30 August 2023

Company Update | Sector: Healthcare

Max Healthcare

BSE SENSEX	S&P CNX
65,087	19,347

Stock Info

Bloomberg	MAXHEALT IN
Equity Shares (m)	970
M.Cap.(INRb)/(USDb)	558.9 / 6.8
52-Week Range (INR)	630 / 365
1, 6, 12 Rel. Per (%)	-4/23/39
12M Avg Val (INR M)	1476
Free float (%)	76.2

Financials & Valuations (INR b)

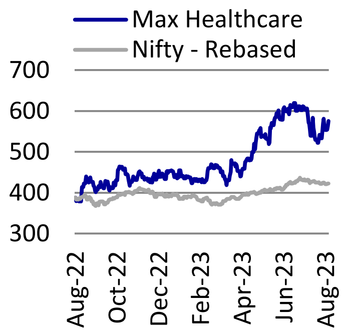
Y/E MARCH	FY23	FY24E	FY25E
Sales	58.8	70.1	79.7
EBITDA	16.1	19.8	22.3
Adj. PAT	11.2	14.6	16.6
EBIT Margin (%)	22.9	24.4	24.3
Cons. Adj. EPS (INR)	11.6	15.0	17.1
EPS Gr. (%)	27.5	29.8	13.8
BV/Sh. (INR)	83.2	98.1	115.2
Ratios			
Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	15.2	16.6	16.0
RoCE (%)	17.2	15.4	15.4
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	49.7	38.3	33.6
EV/EBITDA (x)	34.1	27.5	24.0
Div. Yield (%)	9.3	7.8	6.7
FCF Yield (%)	3.1	0.5	1.8
EV/Sales (x)	9.3	7.8	6.7

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

Stock Performance (1-year)



CMP: INR575 TP: INR660 (+15%) Buy

Impressive track record, robust outlook to sustain re-rating

Demand tailwinds to drive better valuation for industry as well

- **MAXHEALTH is currently trading at 24x FY25E EV/EBITDA, representing a premium to its historical average of 22x. Moreover, it is also trading at a premium to its hospital peers (21x FY25E EV/EBITDA).**
- **However, we expect MAXHEALTH to continue trading at a premium on relative basis, backed by: a) significant land bank availability in high-demand areas of Delhi for brownfield expansion, b) focused approach to improve profitability per bed, and c) proven capability of strong turnaround of hospital assets.**
- **In fact, given strong demand tailwinds on account of a) increased insurance penetration, b) higher international patient flow, and c) enhanced healthcare awareness, we expect the valuation at the sector level to further improve going forward.**
- **We reiterate BUY with a TP of INR660, based on SOTP (25x EV/EBITDA on 12M forward basis for hospital business, 17x EV/EBITDA for Max Lab business, and 4x EV/sales for Max @ Home business).**

MAXHEALT's valuation moves in congruence with its operating performance

- Its 1Y forward EV/EBITDA has improved to 24x currently from 12x when it was listed in Aug'20.
- This improvement was fueled by continued expansion in ROE, reaching near 15% in FY23 from a mere 6% in FY20.
- After the Radiant-Max deal in FY20, MAXHEALT witnessed robust improvement in operating performance, with EBITDA reporting a 47% CAGR over FY19-23 and margins increasing to 27%+ from ~10% over the same period.
- This strong performance was driven by a 13% revenue CAGR and cost savings that propelled its operating leverage during FY19-23.
- Over FY19-23, ARPOB posted a 10% CAGR, led by improvement in payor/case mix. Additionally, occupancy improved to 76% (vs. 72%) with bed capacity remaining stable over the same period.

Hospital sector trading at 21x FY25E EV/EBITDA on 12M forward basis

- Currently, the hospital sector is trading at 21x FY25E EV/EBITDA as compared to 15-16x 12M forward EV/EBITDA in pre-Covid phase.
- The sector witnessed an ROE expansion due to profitability improvement, led by healthy operating leverage over FY19-23.
- Operating parameters, such as ARPOB and occupancy, saw improvements.
- This also led to increased capital allocation toward bed capacity expansion through both organic as well as inorganic routes.

Demand tailwinds indicate further expansion in valuation multiple at sector level

- The changing lifestyle supported by increased awareness about good health is expected to drive demand for better healthcare service.

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- The ecosystem has turned favorable with further support from insurance penetration. Health insurance premium collections saw a robust 17% CAGR to reach more than USD11b over FY16-23. While the average realization per patient is relatively lower for those with insurance vs. out-of-pocket payments, insured patients tend to expect improved services due to their investments in healthcare premiums.
- Over the years, India has become a premier and attractive destination for travelers from across the world to attain best-in-class clinical treatment. As of 2020, the medical value tourism market in India was ~USD3b. It is projected to surge to more than USD13b by 2026.
- However, the overall bed density is merely 1.5x, with the situation being far worse in rural than urban areas.
- Basis these factors, we believe that the healthcare sector is in good position for further re-rating going forward.

Max Healthcare – well placed to benefit from the opportunity

- MAXHEALT has a proven track record of superior profitability and earnings growth over FY19-23, with 13%/47% CAGRs in revenue/EBITDA. Moreover, EBITDA margin expanded significantly by ~1,800bp to nearly 27% over the same period, led by higher focus on improving operational efficiency. Moreover, earnings grew ~9x to ~INR11b over FY20-23.
- MAXHEALT has planned aggressive bed expansion to more than double its current bed capacity to ~3,550 beds. Interestingly, ~75% of the bed addition will be done through the brownfield expansion, aiding better visibility.
- There is a large scope of improvement in ARPOB with the optimization of case mix/payor mix. MAXHEALT is focusing on improving payor mix through increasing the revenue share of the insurance segment and focus on international patient flow. Likewise, we expect MAXHEALT to post a 22% earnings CAGR over FY23-25.
- Additionally, there is scope for inorganic growth for MAXHEALT on the back of healthy cash position. It had surplus cash of INR9.6b at the end of 1QFY24.

MAXHEALT ranks better than peers on operational parameters

- MAXHEALT's EBITDA per bed was INR6.4m/INR6.7m in FY23/1QFY24. RAINBOW ranks second with EBITDA per bed of INR6.0m/INR6.6m in FY23/1QFY24. During FY19-23, MAXHEALT's EBITDA per bed saw a 35% CAGR, the highest among peers.
- Moreover, the company's ARPOB is the highest at INR75k in 1QFY24 vs. the second-positioned MEDANTA with ARPOB of INR63k. MAXHEALT's ARPOB is the highest as it has ~85% of beds in metro cities of Delhi/Mumbai. Additionally, it had the highest occupancy at 74% in 1QFY24.

Valuation and view

- Better realization and improving operational efficiency are expected to drive a 22% earnings CAGR over FY23-25. It is implementing efforts on bed additions (780 beds; 23% increase from current bed size) to improve growth momentum over the next three to five years. It continues to evaluate inorganic opportunities as well.
- We reiterate BUY with a TP of INR660, based on SOTP. (25x EV/EBITDA on 12M forward basis for hospital business, 17x EV/EBITDA for Max Lab business, and 4x EV/sales for Max @ Home business).

