payor mix, and other specialties (6-7%).
- International patients formed 5.8% of the bed share and witnessed a notable 9% YoY increase in realization during the quarter.

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

Consolidated - Quarterly Earning

(INRM)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Gross Sales	13,903	14,717	14,640	15,490	16,220	17,190	16,820	18,537	58,750	68,767	16,690	0.8
YoY Change (%)	5.5	9.6	13.5	26.9	16.7	16.8	14.9	19.7	13.6	17.1	14.0	
Total Expenditure	10,228	10,712	10,590	11,150	11,930	12,350	12,170	13,269	42,680	49,719	12,100	
EBITDA	3,675	4,005	4,050	4,340	4,290	4,840	4,650	5,269	16,070	19,049	4,590	1.3
Margins (%)	26.4	27.2	27.7	28.0	26.4	28.2	27.6	28.4	27.4	27.7	27.5	
Depreciation	650	630	630	690	640	660	700	707	2,600	2,707	668	
Interest	200	140	70	-20	-30	-170	-140	-126	390	-466	-55	
Other Income	30	100	130	30	70	130	60	49	290	309	140	
PBT before EO expense	2,855	3,335	3,480	3,700	3,750	4,480	4,150	4,737	13,370	17,117	4,117	
Extra-Ord expense	110	120	180	-20	190	190	40	0	390	420	0	
PBT	2,745	3,215	3,300	3,720	3,560	4,290	4,110	4,737	12,980	16,697	4,117	
Tax	456	-1,896	610	530	660	910	730	539	-300	2,839	576	
Rate (%)	16.6	-59.0	18.5	14.2	18.5	21.2	17.8	11.4	-2.3	17.0	14.0	
Reported PAT	2,289	5,111	2,690	3,190	2,900	3,380	3,380	4,199	13,280	13,859	3,541	
Adj PAT	2,381	2,835	2,837	3,173	3,055	3,530	3,413	4,199	11,226	14,196	3,541	-3.6
YoY Change (%)	15.6	31.6	12.2	53.5	28.3	24.5	20.3	32.3	27.5	26.5	24.8	
Margins (%)	17.1	19.3	19.4	20.5	18.8	20.5	20.3	22.7	19.1	20.6	21.2	

E: MOFSL Estimates; *Network financials from 1QFY22



Conference call highlights

- Max is poised for significant expansion with a) the addition of 300 beds from Dwarka (FY24), b) another 300-bed addition from Gurgaon (FY25), c) an increase of 329 beds from Nanavati (FY25), and d) the incorporation of 190 beds at Mohali (FY25). Further, an addition of another 250 beds is anticipated in Lucknow once the deal is finalized.
- Max recorded a gain of INR140m in 3QFY24 due to a price revision for institutional patients
- Oncology retained its position as a major indication for Max (26% of sales) and grew 27% YoY for 9MFY24
- Max lab services are now available in 41 cities vs. 36 cities in 2QFY24.
- Max Shalimar Bagh reported 36%/42% YoY growth in revenue/EBITDA for the quarter with average occupancy of 74%.
- It has surplus cash of INR13b at the end of 3QFY24.

