INSTITUTIONAL RESEARCH

Max Healthcare

Emerges leaner and stronger

Max Healthcare's annual report 2020-21 reflects the first year of consolidated financial statements of the combined entity - Max and Radiant. In this report, while financials are not comparable due to merger, we analyse the qualitative characteristics and key components of the company's balance sheet and P&L. The management commentary reinforces its intent to grow aggressively by additionally employing asset light models of expansion and exploring inorganic opportunities. Key financial highlights include: (a) recognition of goodwill and intangibles worth INR24.5bn and ~INR23bn (both together account for ~85% of net worth) pursuant to purchase price allocation exercise in relation to Max's assets consequent to reverse merger; (b) structural cost savings in material, doctor fees and other expenses. We revise our estimates to reflect new bed expansion plans and forecast 17%/24% revenue/EBITDA CAGR over FY21-28e. Based on our long term projections, we see ~95% upside potential over the next five years (refer to our recent initiation: Max Healthcare – a three-act play: growth, quality, returns for the detailed thesis). We revise our TP to INR410/sh., based on Mar'24 EBITDA (from Mar'23). Maintain BUY.

- **Identifies three pillars to focus on**: (a) **Optimise existing network** by investing in and retaining best clinical talent, improving efficiencies through payor mix optimisation, thrust on medical tourism and initiatives focused on digitisation at both back-end as well as front-end; (b) **invest in growth** - to add 2,300+ beds (1,630 by FY28) via brownfield route, to operationalise ~1,000 beds each through asset light models (O&M and built-to-suit) and greenfield projects (Gurugram) while continuing to explore suitable inorganic opportunities; (c) **value unlock in MaxLab** – aggressive plans to grow the non-captive pathology business via organic and inorganic route.
- **Payor mix improvement can drive 300-400bps EBITDA margin expansion:** The bed share of low-margin scheme business has steadily reduced from ~37% in FY20 to ~34% in FY21. Max intends to bring this down to ~15% in the next three years. As per a recent company update, this can potentially add ~300-400bps to core business EBITDA margin of ~25%.
- **Key financial highlights from AR:** (a) Intangible assets stood at ~INR23bn on account of recognition of service agreements with all PHFs amounting to INR17bn, trademarks worth INR5bn, representing value of Max's brand and logo and O&M rights worth INR1.2bn, representing rights to operate Nanavati hospital (Exhibit 25); (b) goodwill: Max-Radiant merger was a "reverse merger" with Radiant being the accounting acquirer and, hence, all of Max's assets got revalued leading to goodwill recognition of INR24.5bn in FY21 (Exhibit 28); (c) cost structure analysis suggests that Max has achieved the leanest cost structure among major peers post the implementation of cost initiatives with major savings in material and doctor fees followed by other expenses (Exhibits 29, 30, 31).

Proforma financial summary

YE Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	35,990	40,230	36,290	48,789	54,628	62,517
EBIDTA	3,480	5,894	6,362	12,387	14,651	17,663
EBITDA Margins	9.7	14.6	17.5	25.4	26.8	28.3
EV / EBITDA (x)	100.3	59.5	57.8	29.4	24.6	20.2
RoCE (%)	5.9	10.4	8.3	21.2	22.3	23.0
Net debt/EBITDA	5.5	3.5	2.3	1.0	0.6	0.2

Source: Company, HSIE Research, projections excl. vaccine opportunity

BUY

CMP *(as on 24 Sept 2021)*	INR 365
Target Price	INR 410
NIFTY	17,853

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 360	INR 410
EBITDA %	FY22E +4%	FY23E -5%

KEY STOCK DATA	
Bloomberg code	MAXHEALT IN
No. of Shares (mn)	966
MCap (INR bn) / ($ mn)	352/4,737
6m avg traded value (INR mn)	723
52 Week high / low	INR 473/97

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	42.1	79.8	235.6
Relative (%)	28.1	57.7	171.3

SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	70.46	70.46
FIs & Local MFs	7.95	4.88
FPIs	14.05	17.96
Public & Others	7.54	6.70
Pledged Shares	0.34	0.34

Source : BSE

SOTP based TP on FY24e:
a) 22x EV/EBITDA for hospitals
b) 30x EV/EBITDA for Max@Home
c) 30x EV/EBITDA for Max Lab

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Business overview

Promoted by Abhay Soi (23.2% stake) and KKR (47.0% stake via Kayak Investments)

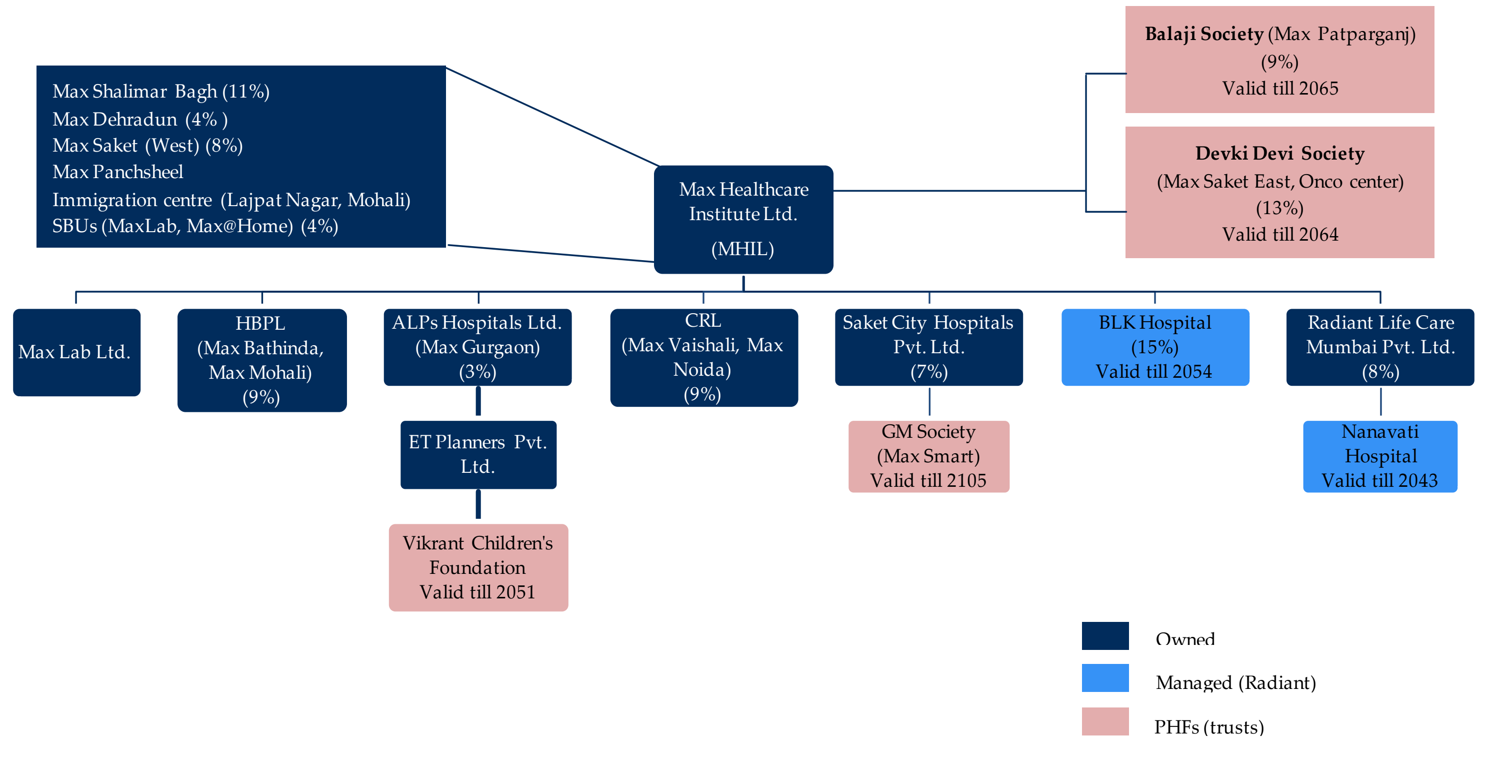
Second largest hospital chain in India in terms of revenue and market cap