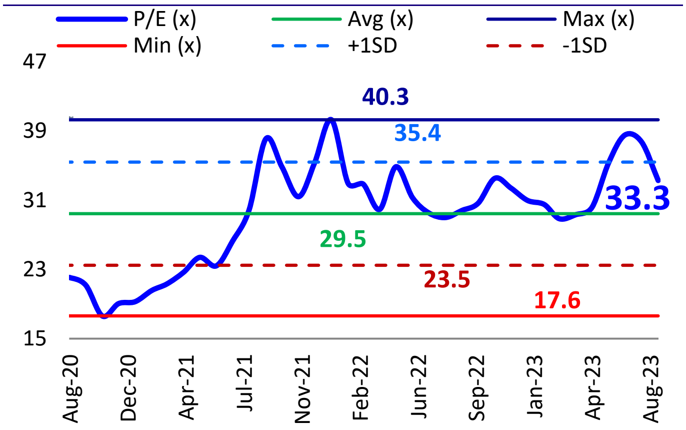
Re-rating led by strong operating performance

- **Since its listing, MAXHEALT's valuation has moved in congruence with improving profitability; the stock is currently trading at 24x FY25E EV/EBITDA.**
- **MAXHEALT is currently trading at a 14% premium to industry average of 21x FY25E EV/EBITDA.**
- **With EPS surging ~11x over FY20-23, MAXHEALT witnessed its return ratios improve considerably to 15% in FY23 from a mere 6% in FY20. This was driven by higher operating leverage with EBITDA margin expanding notably by 1,800bp to nearly 28% over FY19-23.**
- **ARPOB posted a 10% CAGR over FY19-23, led by payor/case mix improvement. Additionally, the company's occupancy improved to 76% (vs. 72%), with bed capacity remaining stable over the same period.**

Since listing, the stock has moved in tandem with profitability

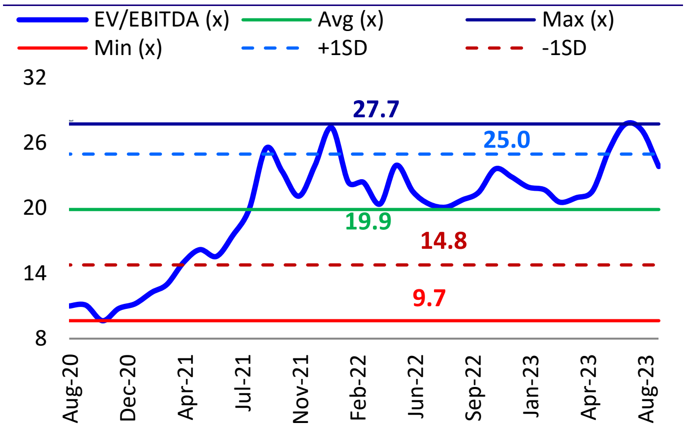
- During FY19-23, the stock price movement (5x appreciations since listing in FY20) strongly depicts its financial performance.
- Over the same period, MAXHEALT has delivered strong operational performance with margins surging 1,800bp to an all-time high level of ~28%. Moreover, ROE also improved to ~15% in FY23 from a mere 6% in FY20.

Exhibit 1: MAXHEALT's P/E chart



Source: MOFSL, Company

Exhibit 2: EV/EBITDA chart

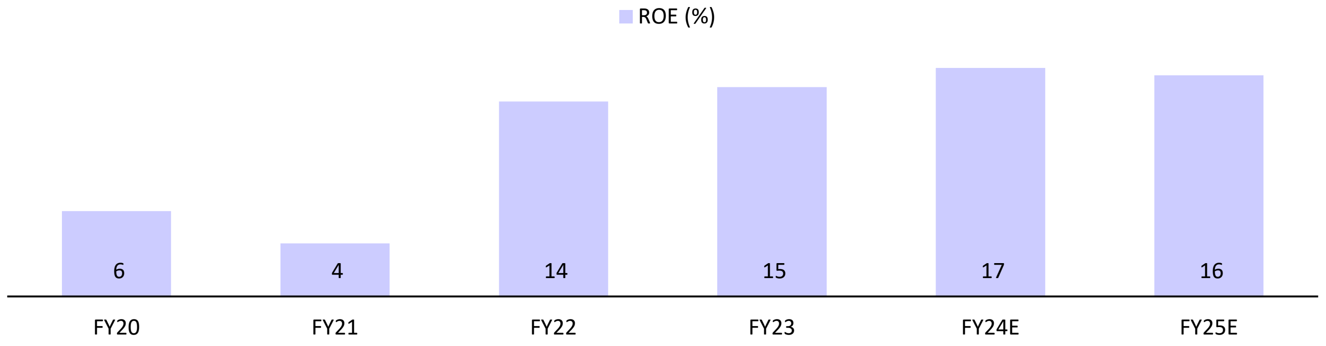


Source: MOFSL, Company

ROE improves significantly over FY19-23

- MAXHEALT's ROE rose to 15% in FY23 from 6% in FY20.
- After the Radiant-Max healthcare merger, MAXHEALTH identified several operational inefficiencies in Max's chain of hospitals. MAXHEALTH worked on various parameters such as: a) payor mix, b) case mix, c) attracting international patient flow, d) cost management, and d) closing unviable units.
- This not only enabled improvement in growth prospects but also increased the return ratios significantly.
- EPS surged ~11x over FY20-23.
- We expect ROE to improve ~100bp to reach 16% over FY23-25. This will be due to healthy operating leverage, leading to increase in profitability.

Exhibit 3: ROE reached ~15% in FY23



Source: MOFSL, Company

Exhibit 4: DuPont analysis indicates expanding margins led to a sharp ROE expansion over FY19-23

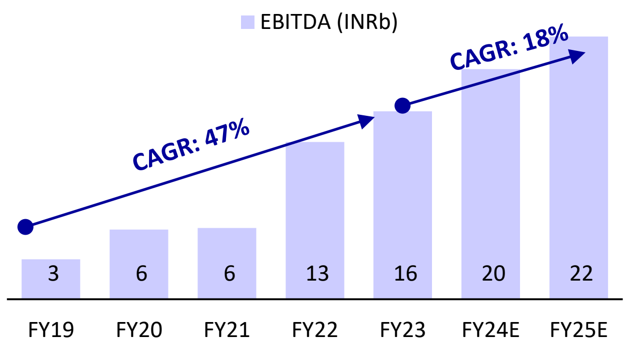
	FY19	FY20	FY21	FY22	FY23
NPM (%)	(0.0)	3.2	4.9	17.0	19.1
Asset turnover(x)	1.5	1.6	1.2	1.4	1.5
Equity multiplier(x)	3.0	1.2	0.7	0.6	0.5
ROE (%)	(0.2)	6.2	3.8	14.1	15.2