Exhibit 1: ARPOB continues to strengthen YoY/QoQ

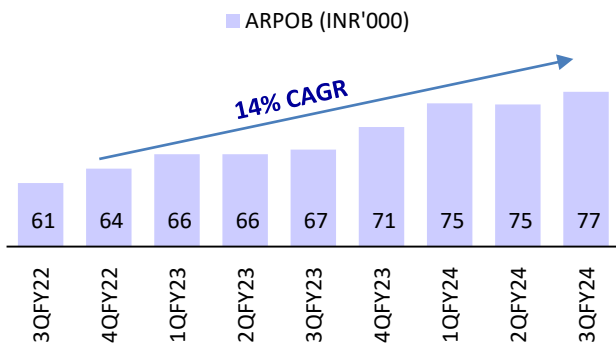


Exhibit 2: Occupancy rate declined in 3QFY24

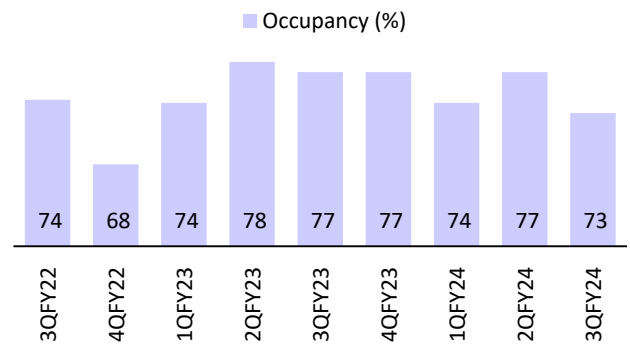
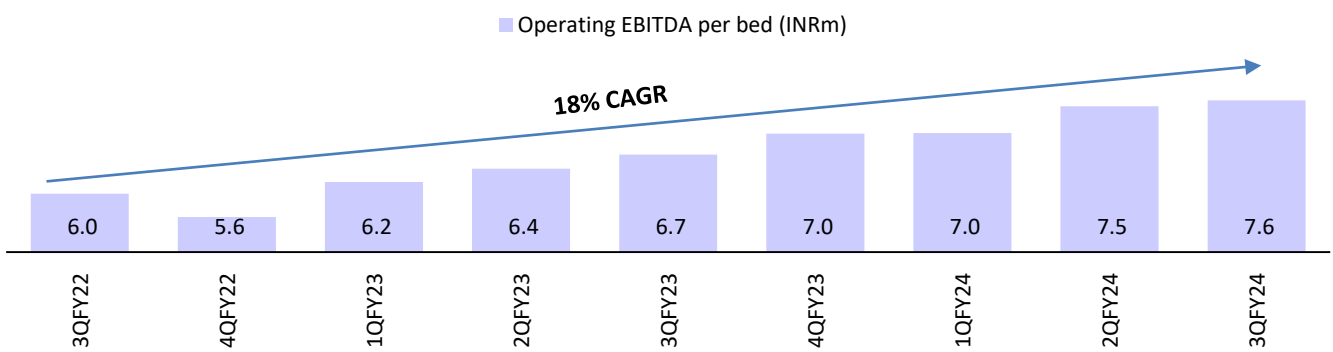


Exhibit 3: Operating EBITDA per bed increased 11% YoY in 3QFY24



Source: MOFSL, Company

Strong execution across all segments to drive profitability

Multiple factors to fuel growth in ARPOB

- In 9MFY24, ARPOB grew 14% 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, 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 100bp YoY to 39% and c) the institutional segment revenue share increased 100bp YoY to 18%, due to price revision in the CGHS segment.
- We expect momentum to sustain with a 5% CAGR in ARPOB to INR86.5k over FY24-26.

Bed expansion drive through both organic and inorganic channels

- In 9MFY24, occupancy came in at 75% (vs. 76% in 9MFY23). This occurred despite a modest 2% YoY growth in OBDs and an expansion in bed capacity. The occupancy rate has remained robust.
- MAX is undertaking capex to add another 1,169 beds, with 300/300/390/190 beds in Dwarka/Gurugram/Nanavati/Mohali. Additionally, following the successful completion of a deal in Lucknow, the company anticipates incorporating an additional 250 beds into its facilities.
- Further, it has surplus cash to add beds on an inorganic basis.
- Accordingly, we expect the hospital segment to grow on the back of bed additions and ARPOB growth, leading to sales CAGR of 21% to INR101b over FY24-26.