Primarily operates assets in metro cities - Delhi NCR and Mumbai

Max Healthcare is the second largest hospital chain in India in terms of revenue and market cap. It operates 17 healthcare facilities (12 hospitals and five medical centers) with a total capacity of ~3,400 beds. The company focuses on providing tertiary and quaternary care services, which contribute ~70% of its hospital revenue. It enjoys industry-leading ARPOBs and occupancies, given ~85% of its beds are located in metro/tier-1 cities. Besides this, it also operates home care and diagnostic business under Max@Home and Max Lab, which are currently in nascent stages of development.

Founded by Analjeet Singh and as an entity of Max India, Max Healthcare commenced operations in 2000 at Panchsheel Park, South Delhi. Over the past two decades, the company strengthened its presence across north India with facilities in Delhi NCR, Punjab, and Uttarakhand. In 2020, Radiant Life Care Pvt. Ltd, promoted by Abhay Soi and KKR, acquired a 49.7% stake in the erstwhile Max Healthcare and amalgamated it with Radiant assets to form Max Healthcare Institute Ltd (MHIL). Subsequent to the arrangement, the combined entity got listed on the stock exchanges in Aug'20. With the addition of Radiant group assets - BL Kapur (Delhi) and Nanavati (Mumbai) - Max further strengthened its footprint in Delhi and gained access to Mumbai's healthcare market.

Exhibit 1: Business structure with FY21 revenue share

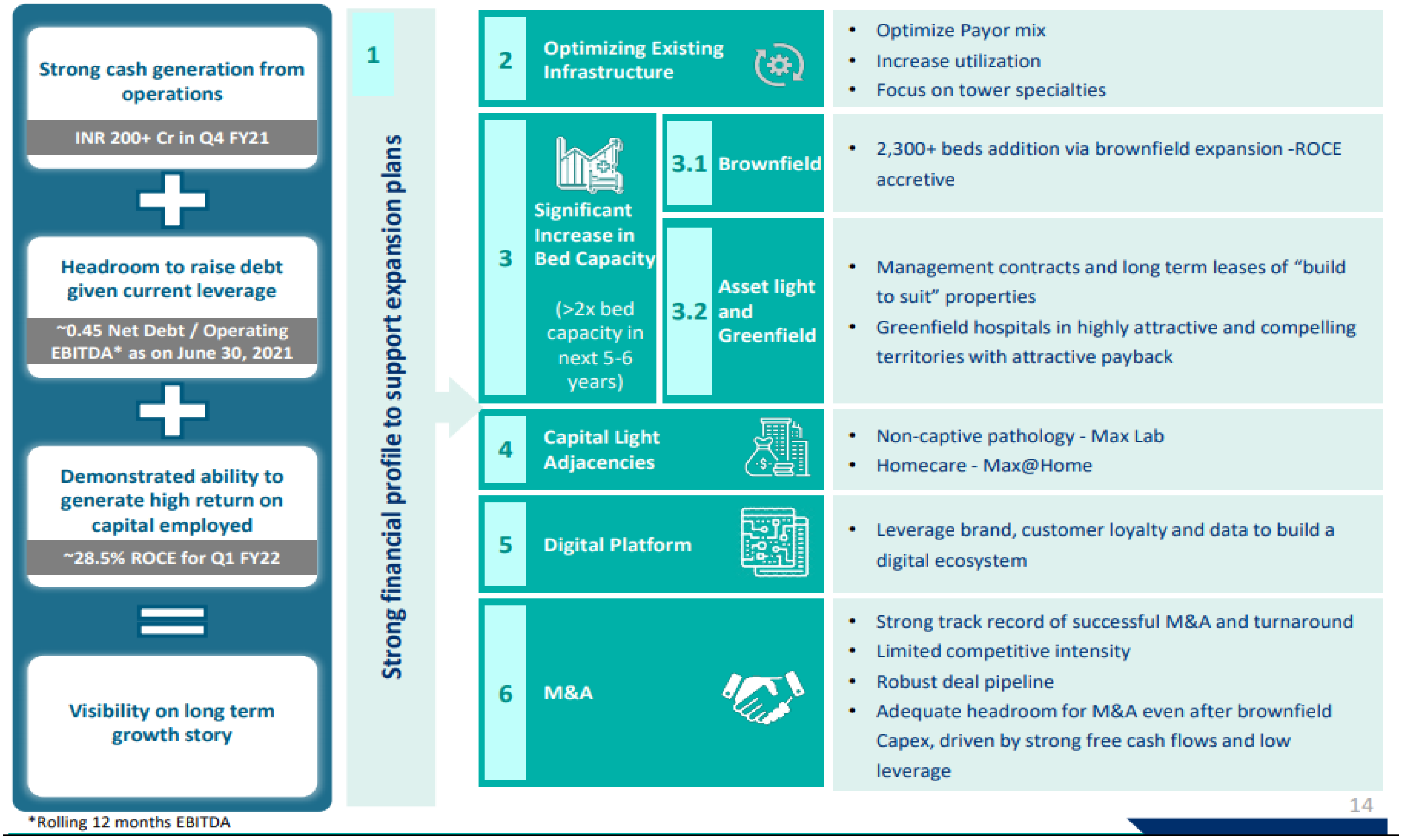


Source: Company, HSIE Research

Key pillars to growth

Max's annual report 2020-21 and the recent company update provides insights into its growth strategy and the key pillars it plans to focus on to achieve its growth objectives.

Exhibit 2: A snapshot of key pillars to focus on



Source: Company presentation

Optimise existing network

Adding clinical teams and introducing new technologies at some of the hospitals

Focus is on high-end programmes and to invest in top-rated clinicians and retain the existing ones

To focus on improving ARPOBs and occupancies

- **Enhancing clinical capabilities** – Max is well known for having high standards of clinical care and employing high end medical technologies to offer quality healthcare. A few initiatives taken at various hospitals last year include enhancement of clinical teams for specialties like liver, gastroenterology and pulmonology at Max Saket, adding teams for various surgeries (minimal access, bariatric, robotic, spine and thoracic surgeries) at Vaishali, introducing technologies like Radixact-x9 system, next gen. tomo-therapy, platform for cancer care at Vaishali, introduction of Innova IGS 520 catheterisation lab (a floor-mounted image-guided system) for cardiovascular and electrophysiology procedures. The company continues to focus on tertiary/quaternary care programmes and in investing in top-rated clinicians and retaining the existing ones.
- **Improving operational efficiency and profitability** – Over the past three years, Max has successfully implemented INR3.3bn worth of cost savings initiatives and synergies via renegotiation of material and indirect cost contracts, realignment of personnel roles and responsibilities, optimisation of minimum guarantee fees to doctors, savings in corporate overheads, and shutdown of unviable units. Going forward, the company aims to improve operating efficiencies via better integration, supply chain, and human resource management across facilities

while also striving to improve ARPOBs and occupancies at existing units in order to drive operating leverage.