Source: MOFSL, Company

Profitability improves sharply during FY19-23

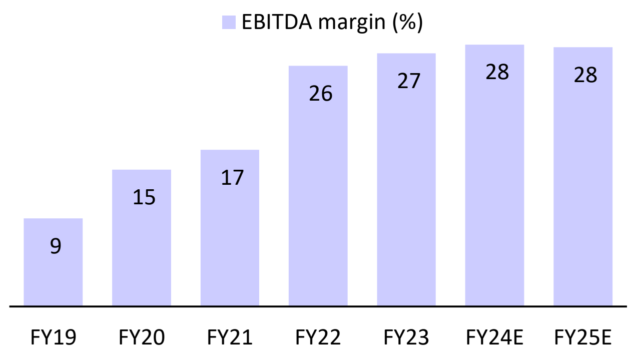
- Several cost control measures were adopted including savings of nearly INR3.3b over FY20 and FY21. Some of the cost-saving initiatives incorporated were: a) renegotiation of contracts across material and other indirect costs, b) shut down of unviable units (Greater Noida), c) personnel cost management by realigning roles and responsibilities and d) reduction in corporate overheads.
- During FY19-23, MAXHEALT's revenue/EBITDA clocked 13%/47% CAGR. Moreover, EBITDA margin expanded significantly by ~1,800bp to nearly 27% over the same period led by higher focus on improving operational efficiency.
- In 1QFY24, EBITDA margin remained flat YoY at 26.4%. Despite 1Q being a seasonally weak quarter vs. 4Q, the EBITDA per bed remained consistent QoQ while increasing 14% YoY to INR7m.

Exhibit 5: EBITDA exhibited 47% CAGR over FY19-23



Source: MOFSL, Company

Exhibit 6: EBITDA margin expanded 1,800bp over FY19-23

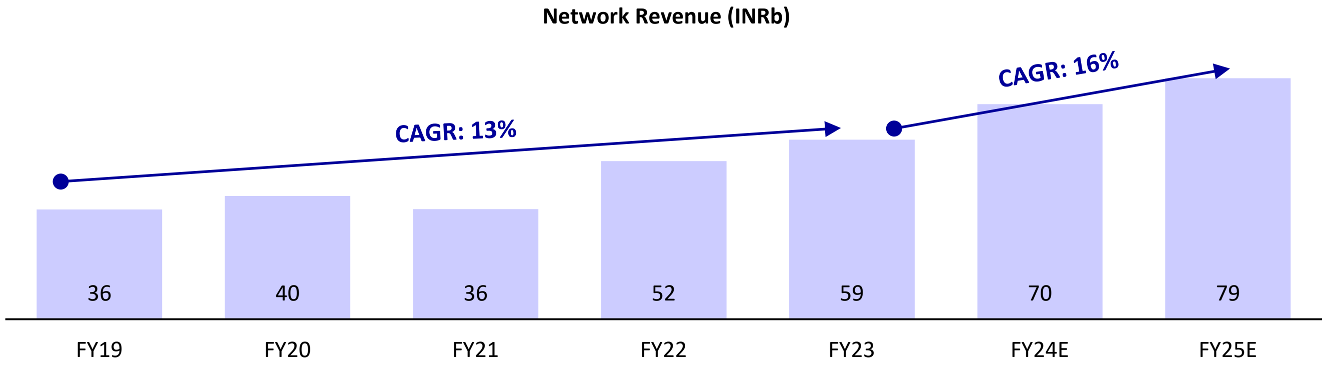


Source: MOFSL, Company

Revenue clocks 13% CAGR during FY19-23

- MAXHEALT' network revenue reported 13% CAGR over FY19-23 led by strong ARPOB growth and occupancy improvement.

Exhibit 7: Network revenue witnessed 13% CAGR over FY19-23



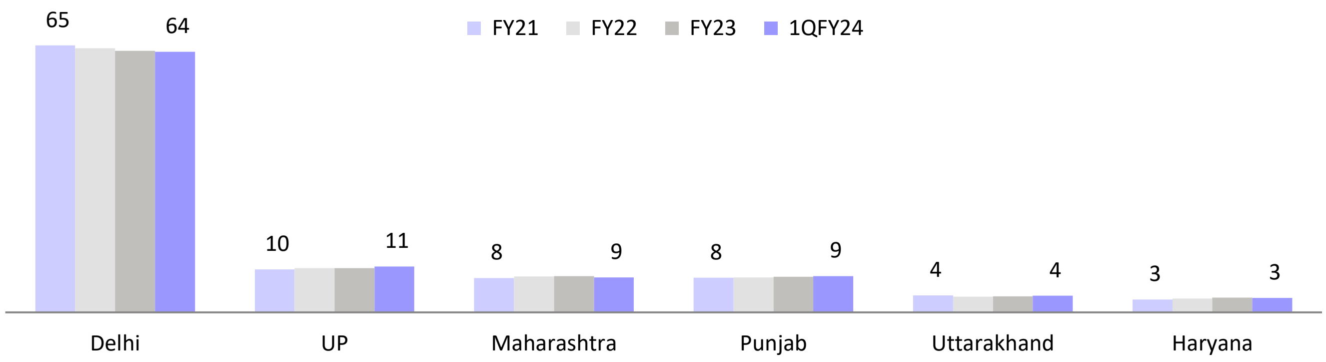
Source: MOFSL, Company

- In 1QFY24, MAXHEALT's network revenue grew 17% YoY to INR16k.

Delhi has the largest revenue concentration for MAXHEALTH

- Geographically, Delhi has maintained its contribution at ~65% to the hospitals revenue since FY21.

Exhibit 8: Delhi contributed ~65% to the hospital segment's gross revenue (%)



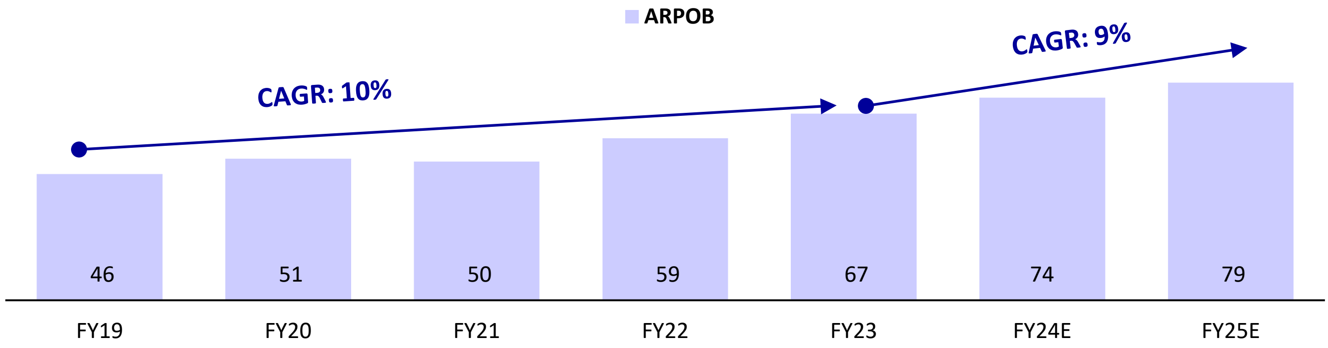
Source: MOFSL, Company

- This skewness towards metro city like Delhi and focus on quaternary treatments have led to 11% CAGR in ARPOB to ~INR75K over FY20-23. Interestingly, it is also the highest among the listed hospital players.
- Moreover, the improving demand of quality healthcare and significant presence of MAXHEALT in Delhi have led to ~76% occupancy level.