Increased penetration to drive growth in Diagnostic business

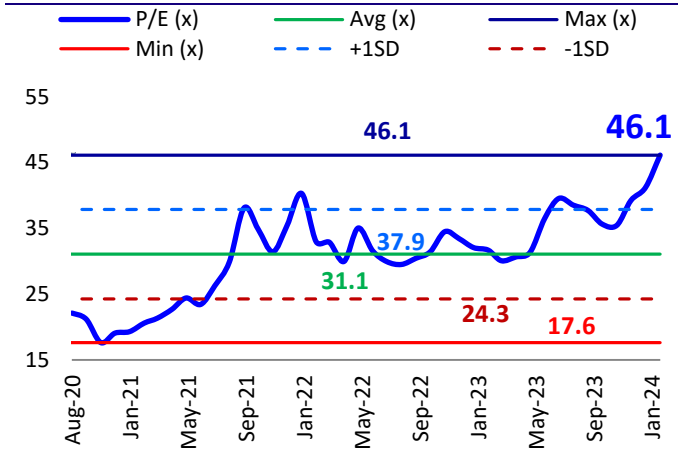
- In 9MFY24, MaxLab revenue grew 26% YoY to INR1b, largely led by an increase in the number of footfalls and average realization. MaxLab had more than 1,070 partners at the end-9MFY24 and has expanded reach across 41 cities.
- We expect MaxLab revenue to reach INR2b at a 25% CAGR over FY24-26.
- Moreover, Max@Home revenue grew 22% YoY to INR1.3b, led by critical care and medical rooms services lines. We expect a 19% revenue CAGR in this segment over FY24-26.

Reiterate BUY

- We raise our earnings estimate by 2%/4%/4% for FY24/Fy25/FY26, factoring a) improved ARPOB across institutional/international patients, and b) better operational efficiency. We also raise EV/EBITDA multiple to 28x (from 25x earlier) on the back of a) superior execution across both – operating hospitals as well as building hospitals, b) calibrated approach to drive profitable growth and deliver better-than-industry performance. Accordingly, we value MAX on SOTP basis (28x EV/EBITDA for hospital business, 20x EV/EBITDA for Max Lab, 4x EV/Sales for Max@home) to arrive at a price target of INR930.

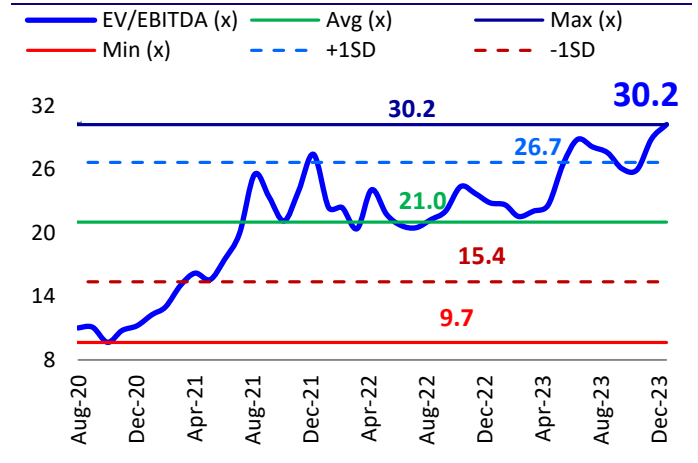
■ We remain positive on MAX as it remains one of the leading hospitals delivering consistent growth in earnings, driven by a combination of increased patient base as well as optimizing patient realization. Further, the potential for adding hospitals in the next five years is substantial, given a significant portion of it being brownfield projects. We reiterate our BUY rating on the stock.