Setting up subsidiaries and offices across globe (currently at Nigeria and UAE) to attract and solicit international patients

Set up an immigration centre at Mohali

- **Enhance medical tourism via setting up offices across the globe to solicit international patients** – Max's international business has been impacted post COVID and the contribution to hospital revenue fell to just ~4% in FY21 and ~5% in Q1FY22 (vs. ~11% in FY20). Max aims to grow this segment aggressively over the coming years. Among the metro cities, Delhi is the most preferred destination, accounting for 40% of the medical tourists visiting India. Key therapies such as oncology, orthopaedics, cardiac, transplants and neurology form 65% of the overall demand. This bodes well for Max as it has Centers of Excellence across these therapies in the Delhi NCR region. Accordingly, the company has set up subsidiaries in Nigeria and UAE and an immigration center in Mohali during the year to provide consultation services and solicit overseas patients. It also aims to set up more offices globally to facilitate the same.

Launched video consults platform and relaunched Max Healthcare website

~7-8% of total consults performed via online mode

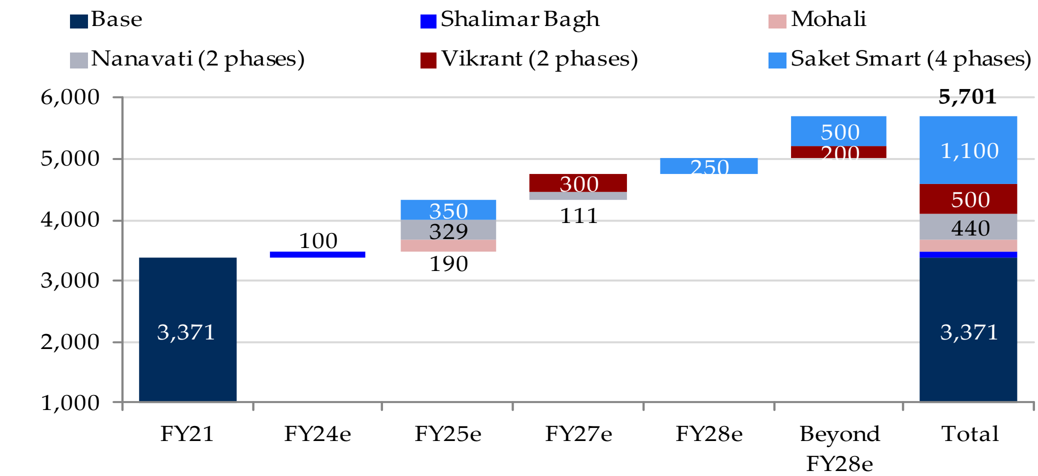
- **To build digital ecosystem that can leverage brand, customer loyalty, and data** – Max aims to leverage on increasing digitisation trend by connecting its back-end delivery platform to enable more remote and virtual enabled services by providing 'on demand' virtual assessment by medical caregiver. During the year, it launched a video consult platform that enabled it to perform over 7-8% of consultations (over ~1,00,000) on the platform. Moreover, Max also brought Ms. Harmeen Mehta, a renowned digital leader, on board as an Independent director, which further highlights the company's focus on digital initiatives.

Invest in growth

Planning to add 2,300+ beds (1,630 beds by FY28) in Delhi and Mumbai at Capex/ bed of INR13mn

- **Well defined roadmap for expansion** – Max plans to expand aggressively by adding 2,300+ beds (1,630 beds by FY28) on the base of ~3,400 beds currently (~70% of the current capacity). This includes brownfield expansion in the most attractive markets such as Saket Smart, Delhi (~1,100 beds), Vikrant Children's Foundation (~500 beds), Saket, Delhi and Nanavati hospital, Mumbai (~net 440 beds). The company has strong brand equity and proven execution capabilities in these markets, which should result in these units turning profitable by the second year of operations. More importantly, the land bank (~10.7 acres in Saket and ~3.9 acres in Juhu) and approvals are already in place, which should result in lower Capex/bed (~INR13mn) and higher incremental RoCE for the new investments.

Exhibit 3: Revised indicative timelines for proposed expansion plans



Source: Company, HSIE Research

__Saket, Delhi__

Plans to create ~2,400 bed contiguous medical hub spread over 23 acres of land at prime location in South Delhi

Existing 770 beds will be augmented with -
(a) ~1,100 additional beds in Max Smart in four phases as per current brownfield expansion plans, and
(b) ~500 beds at Vikrant Foundation post acquisition of exclusive rights to aid development and provide medical services at the proposed hospital