ARPOB posts 10% CAGR over FY19-23

- MAXHEALT posted an ARPOB of more than INR67k in FY23 vs. INR46k in FY19.
- It was led by improvement in payor mix with insurance segment's share in revenue growing to 38% from 26% over the same period.

Exhibit 9: ARPOB witnessed 10% CAGR over FY19-23



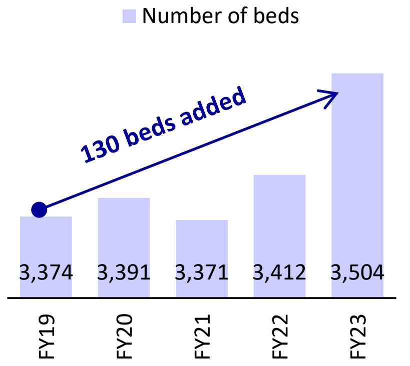
Source: MOFSL, Company

- On the other hand, cash and institutional share declined to 36%/17% from 41%/22% respectively.
- Similarly, case mix improved over FY19-23 with increased share of high-end specialty treatment such as oncology (23% revenue share in FY23 vs. 21% in FY20).
- We expect ARPOB to reach near INR79k by FY25 led by continued improvement in payor/case mix.

Occupancy improved to 76% over FY19-23

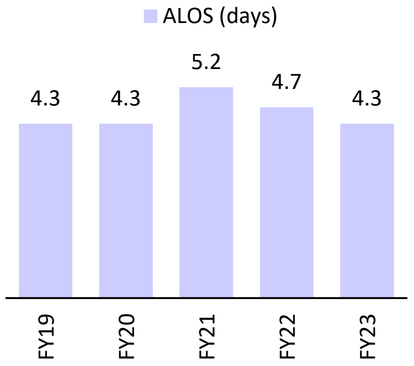
- MAXHEALT reported occupancy of 76% in FY23 vs. 72% in FY19. However, it reported occupancy of 74% in 1QFY24.
- It had 3,386 operational beds at the end of 1QFY24 vs. 3,243 operational beds in FY19, an increase of a mere 143 beds.

Exhibit 10: MAXHEALT had more than 3,500 total beds at end-FY23



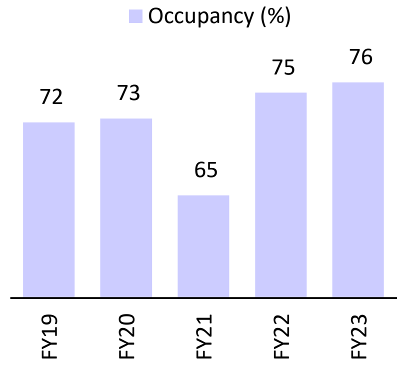
Source: MOFSL, Company

Exhibit 11: ALOS reduced YoY to 4.3 days in FY23…



Source: MOFSL, Company

Exhibit 12: …leading to occupancy improving to 76% in FY23



Source: MOFSL, Company

- Additionally, its ALOS also improved to 4.3 days in FY23 vs. 5.2 days in FY21. In 1QFY24, ALOS improved to 4.1 days.
- ALOS increased to 5.2 days during FY21 as electives were replaced with Covid patients who took more time to recover. During FY22, while electives resumed slowly, this was offset by severe second wave and milder third Covid wave.

Hospital sector delivered remarkable performance post-Covid

- **We have taken MAXHEALT, APHS, MEDANTA, NARH, FORH, KIMS and RAINBOW for hospital industry analysis.**
- **Hospitals industry is currently trading at 21x FY25E EV/EBITDA as compared to its long-term average of 20x.**
- **Hospitals sector witnessed margin expansion leading to an increase in ROE because of operating leverage over FY19-23.**
- **The industry witnessed robust ARPOB growth with overall focus on improving payor mix and case mix. Additionally, occupancy levels increased after witnessing a decline in FY21 due to the pandemic.**

Hospitals' valuations near long-term average

- Hospital sector is currently trading at 21x FY25 EV/EBITDA vs. its long-term average multiple of 20x.
- Except MAXHEALT, the rest of the hospitals are trading below or near their historical average. NARH/FORH are trading at 17x/17x FY25E EV/EBITDA as compared to historical EV/EBITDA average of 19x/20x. On the other hand, APHS is trading near its historical average of 23x EV/EBITDA.

Exhibit 13: Hospitals currently trading at 21x FY25E EV/EBITDA

	FY25 EV/EBITDA	LTA
MEDANTA	21	NA
APHS	23	23
MAXHEALT	**24**	**22**
NARH	17	19
KIMS	20	18
RAINBOW	22	NA
FORH	17	20

Source: MOFSL, Company

Hospital sector's ROE improved sharply over FY19-23…

- ROE of the hospital sector increased to 19% in FY23 from a mere 5% in FY19.

Exhibit 14: ROE of hospitals expanded during FY19-23

	FY19	FY20	FY21	FY22	FY23
MEDANTA	5.4	3.6	2.6	13.3	16.1
APHS	7.2	9.8	2.2	19.1	11.7
MAXHEALT	**-0.2**	**6.2**	**3.8**	**14.1**	**15.2**
NARH	5.6	10.7	- 1.3	26.2	33.5
KIMS	-8.6	19.9	23.3	24.0	20.1
RAINBOW	24.0	14.3	9.4	26.4	25.4
FORH	1.0	12.7	-4.4	6.1	7.1

Source: MOFSL, Company

- The post-Covid surge in elective surgeries, rising number of Outpatient (OPD) cases partly on rising healthcare awareness and operational excellence drove the strong margin expansion during FY19-23.

Exhibit 15: PAT margin of hospitals expanded over FY19-23

	FY19	FY20	FY21	FY22	FY23
MEDANTA	4.8	3.2	2.4	9.2	12.1
APHS	2.5	2.9	0.8	6.7	4.2
MAXHEALT	**0**	**3.2**	**4.9**	**17.0**	**19.1**
NARH	2.1	3.8	-0.6	9.2	13.4
KIMS	-5	10	15	20	15
RAINBOW	8.2	7.7	6.2	14.2	18.0
FORH	1.2	18.2	-7.1	7.1	8.2

Source: MOFSL, Company

…led by higher profitability due to operating leverage

- Hospital industry witnessed 36% EBITDA CAGR over FY19-23 led by cost optimization. This resulted in healthy operating leverage with margins expanding ~960bp on an average over the same period.