Exhibit 4: PE band trend



Source: MOFSL, Company, Bloomberg

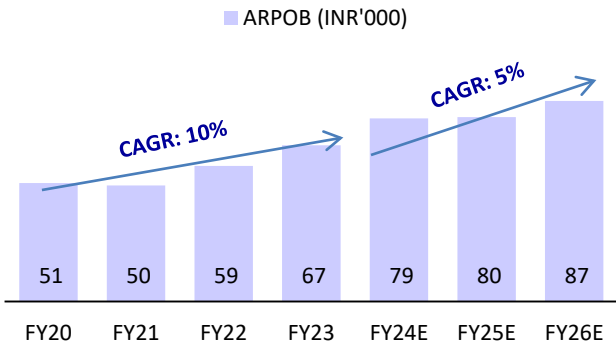
Exhibit 5: EV/EBITDA trend



Source: MOFSL, Company, Bloomberg

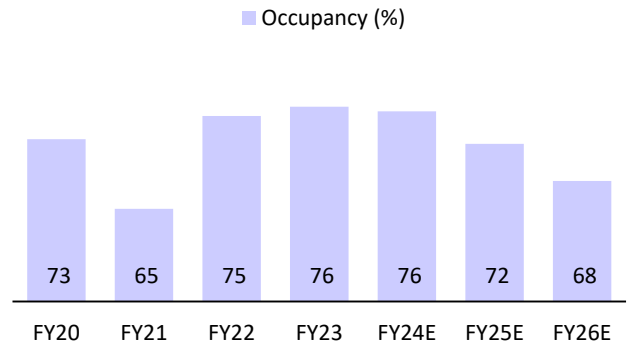
Story in charts

Exhibit 6: Expect 5% CAGR in ARPOB over FY24-26



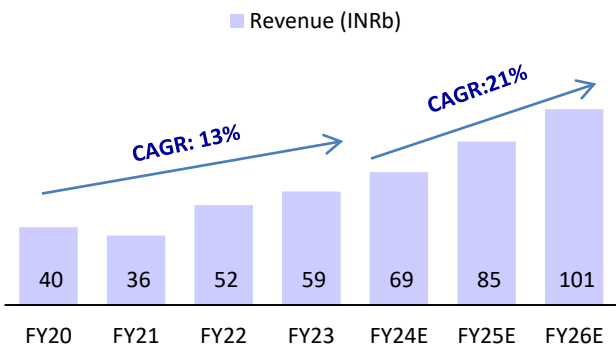
Source: MOFSL, Company

Exhibit 7: Expect occupancy to decline due to bed additions in FY26



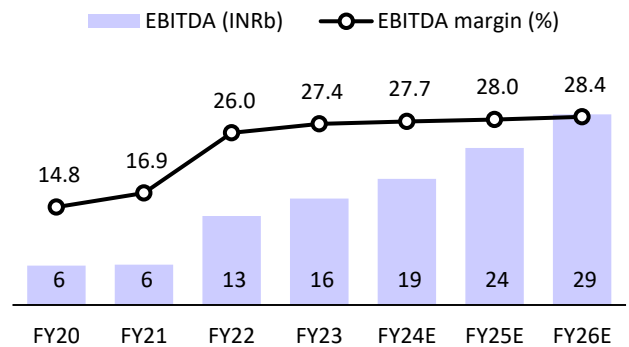
Source: MOFSL, Company

Exhibit 8: Network revenue to see 21% CAGR over FY24-26



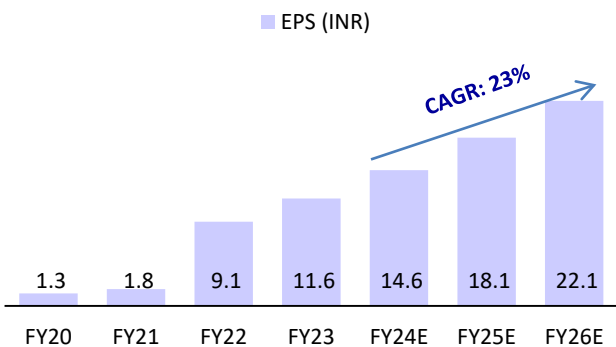
Source: MOFSL, Company

Exhibit 9: Expect EBITDA margin to expand ~70bp to 28.4% over FY24-26



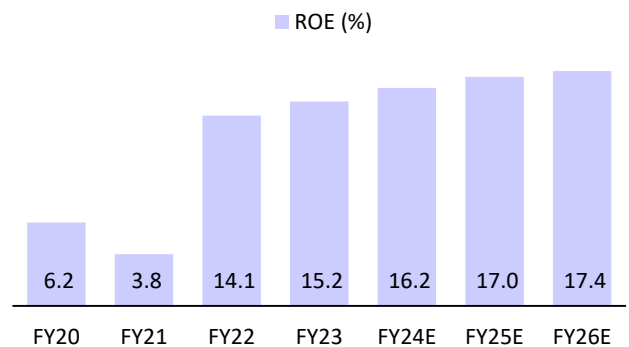
Source: MOFSL, Company

Exhibit 10: EPS to clock 23% CAGR over FY24-26



Source: MOFSL, Company

Exhibit 11: Expect ROE to stabilize at ~17% over FY24-26



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	40,264	36,010	51,710	58,750	68,767	84,635	1,01,370
Change (%)	12.1	-10.6	43.6	13.6	17.1	23.1	19.8
Total Expenditure	34,310	29,920	38,270	42,680	49,719	60,937	72,581
% of Sales	85.2	83.1	74.0	72.6	72.3	72.0	71.6
EBITDA	5,954	6,090	13,440	16,070	19,049	23,698	28,789
Margin (%)	14.8	16.9	26.0	27.4	27.7	28.0	28.4
Depreciation	2,087	2,160	2,480	2,600	2,707	3,227	3,438
EBIT	3,866	3,930	10,960	13,470	16,342	20,471	25,351
Int. and Finance Charges	3,135	1,870	1,120	390	-466	-172	-127
Other Income	1,013	280	470	290	309	592	659
PBT bef. EO Exp.	1,743	2,340	10,310	13,370	17,117	21,235	26,137
EO Items	-520	-2,790	-500	-390	-420	0	0
PBT after EO Exp.	1,223	-450	9,810	12,980	16,697	21,235	26,137
Total Tax	-32	500	1,430	-300	2,839	3,652	4,705
Tax Rate (%)	-2.6	-111.1	14.6	-2.3	17.0	17.2	18.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	1,256	-950	8,380	13,280	13,859	17,583	21,432