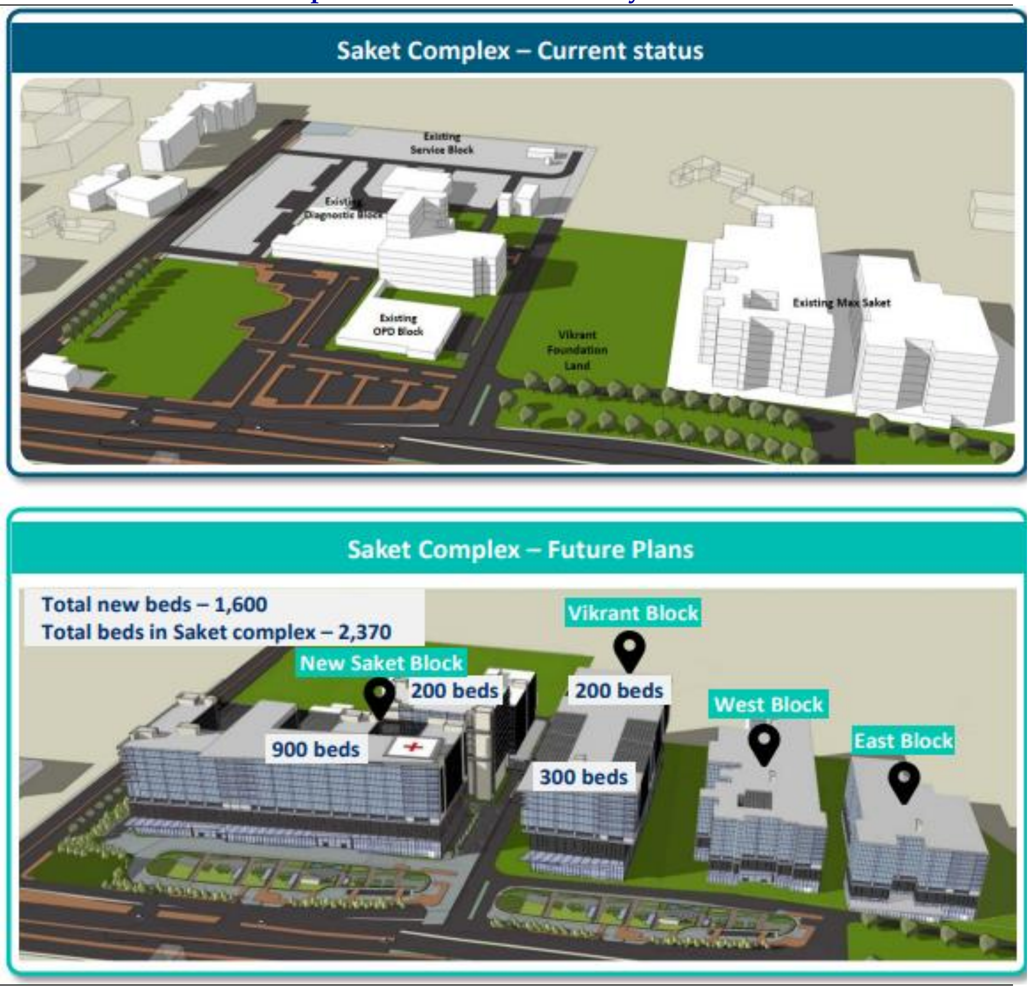
__Nanavati, Mumbai__

Plans to add ~440 net beds spread over 3.9 acres of land in the iconic Nanavati Hospital, Mumbai via
– addition of ~329 beds in phase 1 by Q3FY25 as part of a new block
– demolition of ~160 beds before commencement of Phase 2
– addition of ~271 beds in phase 2 by Q3FY27

New metro station to come up next to Nanavati, which will increase accessibility and, hence, footfalls

Bed expansion to aid margin expansion and enable spreading of employee cost over a larger base

Exhibit 4: Max Saket Complex – current vs. future layout



Source: Company presentation

Exhibit 5: Nanavati hospital – Planned layout

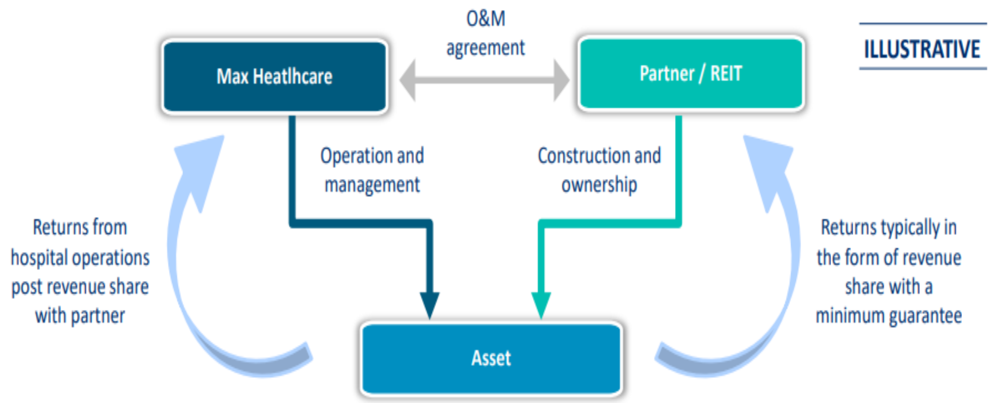
Source: Company presentation

Asset light model of expansion via
-O&M model (BLK and Nanavati),
-Medical Service Agreement (PHFs/ trust hospitals) or
-Partnerships with REITs

- **Asset light model for future expansion** – Max is already running a few of its facilities in an asset light model. These include Radiant assets (BLK and Nanavati) run on an O&M model and PHFs run via the medical services agreements (MSA). Going forward, the company aims to partner through asset light models (e.g. O&Ms or renting of built-to-suit properties in partnership with REITs) for delivery of quality healthcare services across various metro and tier-1 cities in the country. Recently, Max entered a deal with Vikrant Foundation for proving medical services to a Children's hospital to be constructed in the Saket Complex. The business structure of the same is akin to that of the existing PHFs. We believe this deal is a testament to the new management's intent and ability to grow aggressively, but selectively by identifying value creating asset light opportunities.

Plans to operationalise ~1,000 beds each through asset light O&M arrangements & greenfield projects (Gurugram) leading to benefits like:
- High RoCEs
- De-risking cost & time over runs
- Faster growth without draining CFs

Exhibit 6: Illustrative structure of asset light model of expansion



Source: Company presentation

Also, looking at inorganic opportunities in tier-1 or metro cities

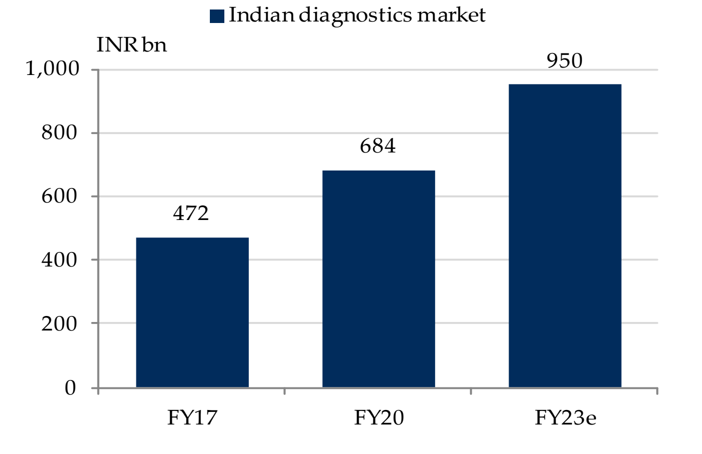
- **Pursue inorganic growth opportunities** – The management has reiterated its desire to look out for attractive inorganic opportunities in select markets, either via large or a string of small and medium acquisitions.

Develop asset light adjacencies

Max plans to expand aggressively and aims to achieve a revenue target of INR2.5-3bn organically from INR676mn in FY21 over the FY21-25e

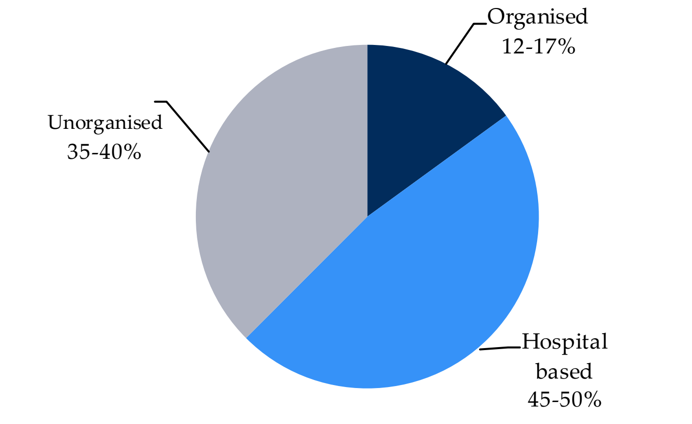
- **Invest and grow the non-captive pathology business** – Max Lab has expanded steadily with presence in 14 cities, mainly in the north Indian states of Delhi NCR, Uttarakhand, and Punjab, thereby leveraging upon its strong brand in the region through the presence of its existing hospitals. It has become the third-largest player in the Delhi NCR region after Dr. Lal Pathlabs and SRL.
  The company plans to expand aggressively and aims to achieve a revenue of INR2.5-3bn organically from INR676mn in FY21, implying a growth trajectory of ~40-45% CAGR over FY21-25e. Max has hived off this vertical into a separate entity, which would be a wholly owned subsidiary of Max Healthcare which should enable the management to maintain separate Key Performance Indicators (KPIs) and track the performance with improved focus, transparency, and accountability. The company is also evaluating inorganic routes for expansion to achieve the desired scale and have stated goals to potentially unlock value at some stage in the future.