Exhibit 16: EBITDA margin of Hospitals expanded 960bp over FY19-23

	FY19	FY20	FY21	FY22	FY23	1QFY24	Margin expansion from FY19-23(bp)
MEDANTA	12.8	13.2	13.7	20.9	23.0	25.1	1,024
APHS	17.9	18.8	13.8	22.6	24.6	23.6	668
MAXHEALT	9.5	14.8	16.9	26.0	27.4	26.4	1,785
NARH	12.3	12.6	1.0	13.1	18.3	18.2	602
KIMS	19.0	22.4	28.6	32.5	25.9	25.5	698
RAINBOW	27.9	27.9	25.4	31.3	33.8	30.5	588
FORH	3.4	12.0	9.4	16.0	16.9	15.2	1,346

Source: MOFSL, Company

Exhibit 17: EBITDA per bed witnessed robust growth over FY19-23

	FY19	FY20	FY21	FY22	FY23	1QFY24	CAGR FY19-23(%)
MEDANTA	2.1	2.4	2.4	4.2	5.1	5.7	25
APHS	1.9	2.1	1.7	3.6	4.2	4.5	23
MAXHEALT	1.4	2.6	3.0	5.7	6.4	7.0	46
NARH	0.8	1.4	0.8	1.5	2.3	2.6	30
KIMS	1.5	1.9	2.6	3.5	2.4	2.5	13
RAINBOW	NA	3.6	4.6	6.0	6.0	6.6	19
FORH	0.5	1.8	1.4	2.7	3.1	3.2	59

Note: Data is of India hospitals; RAINBOW data is from FY20

Source: MOFSL, Company

Hospitals' revenue posted 16% CAGR over FY19-23

- During FY19-23, the hospital sector posted 14% revenue CAGR.
- KIMS and RAINBOW posted robust growth of ~22% due to low base while MEDANTA posted 17% growth over the same period.

Exhibit 18: Hospitals' revenue witnessed 14% CAGR from FY19-23

	FY19	FY20	FY21	FY22	FY23	FY19-23 CAGR (%)
MEDANTA	15	15	14	22	27	17
APHS	51	57	50	80	87	14
MAXHEALT	36	40	36	52	59	13
NARH	25	27	21	30	36	10
KIMS	9	11	13	17	22	25
RAINBOW	5	7	7	10	12	21
FORH	35	38	31	43	51	10

Source: MOFSL, Company

ARPOB witnessed robust growth at industry level in FY23

- During FY19-23, ARPOB of hospitals industry witnessed 10% CAGR led by improving payor mix and case mix.
- The industry focussed on optimizing the payor mix towards higher share of insurance segment. After Covid-19, rising awareness of insurance benefits led to more people opting for health insurance.
- This trend led insurance payors' share in revenue to increase at a higher rate to 35% in FY23 from 25% in FY20.

Exhibit 19: Industry ARPOB witnessed 10% CAGR over FY19-23 (INR'000)

	FY19	FY20	FY21	FY22	FY23	1QFY24	CAGR FY19-23 (%)
MEDANTA	45	50	48	55	59	63	7
APHS	34	37	40	45	52	58	11
MAXHEALT	46	51	50	59	67	75	10
NARH	25	27	28	32	35	37	9
KIMS	18	18	21	25	30	32	13
RAINBOW	NA	35	49	52	49	60	NA
FORH	42	44	43	49	55	60	7

Note: Data is of India hospitals; RAINBOW data is from FY20
Source: MOFSL, Company

- Moreover, the hospitals have been focussing on high-end specialty treatment such as oncology, transplant and neurology. These treatments are high-paying surgeries, which have led to increase in overall ARPOB.

Industry witnessed rise in occupancy levels after Covid-19

- After averaging around 50% in FY21, industry witnessed a steep rise in occupancy levels to 63% in FY23 as elective surgeries resumed.
- During FY19-23, hospitals (MEDANTA/APHS) that had significant bed additions witnessed decline in occupancy levels. However, KIMS witnessed an increase in occupancy despite operating bed capacity increasing at nearly 45% over the same period.
- Hospitals that had a miniscule increase in bed capacity such as (MAXHEALT/ NARH/RAINBOW/FORH) witnessed stable occupancy levels over FY19-23.

Exhibit 20: Industry occupancy increased after the pandemic (%)

	FY19	FY20	FY21	FY22	FY23	1QFY24
MEDANTA	65	55	52	61	59	58
APHS	68	67	55	63	64	62
MAXHEALT	74	71	65	75	76	74
NARH	44	47	33	44	49	50
KIMS	49	56	58	59	69	70
RAINBOW	NA	56	34	45	55	41
FORH	67	68	55	63	67	64

Note: Data is of India hospitals; RAINBOW data is from FY20; NARH 1QFY24 occupancy is estimated
Source: MOFSL, Company

Exhibit 21: Operating beds of MAXHEALT recorded flat CAGR during FY19-23

	FY19	FY20	FY21	FY22	FY23	1QFY24	FY19-23 CAGR (%)
MEDANTA	1,348	1,517	1,579	1,779	2,049	2223	11
APHS	7,246	7,491	7,409	7,875	7,860	7798	2
MAXHEALT	3,243	3,234	3,114	3,143	3,282	3386	0
NARH	5,792	5,859	5,992	5,801	5,888	5675	0
KIMS	2,390	2,434	2,590	2,590	3,468	3503	10
RAINBOW	NA	990	1,053	1,147	1,186	1290	6
FORH	3,691	3,652	3,743	3,931	3,975	4071	2

Note: Data is of India hospitals; RAINBOW data is from FY20
Source: MOFSL, Company

Huge capex planned over the next few years

- The next leg of growth is likely to come from bed expansion as planned by a majority of the hospital chains over the next 4-5 years.

- Overall, hospital companies have planned aggressive bed expansion through a mix of Greenfield, brownfield and inorganic route.

Exhibit 22: Hospital capex plans for next few years

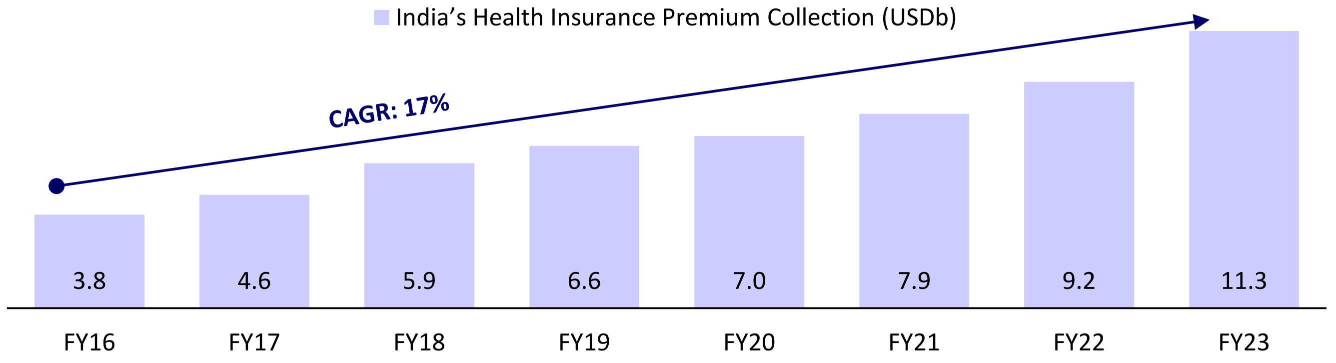
	Total beds (FY23)	Bed addition planned	Time period	Total planned capex (INR b)	Planned capex per bed (INR m)	Nature of expansion
MEDANTA	2,571	1,500	3 years	11.0	7.3	Greenfield/brownfield
APHS	9,385	2,000	3-4 years	30.0	15.0	Greenfield/brownfield
MAXHEALT	3,504	4,161	>5 years	28.9	7.0	75% brownfield
NARH	5,888	NA	NA	NA	NA	NA
KIMS	3,940	2,125	3-4 years	16.8	7.9	Greenfield/brownfield
RAINBOW	1,655	1,000	5 years	7.0	7.0	Greenfield/brownfield
FORH	4,032	1,400	5 years	3.5	2.5	Brownfield/inorganic