Adjusted PAT	1,308	1,755	8,807	11,226	14,196	17,583	21,432
Change (%)	NA	34.2	401.8	27.5	26.5	23.9	21.9
Margin (%)	3.2	4.9	17.0	19.1	20.6	20.8	21.1

Consolidated - Balance Sheet							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	9,045	9,660	9,696	9,696	9,696	9,696	9,696
Total Reserves	24,815	47,721	57,484	71,004	84,862	1,02,445	1,23,877
Net Worth	33,860	57,380	67,180	80,700	94,559	1,12,141	1,33,573
Total Loans	19,270	11,280	9,180	6,820	4,820	2,820	2,820
Deferred Tax Liabilities	20	1,580	1,850	-500	-500	-500	-500
Capital Employed	53,150	70,240	78,210	87,020	98,879	1,14,461	1,35,893
Gross Block	25,767	29,900	37,100	39,210	43,885	52,510	60,416
Less: Accum. Deprn.	2,087	2,160	2,480	2,600	5,307	8,534	11,972
Net Fixed Assets	23,680	27,740	34,620	36,610	38,578	43,976	48,444
Goodwill on Consolidation	7,680	37,730	37,730	37,730	37,730	37,730	37,730
Intangibles	2,515	6,580	6,880	6,810	6,810	6,810	6,810
Capital WIP	0	0	0	0	4,675	5,820	4,414
Total Investments	21,380	20	20	20	20	20	20
Curr. Assets, Loans&Adv.	8,625	17,779	17,192	22,997	31,100	44,724	67,901
Inventory	940	740	830	1,040	1,212	1,485	1,769
Account Receivables	3,245	3,157	4,533	4,340	6,029	7,420	8,887
Cash and Bank Balance	4,110	6,660	6,150	15,650	16,307	26,524	46,112
Loans and Advances	330	7,222	5,679	1,967	7,552	9,295	11,132
Curr. Liability & Prov.	10,730	19,609	18,233	17,147	20,034	24,619	29,425
Account Payables	4,664	3,946	5,667	6,438	7,500	9,193	10,949
Other Current Liabilities	5,487	7,574	8,369	5,940	6,953	8,557	10,249
Provisions	579	8,089	4,197	4,768	5,581	6,869	8,227
Net Current Assets	-2,105	-1,830	-1,040	5,850	11,066	20,105	38,475
Appl. of Funds	53,150	70,240	78,210	87,020	98,879	1,14,462	1,35,893