Exhibit 7: Indian diagnostics market is expected to grow at ~12% CAGR over FY20-23e



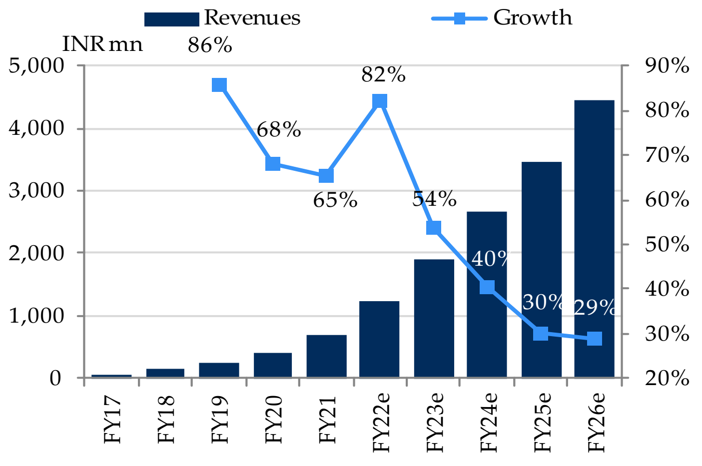
Source: Company, HSIE Research

Exhibit 8: Shift to organised sector will drive further market share gains



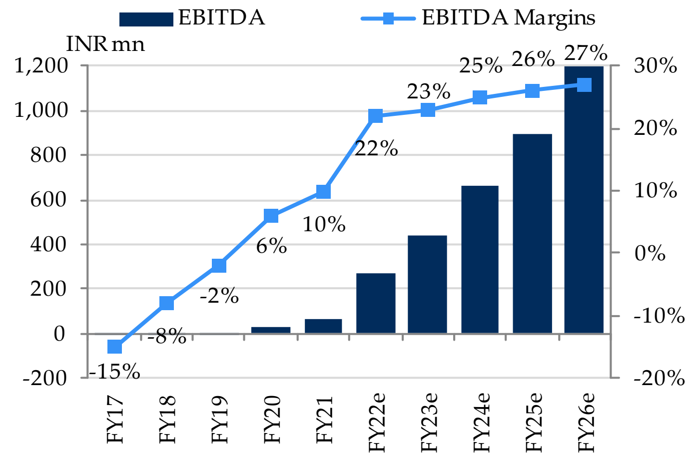
Source: Company, HSIE Research

Exhibit 9: We expect Max Lab revenue to grow by ~6.5x over FY21-26e



Source: Company, HSIE Research

Exhibit 10: EBITDA is expected to rise ~18x over the same period with margins improving in line with peers



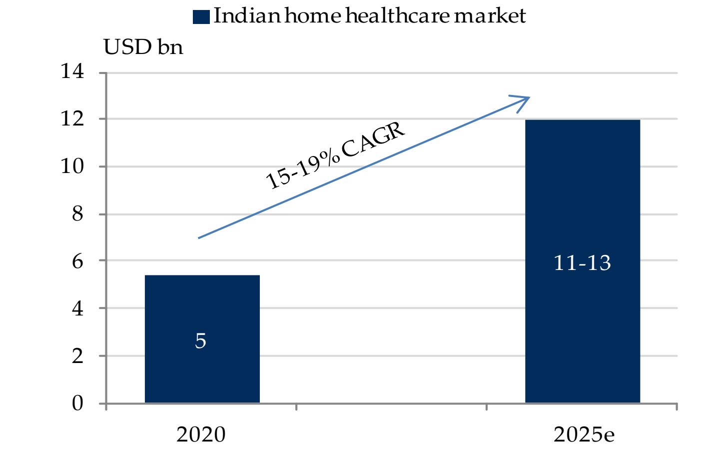
Source: Company, HSIE Research

Aims to scale up its home care business by adding new service lines (recently added ECG@Home, post discharege follow-ups) and increasing the depth of coverage

<u>Growth drivers:</u>
- Home care solutions ~40% cheaper compared to hospitals
- Rising doctor acceptance
- Insurance policies covering home care
- High quality services through digital systems

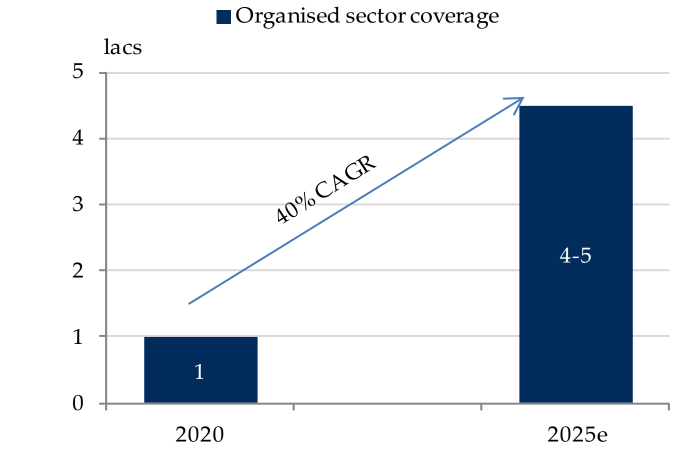
- **Home care business is ramping up well** – Max aims to scale its home care business, primarily by adding new service lines and increasing the depth of coverage. Key growth drivers include affordability of home care solutions (~40% cheaper vs. hospital care), rising doctor acceptance, insurance policy coverage and high quality service offerings. With the launch of X-ray and ECG at home in FY19, it became the first player in the region to offer radiology services at home. In line with the same, the company launched ECG@Home and also initiated post discharge follow-ups for continued care at home. It currently attends daily volumes of ~800 calls and manages 2,000+ transactions/shifts on a day-to-day basis. While the patient preference for "at-home care" remaining low in India, COVID has expedited the shift in patient behavior to some extent. The company, however, aims to ramp up this business over the course of the next few years as it can act as a funnel to attract patients to the company's hospital network. The recently launched digital platform will also help the company to build this business over the long term.