Source: MOFSL, Company

Improved insurance penetration benefits patients as well as healthcare service providers

- Health insurance penetration in India continues to be low. The pandemic accelerated the adoption of health insurance from the perspectives of insurers, the healthcare ecosystem, consumers, and the regulator.
- The health insurance sector surged with premium collections witnessing 17% CAGR to reach more than USD11b over FY16-23. Moreover, collections increased ~23% YoY in FY23.
- The continued increase in insurance penetration across cities is expected to improve healthcare affordability in India.

Exhibit 23: Health insurance premium collection in India witnessed 17% CAGR over FY16-23



Source: MOFSL, Company

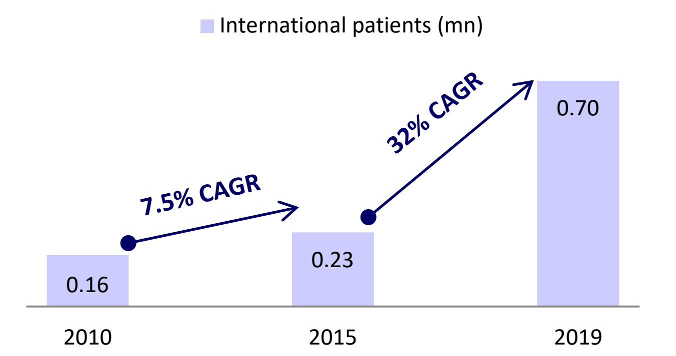
- While the average realization per patient is relatively lower for those with insurance vs. out-of-pocket payments, insured patients tend to have improved service expectations due to their investments in healthcare premiums.
- This not only enhances better service requirement but also improves the occupancy of hospitals, thereby driving superior operating leverage.
- Accordingly, increased insurance penetration is not only providing better visibility of earnings growth, but also driving expansion in valuation multiples.

Indian medical tourism: Hospital for the world!

- The healthcare costs in developed countries are relatively higher than India. Long waiting periods also contribute to the rise in medical value travel.
- Over the years, India has become a premier and attractive destination for travelers from across the world to attain the best-in-class clinical treatment.

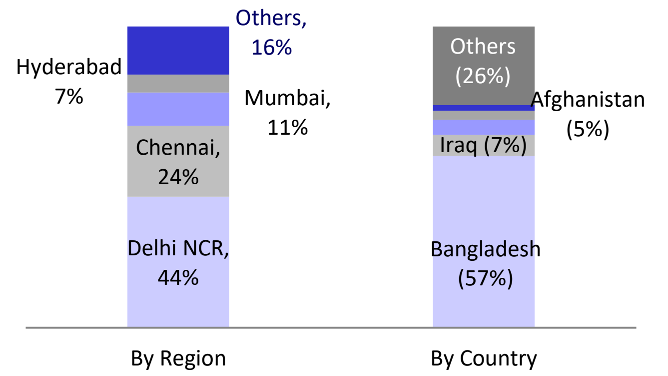
- India has been ranked 10th in Medical Tourism Index (MTI) over 2020-21 out of 46 global destinations, as ranked by the Medical Tourism Association. As per information provided by the Ministry of Tourism, the number of foreign tourists arriving in India for medical purpose increased 66% YoY to 0.3m in 2021.
- Medical value tourism in India is on a gradual uptrend, given the relatively low cost of surgery, critical care, advanced technology hospitals, and e-medical Visa.
- Previously, international patients coming for medical treatment in India used to face various regulatory hurdles like regular police inspections, etc. This used to discourage the patient category to opt India as a medical treatment destination.
- As of 2020, the medical value tourism market in India was ~USD3b. It is projected to surge to more than USD13b by 2026. This presents a unique opportunity to the Indian healthcare service providers to cater to the demands of foreign tourists (arriving for medical purposes).

Exhibit 24: Medical value tourism on the rise….



Source: MOFSL, Industry

Exhibit 25: …with largest influx in NCR from Asia



Source: MOFSL, Industry, Ministry of Tourism

- However, the new policies initiated by the Government of India (such as "Heal in India") have helped India rank among the top 10 countries for medical tourism. The Indian medical tourism is preferred especially among the Asian countries.
- This is benefitting hospitals in metro cities, particularly those which have better travel access. For instance, Delhi has been a prime beneficiary from international patients flow.
- Even this aspect (like insurance) is expected to drive further re-rating of the Hospital stocks.
- Delhi-NCR attracts ~44% share of MVT in India followed by Chennai (24%) and Mumbai (11%). Delhi-NCR attracts more patients due to the presence of the international airport, IGI in New Delhi, which connects to people from across the globe.
- **Given favorable demand factors and hospitals building capability/capacities to meet** demand**, we expect the valuation of the hospital sector to further improve from hereon.**

Enough scope of further re-rating over the next 4-5 years

- **MAXHEALT is currently trading at 24x FY25E EV/EBITDA, on par with its long-term average of 22x.**
- **We expect MAXHEALT to continue trading at a premium on relative bases due to: a) strong demand tailwinds in the Delhi-NCR market, b) prudent capital allocation policy leading to margin expansion of ~100bp to 29% by FY25E.**
- **In addition to operational optimization, MAXHEALTH has also embarked on a plan to add 480 beds by FY25E, catering to sustainable growth momentum over the next 4-5 years.**
- **While we value MAXHEALTH at 25x EV/EBITDA to arrive at our TP of INR660, factors, such as land bank availability for bed expansion, cost management and better realization per patient, provide enough confidence on stock re-rating in the next 2-3 years.**

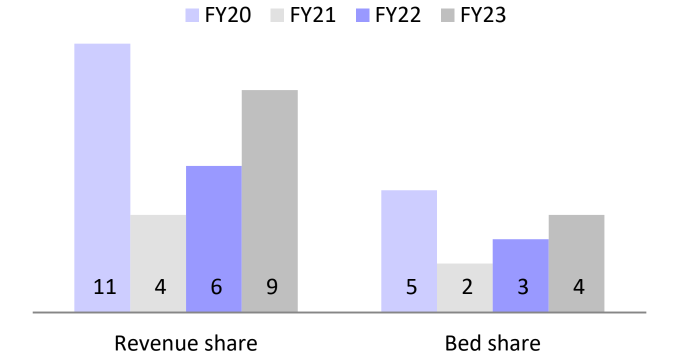
MAXHEALT can gain immensely from insurance penetration

- MAXHEALT has been focusing on optimizing the payor mix with increasing insurance payor share in revenue. The insurance revenue share has increased to ~39% in 1QFY24 from 26% in FY20.
- Conversely, MAXHEALT has reduced the institutional revenue share to 18% in 1QFY24 from 22% in FY20. It further plans to reduce this to 8-9% over next two years.