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	1.3	1.8	9.1	11.6	14.6	18.1	22.1
Cash EPS	3.5	4.0	11.6	14.3	17.4	21.5	25.7
BV/Share	34.9	59.2	69.3	83.2	97.5	115.7	137.8
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	596.8	444.6	88.6	69.5	55.0	44.4	36.4
Cash P/E	229.9	199.3	69.1	56.4	46.2	37.5	31.4
P/BV	23.0	13.6	11.6	9.7	8.3	7.0	5.8
EV/Sales	12.1	19.4	15.1	13.1	11.2	8.9	7.3
EV/EBITDA	81.5	114.9	58.3	48.0	40.4	31.9	25.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	4.9	4.7	4.4	17.8	1.9	11.8	19.4
Return Ratios (%)							
RoE	6.2	3.8	14.1	15.2	16.2	17.0	17.4
RoCE	13.5	14.6	13.5	17.2	14.8	16.3	17.0
RoIC	16.3	18.2	13.8	19.2	18.2	21.2	24.8
Working Capital Ratios							
Fixed Asset Turnover (x)	1.6	1.2	1.4	1.5	1.6	1.6	1.7
Asset Turnover (x)	0.8	0.5	0.7	0.7	0.7	0.7	0.7
Inventory (Days)	9	8	6	6	6	6	6
Debtor (Days)	29	32	32	27	32	32	32
Creditor (Days)	42	40	40	40	40	40	39
Leverage Ratio (x)							
Current Ratio	0.8	0.9	0.9	1.3	1.6	1.8	2.3
Interest Cover Ratio	1.2	2.1	9.8	34.5	-35.1	-119.1	-199.8
Net Debt/Equity	-0.2	0.1	0.0	-0.1	-0.1	-0.2	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR m)							
OP/(Loss) before Tax	1,743	2,340	10,310	13,370	16,697	21,235	26,137
Depreciation	2,087	2,160	2,480	2,600	2,707	3,227	3,438
Interest & Finance Charges	3,135	1,870	1,120	390	-775	-764	-786
Direct Taxes Paid	32	-500	-1,430	300	-2,839	-3,652	-4,705
(Inc)/Dec in WC	-3,188	2,275	-1,300	2,609	-4,558	1,177	1,218
CF from Operations	3,811	8,145	11,180	19,269	11,232	21,223	25,302
Others	0	0	0	0	0	0	0
CF from Operating incl EO	3,811	8,145	11,180	19,269	11,232	21,223	25,302
(Inc)/Dec in FA	-924	-4,060	-6,880	-1,990	-9,350	-9,770	-6,500
Free Cash Flow	2,887	4,085	4,300	17,279	1,882	11,453	18,802
(Pur)/Sale of Investments	-21,358	21,360	0	0	0	0	0
Others	1,013	280	470	290	309	592	659
CF from Investments	-21,269	17,580	-6,410	-1,700	-9,041	-9,178	-5,841
Issue of Shares	2,045	615	37	0	0	0	0
Inc/(Dec) in Debt	6,606	-7,990	-2,100	-2,360	-2,000	-2,000	0
Interest Paid	-3,135	-1,870	-1,120	-390	466	172	127
Dividend Paid	0	0	0	0	0	0	0
CF from Fin. Activity	5,516	-9,246	-3,183	-2,750	-1,534	-1,828	127
Inc/Dec of Cash	-11,943	16,480	1,587	14,819	657	10,217	19,588
Opening Balance	0	4,110	6,660	6,150	15,650	16,307	26,524
Closing Balance	4,110	6,660	6,150	15,650	16,307	26,524	46,112

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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