Exhibit 11: Indian home healthcare market is expected to grow in mid to high teen CAGR over 2020-2025



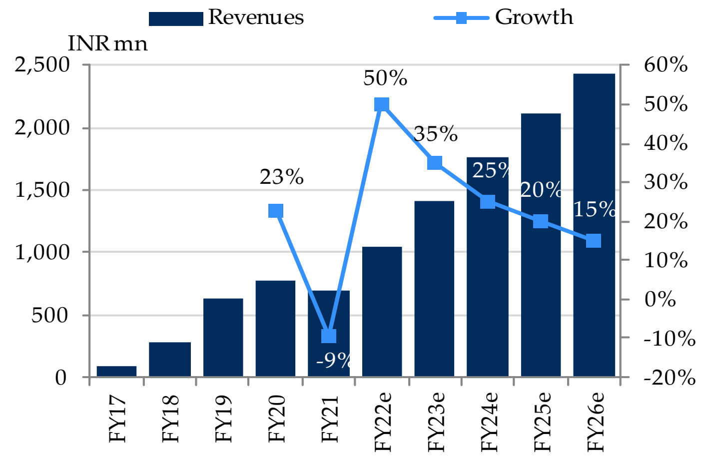
Source: Company, HSIE Research

Exhibit 12: Organised sector is expected to contribute USD300mn by 2025, implying ~40% CAGR



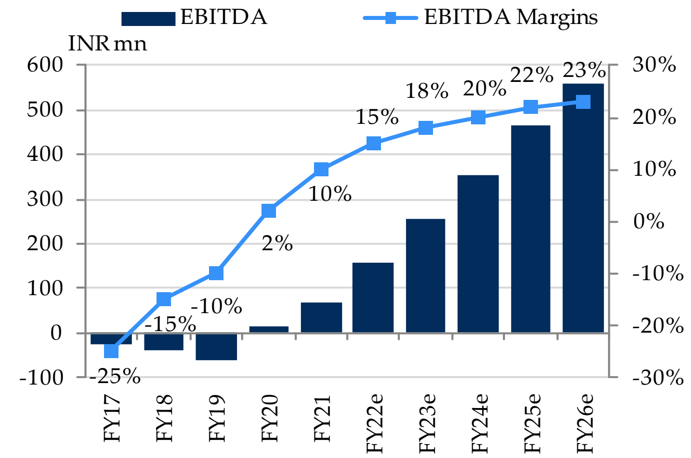
Source: Company, HSIE Research

Exhibit 13: We expect Max@Home revenue to grow by ~3.5x over FY21-26e…



Source: Company, HSIE Research

Exhibit 14: …with EBITDA growth of ~8x over the same period with improved margins



Source: Company, HSIE Research

Qualitative analysis

In this section, we delve deeper into the non-financial aspects to assess the strength of the business. We observe that Max appears to be in compliance with the requisite corporate governance requirements including board composition, conduct of board meetings, director's remuneration, formation of various committees and audit compliance, among others. The company also seems to have provided adequate disclosures in relation to qualitative aspects and assumptions used to derive key financial numbers like goodwill discounting rates, contingent liabilities, etc. Besides this, the company does not have any material related party transactions with outside related parties during the year.

Board of directors

Exhibit 15: Well diversified board with expertise and experience across various fields

Name	Position	Education	Experience	Appointment date	Committees	Other major directorships
Mr. Abhay Soi	Promoter & CMD	MBA from European University, Belgium; BA from St. Stephen's College, Delhi University	-Started career as restructuring professional at Arthur Anderson -Part of restructuring team at KPMG & EY -Co-founded USD350mn Special Situations PE Fund -Promoter and MD at Radiant Life	21-Jun-19	Audit, stakeholder relationship, risk mgmt, CSR	NA
Mr. Sanjay O. Nayar	Non-Exec. Director	MBA Finance from IIM, Ahmedabad; Graduation from Delhi College of Engineering	-Served Citi group for 25 years in various positions in India, UK and US -Was also CEO at Citi group's Indian and South Asian operations -Joined KKR in 2009, was Partner and CEO of KKR India till Jan'21 -Currently serving as the Chairman at KKR India	21-Jun-19	Audit, risk mgmt	JB Chemicals
Ms. Ananya Tripathi	Non-Exec. Director	Gold medalist across both MBA from IIM, Kozhikode and engineering degree from Pune University	-Worked as Associate Partner at McKinsey for seven years -Headed category business at Myntra and was also the Chief Strategy Officer -Currently serving as the director at KKR Capstone	19-Jun-20	NRC, stakeholder relationship, CSR	JB Chemicals
Mr. Mahendra Lodha	Independent Director	CA and law graduate	Over 40 years of rich experience in investment banking, corporate restructuring and corporate and project finance	21-Jun-19	Audit, NRC, risk mgmt., CSR	NA
Mr. Kummamuri Murthy	Independent Director	CA and CWA	-Has served as a director on board of various companies like ONGC, IDBI Bank, LIC HF, UTI Bank, UTI, IFCI, etc. -Was also associated as a Member/ Chairman of more than 50 high level Government Committees	26-Aug-09	Audit, NRC, stakeholder relationship, risk mgmt	Max Financial Services, NELCO, Max Ventures and Industries
Mr. Michael Neeb	Ind. Director	Bachelor's degree in accounting from Baylor University and MBA from University of Dallas	-American businessman with 30+ years of experience in healthcare industry -Began career as Director of Finance and project for Harris Methodist affiliated hospitals, Texas -Has worked with HCA Healthcare, UK as CEO for 12 years	21-Jun-19	Audit, risk mgmt	NA
Ms. Harmeen Mehta	Independent Director	Massachusetts Institute of Technology, Harvard University	Renowned digital leader with 10+ years of experience. She has a deep background in Artificial Intelligence and is currently serving as the Chief Digital and Innovation Officer at BT Group Plc	24-May-21	Audit, NRC, risk mgmt	NA

Source: Company, HSIE Research, CMD – Chairman and Managing Director

Board composition and director's remuneration

Mr. Abhay Soi is the promoter and CMD of Max Healthcare, holding 23.2% stake in the company (31 Aug'21)

Mr. Abhay Soi is the promoter and CMD of Max Healthcare. Max has seven directors on its board with four of them being independent directors, which is in compliance with the applicable provisions of the Companies Act, 2013.
Total director's remuneration (including directors' sitting fees) for the company stands at ~0.5% of net reported revenue, as of FY21. Out of the INR113mn amount paid to directors, ~INR105mn is being paid to Mr. Abhay Soi, primarily in the form of salaries and perquisites.

4 out of 7 directors are Independent Directors, in line with the requirements of law

Directors' remuneration appears reasonable and in line with norms

Exhibit 16: Board composition and directors' remuneration

INR mn	Erstwhile Max			Combined entity
	FY18	FY19	FY20	FY21
Board Composition				
No. of directors	11	13	7	7
No. of Independent Directors	3	3	4	4
% of Independent Directors	27.3%	23.1%	57.1%	57.1%
Director remuneration				
Director's remuneration			81	113
As a % of sales			0.4%	0.5%

Source: Company, HSIE Research

Change in auditors

Deloitte has been appointed as the statutory auditors from FY21, replacing M/s S.R. Batliboi (an EY affiliate), in order to comply with the applicable provisions of the Companies Act in relation to the rotation of statutory auditors.