MAXHEALT: One of the largest beneficiaries of medical tourism

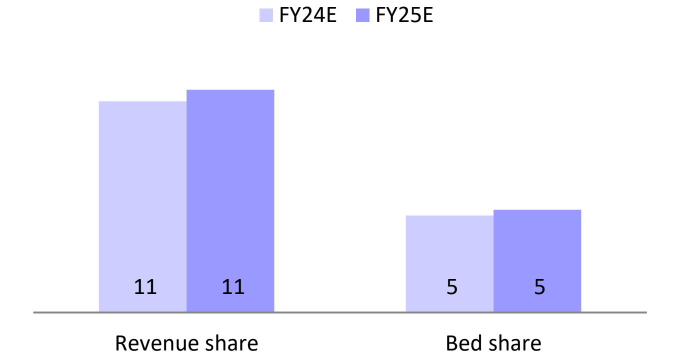
- MAXHEALT has the potential to benefit from this segment considerably due to its locational advantage with a majority of its facilities being near to the IGI Airport, New Delhi.
- Moreover, MAXHEALT also has a strong brand recall among international patients. In addition to the high-quality services, it also has a dedicated helpdesk for patients and their relatives to provide Visa, accommodation and other auxiliary services.
- Due to the Covid-induced travel restrictions, international patients' bed and revenue share declined to 3% and 6% in FY22 from 5% and 11% in FY20, respectively. However, as the pandemic normalizes and travel restrictions ease, we expect bed and revenue share of international patients to rebound to 5% and 11% by FY25, respectively. International patients have the highest ARPOB, averaging nearly INR120,000 during FY20-23.

Exhibit 26: International patients' share improved post-Covid (%)...



Source: MOFSL, Company

Exhibit 27: ...and is likely to improve further going forward (%)



Source: MOFSL, Company

- Delhi-NCR is connected to ~60% of global population. Radiant has already been benefited with this opportunity. With the addition of MAXHEALT-chain of hospitals, it can look to attract patients from other countries where healthcare costs are high and not affordable to everyone.
- Particularly, Onco, Ortho and Cardiac represent the top 3 specialties for which international patients travel to India. Interestingly, Onco and Cardiac specialties are MAXHEALT's strength (these two specialties accounted for more than one-third of its 1QFY24 revenue). With demand for these specialties expected to rise, we believe MAXHEALT is in a strong footing to attract international patients.
- MAXHEALT provides a host of services to its international patients such as help in getting travel Visa, language support, customized food and other patient support services. These further reduce the hurdles for patients and their family members, who are already under emotional stress.
- MAXHEALT also has tie-ups with global international medical tourism agencies to get potential patients to its facilities in India.

Brownfield expansion bodes well for higher returns

- In addition to ARPOB growth led by optimization of case mix/payor mix, MAXHEALT is also planning to increase its bed capacity in its existing facilities.
- The company is running at elevated occupancy levels of ~74% (as of 1QFY24) implying robust demand for high-end quaternary healthcare services.
- Therefore, over the next 5-6 years, MAXHEALT has planned aggressive bed expansion to more than double the current bed capacity of ~3,550 beds.
- Interestingly, ~75% of the beds planned will be done through brownfield expansion, which has a potential ROCE of more than 35%.
- Over the next three years, it has planned additions of 1,769 beds. The capacity addition will be at Dwarka/Mohali/Nanavati/MaxSmart/Gurugram (Sector 56)/ Vikrant with 300/190/329/350/300/300 beds to be added.
- For Max Smart facility at Saket complex, the final forest approval has now been received and the process of transplanting trees has been initiated. Previously, this project has been facing delays due to a delay in forest approval for tree transplantation.
- Additionally, the expansion at Sector 56, Gurugram will be Greenfield in nature. The statutory approvals for this project have been received with 50% of site excavation being completed. Moreover, the EPC contract is in the final stage of execution.

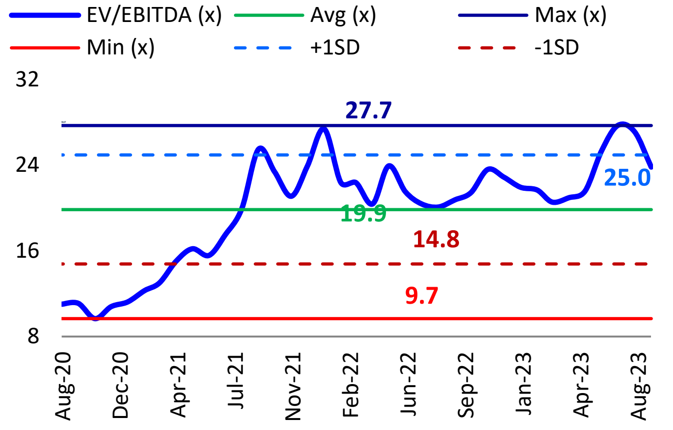
Huge earnings visibility over the next few years

- With MAXHEALT focusing on optimizing payor/case mix to improve ARPOB and deploying huge capex for bed expansion over the next 4-5 years, it provides a strong visibility on the revenue potential over the medium term.
- Moreover, with ~75% of the bed additions being brownfield in nature and breakeven in 1-2 years as compared to 3-5 years in other expansion strategies, we expect its profitability to improve significantly due to increased operating leverage.
- Accordingly, we expect its EBITDA to exhibit 17% CAGR to INR26b over FY23-26.

MAXHEALT is trading at premium on relative basis…

- MAXHEALT is currently trading at 24x EV/EBITDA as compared to its historical average of 22x.
- Moreover, the peers are trading around 21x FY25 EV/EBITDA.

Exhibit 28: MAXHEALT trading above its historical average



Source: MOFSL, Company

Exhibit 29: MAXHEALT trading at a 14% premium to its peers

	FY25 EV/EBITDA	LTA
MAXHEALT	**24**	**22**
Other hospitals	20	20
Average	**21**	**20**

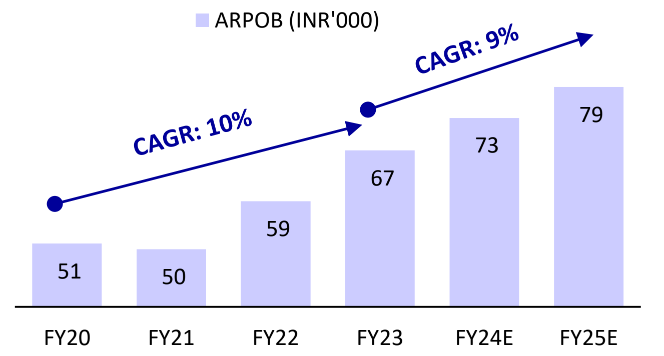
Source: MOFSL, Company

…however, there is scope for superior earnings growth as well as further re-rating

- While MAXHEALT is trading at expensive valuations, we expect it to continue to trade at a premium due to various tailwinds going ahead.
- Network revenue is likely to witness 16% CAGR over FY23-25 led by: a) improvement in payor mix with insurance segment's share increasing while institutional's share declining thus leading to ARPOB witnessing 8% CAGR; b) significant land bank available in high-demand areas of Delhi for brownfield expansion,
- We expect its EBITDA to post 18% CAGR over FY23-25 led by robust revenue growth and some cost-control initiatives. This is likely to expand margins by ¬110bp to 28.5% by FY25.
- While earnings are on sustained growth momentum, ROE is expected to stabilize near current levels of 16% over the next two years. This is partly due to large capex program (~480 beds to be added by FY25) outlined over the next two years. The commercial benefit is expected from FY26 onwards.
- It has surplus cash of INR9.6b at the end of 1QFY24. This provides further impetus for inorganic opportunities.
- While we value MAXHEALTH at 25x EV/EBITDA to arrive at our TP of INR660, the above factors provide enough confidence of stock re-rating in the next 2-3 years.

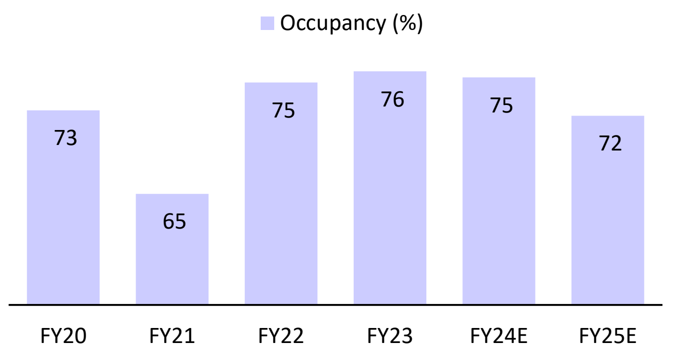
Story in charts

Exhibit 30: Expect ARPOB to witness 8% CAGR over FY23-25



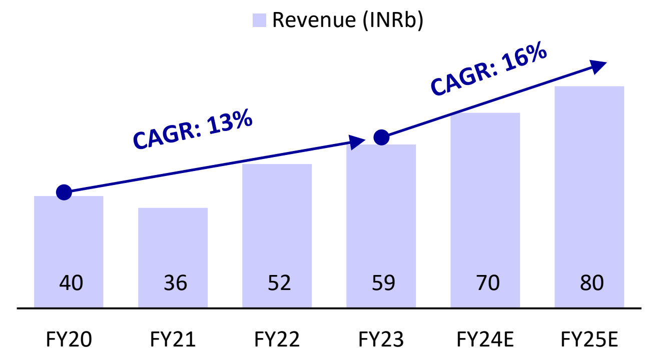
Source: MOFSL, Company

Exhibit 31: Expect occupancy to decline due to bed additions in FY25



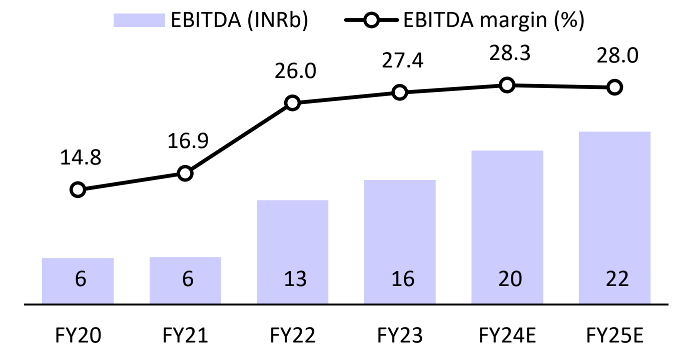
Source: MOFSL, Company

Exhibit 32: Network revenue to exhibit 16% CAGR over FY23-25



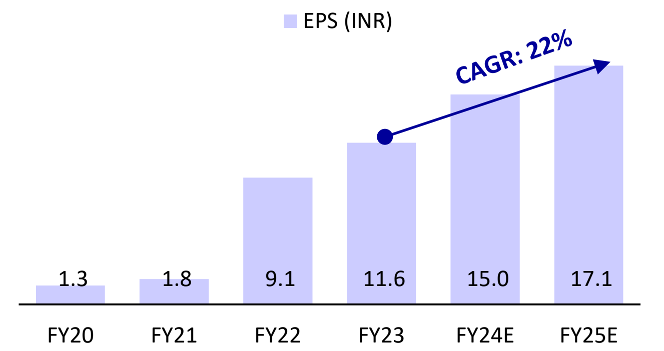
Source: MOFSL, Company

Exhibit 33: Expect EBITDA margin to expand ~110bp to 28.5% over FY23-25



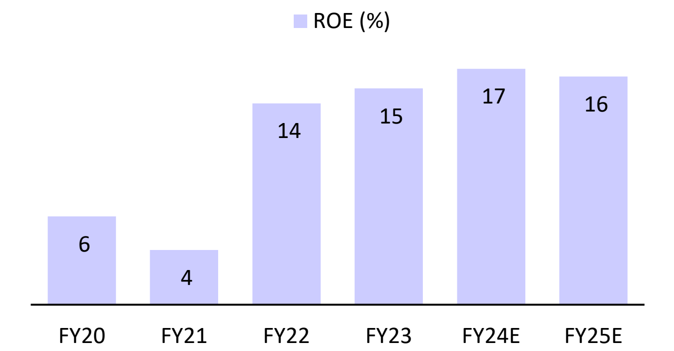
Source: MOFSL, Company

Exhibit 34: EPS to exhibit 22% CAGR over FY23-25



Source: MOFSL, Company

Exhibit 35: 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	426.3	317.6	63.3	49.7	38.3	33.6
Cash P/E	303.1	164.2	142.4	49.4	40.3	32.2	28.5
P/BV	66.8	16.5	9.7	8.3	6.9	5.9	5.0
EV/Sales	8.9	8.7	13.9	10.8	9.3	7.8	6.7
EV/EBITDA	94.2	59.0	82.3	41.7	34.1	27.5	24.0
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 **(INR m)**

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
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	2,609	-4,508	752
CF from Operations	**3,811**	**8,145**	**11,180**	**19,269**	**12,194**	**19,621**
Others	0	0	0	0	0	0
CF from Operating incl EO	**3,811**	**8,145**	**11,180**	**19,269**	**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**	**17,279**	**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	-2,360	-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**	**-2,750**	**-1,825**	**-1,885**
Inc/Dec of Cash	**-11,943**	**16,480**	**1,587**	**14,819**	**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

NOTES

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.

Disclosures

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