Historically, over 90% of audit fee has been for core audit services

Exhibit 17: Audit fees' structure

INR mn	Erstwhile Max			Combined entity
	FY18	FY19	FY20	FY21
Core audit fee	4.5	7.0	9.4	9.2
Other services	0.1	0.6	0.1	8.1*
Reimbursement	0.2	0.1	0.1	0.1
Standalone Audit fees	**4.8**	**7.7**	**9.6**	**17.4**
Core audit fee %	94%	91%	98%	53%

Source: Company, HSIE Research, *incl. fee for business combination accounting

M/s Deloitte Haskins and Sells have been appointed as the statutory auditors from FY21 onwards

Exhibit 18: Snapshot of various audit teams post merger

	Erstwhile Max	Radiant	Max (post merger)
Statutory Audit			
Auditors	M/s S.R. Batliboi and Co. LLP (an EY affiliate)	M/s Deloitte Haskins & Sells	M/s Deloitte Haskins & Sells
Signing Partner	Sanjay Vij	Rajesh K. Hiranandani	Rashim Tandon
Latest Opinion	Unqualified	Unqualified	Unqualified
Cost Auditors	M/s Chandra Wadhwa & Co	NA	M/s Chandra Wadhwa & Co
Secretarial Auditors	Jus & Associates	NA	M/s Sanjay Grover & Associates

Source: Company, HSIE Research

Goodwill impairment testing rates

Goodwill impairment testing rates used by Max is in line with major peers

Exhibit 19: Goodwill discount rates vs. peers

%	Max	Apollo	Fortis	Narayana
Goodwill discount rate	11-13%	Healthcare: 12% Clinic: 16% Pharmacy: 14.5%	12.7%	15.23%

Source: Company, HSIE Research

Trade receivables

Historical data suggests that Max's debtor collection days have been higher compared to Radiant, possibly on account of higher share of schemes business in Max. However, with the merger of Radiant, the outstanding debtor % has moderated in FY21. We expect this to go down further over the next few years as the company focuses more on reducing the schemes business.

Combined entity's debtor collection days to tighten further over the next few years with a marked reduction in schemes business

Exhibit 20: Trade receivable analysis

INR mn	Erstwhile Radiant		Erstwhile Max		Combined entity
	FY19	FY20	FY19	FY20	FY21
Total debtors	874	961	4,994	4,940	4,853
as a % of net sales	9.4%	9.0%	29.9%	26.5%	19.6%
Bad debts written off	31	227	136	53	323
as a % of total debtors	3.5%	23.6%	2.7%	1.1%	6.7%

Source: Company, HSIE Research

Maturity profile and break- up of group's financial liabilities

Max is expected to generate ~INR9bn OCF (before adj. for WC changes and interest payments) in FY22e vs. estimated cash outflow of INR7.7bn

Overall group financial liabilities of Max amounts to INR23.8mn, which includes INR13.7bn of borrowings (incl. interest), INR4.4bn of trade payables, INR1.8bn of lease liabilities and INR4.0bn of other financial liabilities.

Almost one-third of the group's financial liabilities are due in FY22, representing an estimated cash outflow of INR7.7bn over the 12-month period. We expect Max to generate ~INR9bn operating cash flows (before adj. for WC changes and interest payments) in FY22e, which should be more than sufficient to cover its liabilities. Besides this, the balance sheet strength (net debt/EBITDA of ~0.5x as of June'21) allows the company to leverage for Capex needs or to refinance the existing debt at potentially favourable rates, if needed.

~33% of group's financial liabilities (incl. interest payments) are due to be paid within the next 12 months

Exhibit 21: Current maturity profile of group's financial liabilities

INR mn	Erstwhile Max		Combined entity
	FY19	FY20	FY21
Maturity profile			
0-1 years	5,371	15,356	7,657
1-5 years	5,970	6,135	9,206
>5 years	9,325	8,616	6,920
Total	**20,665**	**30,107**	**23,783**
Maturity profile (%)			
0-1 years	26.0%	51.0%	32.2%
1-5 years	28.9%	20.4%	38.7%
>5 years	45.1%	28.6%	29.1%
Total	**100.0%**	**100.0%**	**100.0%**

Source: Company, HSIE Research, includes borrowings, trade payables, lease liabilities and other financial liabilities

Exhibit 22: Break-up of group's financial liability maturity profile in FY21

INR mn	0-1 years	1-5 years	>5 years	Total
Borrowings (incl. interest)	1,602	6,442	5,613	13,658
Trade payables	4,357	0	0	4,357
Lease liabilities	111	391	1,307	1,809
Other financial liabilities	1,587	2,373	0	3,960
Total	**7,657**	**9,206**	**6,920**	**23,783**
% of total	32.2%	38.7%	29.1%	100.0%

Source: Company, HSIE Research, erstwhile Max nos. till FY20

Contingent liabilities

Contingent liabilities of INR3.7bn form ~17% of the total net worth with ~55% of the liabilities towards corporate guarantees given to banks and financial institutions on behalf of PHFs, while the balance ~45% are towards civil and tax cases against the company.

Key hospitals entailed in litigation include Nanavati (nothing significant as per the management) and Mohali (now settled)

The civil cases include a criminal lawsuit by the Assistant Charity Commissioner (Hospital) against Nanavati hospital for alleged irregularities/ illegalities found in the implementation of scheme framed by Bombay High Court. As per Max, this is a 2-3 year-old case and the same will not have any material impact. The other case law pertains to additional payment of interest on account of delayed payments by Max claimed by the plaintiff with respect to a land parcel allotted to the company in Mohali (to be used for the proposed 190 bed expansion). However, as per the company, the same has been settled, as of today.

Exhibit 23: ~45% of group's current contingent liabilities represent civil and tax cases

INR mn	Erstwhile Max		Combined entity
	FY19	FY20	FY21
Contingent Liabilities	3,386	4,702	3,650
Net worth	9,632	9,874	21,390*
CL % of NW	35.2%	47.6%	17.1%

Source: Company, HSIE Research, *ex-PPA allocation impact of ~INR34-35bn

Quantitative analysis

Balance sheet items and extracts

Since the Max-Radiant merger came into effect from June'20, this is the first year of the annual report reflecting consolidated financials which are inclusive of Max + Radiant numbers. Since this was a case of reverse merger, the previous year's financials, as stated in the annual report, represent Radiant's (the "accounting acquier") numbers and, hence, are not comparable. We have tried to compare current year's financials with previous year's numbers of Max and Radiant separately wherever possible and commented on the nature of some of the key balance sheet components.

Exhibit 24: Extract of consolidated balance sheet

Year to March (INR mn)	FY20 Radiant	FY20 Max	FY21 Combined	Comments
Liabilities				
Shareholder's funds	25,532	9,874	56,387	Increase due to purchase price allocation of ~INR34bn on account of fair valuation of Max's assets at the time of merger and booking of INR12bn worth of QIP proceeds
Other financial liabilities	2,419	30	2,373	Contingent consideration payable to Nanavati & BLK trustees calculated as NPV of estimated future cash outflow
Unfavourable lease liability (Other non-current liabilities)	0	0	2,252	NPV of est. outflow obligation for land at Mohali and Bathinda as per concession agreement with the Punjab government
Put option liabilities/ payable for share purchases	0	5,857	820	To buy stakes in CRL & Smart City (GM Modi agreement subsidiary) which is almost done now. GM Modi/ CRL had a lock-in of 3-4 yrs, after which they had the right to sell to Max which they exercised.
Assets				
Intangibles Fixed Assets	1,426	9,515	23,335	Refer Exhibit 25
Goodwill	4,176	2,854	24,547	Increase in FY21 on account of revaluation of Max assets to fair value as Radiant was considered as the accounting acquirer during the merger (refer Exhibit 28 for details on allocation of goodwill to various CGUs)
Right of use assets	162	1,331	2,255	Primarily on account of Ind AS 116 impact
Loans	28	3,352	3,570	Loan to trust hospitals - INR1,370mn loan to GM Modi and INR250mn loan to Devki Devi. Also, refer Exhibit 26
Other non-current assets	1,090	1,029	2,210	Refer Exhibit 27
Notes to Accounts				
Receivable from PHFs	NA	7,094	6,607	Incl. INR1,785mn deposits with PHFs, INR1,674mn advanced as loan, INR717mn as prepaid expense and INR2,431mn as trade receivables

Source: Company, HSIE Research, CGUs – Cash generating units

Exhibit 25: Intangible fixed asset schedule (Extract)

Year to March (INR mn)	FY20 Radiant	FY20 Max	FY21 Combined	Comments
Intangible Fixed Assets				
Service Agreements	0	9,333	16,861	Fair value of the Medical Services Agreements (MSA) with all three PHFs. This is amortised over the e tenure of agreement. Till FY20, Max only accounted for GMHRC Society's (Max Smart) however now all PHF contracts are recognized as MSA.
Trademarks	0	0	4,938	Represents Max's brand image & logo which the entity uses even post the merger; this is tested for impairment like goodwill
O&M rights	1,402	0	1,243	Represents fair value of equipments and other assets of Nanavati (ex-land and building) on which the combined entity has the right-to-use

Source: Company, HSIE Research

Exhibit 26: Loans (Extract)

Year to March (INR mn)	FY20 Radiant	FY20 Max	FY21 Combined	Comments
Loans				
Loans to other healthcare providers	0	1,370	1,620	INR1,370mn loan to GM Modi and INR250mn loan to Devki Devi
Security Deposit	28	1,983	1,950	Incl. INR1,785mn deposits with PHFs (some of which is non-interest bearing)

Source: Company, HSIE Research

Exhibit 27: Other non-current assets (Extract)

Year to March (INR mn)	FY20 Radiant	FY20 Max	FY21 Combined	Comments
Other non-current assets				
Capital Advances	18	338	312	Incl. INR 162mn paid on account of the advance towards ~4.3acre land located at Greater Noida with a market value of ~INR290mn. Max has applied to Greater Noida Development Authorities for possession of land after payment of all due amounts and is waiting for grant of possession. The company may look to build a hospital in the future.
Unamortised contract expense	1,016	0	986	Represents cost of land and buildings of BLK and Nanavati hospital being consolidated in the financials and expensed over the period of contract

Source: Company, HSIE Research

Goodwill

Radiant was considered as the "accounting acquirer" in the Max-Radiant merger leading to revaluation of all of Max's assets

As of FY20, the goodwill appearing in Max and Radiant's financials stood at INR2.8bn and INR4.2bn respectively. The same has been revalued to INR24.5bn in the combined financials (Max + Radiant) in FY21. This is because, from an accounting point of view, the Max-Radiant merger was a "reverse merger" with Radiant being the accounting acquirer and, hence, all of Max's assets got revalued at fair value as on the date of merger (1 June 2020). The resulting goodwill (excess of consideration paid over the fair value of net assets) has been allocated to various cash generating units (CGUs) as below:

Hospitals with stronger performance like Max Saket, Mohali and Vaishali (CRL) have rightfully got the highest share of goodwill allocation

Exhibit 28: Allocation of goodwill to various CGUs post merger

CGU (INR mn)	Max + Radiant*		Combined entity
	FY19	FY20	FY21
Radiation oncology services at BLK	55	55	55
Operation & Management Contracts of the accounting acquirer:			
BLK (Silo)	3,467	3,467	3,467
Nanavati (Silo)	654	654	654
Hospital operations acquired upon business combination w.e.f. June'20			
Max Saket			4,832
Shalimar Bagh			2,073
Dehradun			1,873
Max Labs			653
Mohali			4,362
Bathinda			252
Saket City Hospitals Ltd.	2,050	2,050	3,719
Crosslay Remedies Ltd.	659	659	2,084
Alps Hospital Ltd.	145	145	522
Total	**7,030**	**7,030**	**24,547**

Source: Company, HSIE Research, *addition of goodwill appearing in Max and Radiant's financials

P&L analysis

The following statement shows changes in the key line items of the company's P&L whilst identifying reasons for the same:

Exhibit 29: Proforma consolidated income statement (including PHFs i.e. trust hospitals)

INR mn	FY19	FY20	FY21	Comments
Revenues	**36,108**	**40,263**	**36,290**	Decline in occupancy and ARPOB due to lower OPDs, postponement of elective
Growth (%)		*12%*	*-10%*	surgeries, slowdown in medical tourism (lockdowns and farmer's protests)
Consumables	8,416	9,234	9,733	Material cost optimisation offset against additional expense on PPE kit and other
% of sales	23.3%	22.9%	26.8%	related consumables due to COVID and reclassification of some expenses
Doctor fees	8,744	9,496	5,664*	Re-negotiations of minimum guarantees and variable fees payable to doctors as well
% of sales	24.2%	23.6%	15.6%	as by virtue of improving workforce productivity
Employee cost	8,503	8,938	9,500	Workforce optimisation by enhancing productivity and temporary reduction of remuneration of senior and middle management was offset by reclassification of some expenses and actuarial valuation impact
% of sales	23.5%	22.2%	26.2%	
Other expenses	6,878	6,732	5,032*	Cost optimisation programme (re-negotiations with vendors, reducing corp. overheads, deferment of discretionary exp., increasing productivity of spend and synergy benefits incl. policy harmonisation across the group). Also, refer Exhibit 31
% of sales	19.0%	16.7%	13.8%	
EBITDA	**3,480**	**5,863**	**6,362**	
Margins (%)	9.7%	14.6%	17.5%	
Growth (%)		*37%*	*8%*	
Depreciation	1,856	2,087	2,160	
Other income	210	1,013	851	
Interest	1,788	3,135	2,721	Decline in the borrowings in the fourth quarter of FY21
PBT	**45**	**1,653**	**2,332**	
Tax	183	(29)	504	Normalised tax rate expected to be ~15-18% in FY22e and ~18-20% in FY23e. Rates
Effective tax rate (%)	NM	-1.7%	21.7%	are low on account of MAT credits and tax exemptions to Nanavati, BLK and PHFs
MI/share in JV	-28	0	231	
Recurring PAT	**(166)**	**1,682**	**451**	
Extraordinary items	0	0	1,636	Adj. for ESOPs, loss on fair value of merger and other such one-off items
Reported PAT	**(166)**	**1,682**	**(1,185)**	

Source: Company, HSIE Research, *HSIE estimate

Cost structure

Post INR3.3bn cost savings and synergies, Max has one of the leanest cost structures in the industry

Post the successful implementation of INR3.3bn worth of cost savings initiatives and synergies in the past three years, Max has optimised its cost structure and has industry-best metrics on some of the cost line items. Max's Q1FY22 EBITDA margin is already at ~25% (ex-vaccines). This compares favorably with Apollo's mature hospital margin of ~22% and NH's mature hospitals' India business margin of ~14% in Q1FY22.

Savings summary over FY19-21e -
Doctor fees: ~861bps
Other expenses (incl. operating leverage, other savings): ~520bps

Total structural cost savings: ~799bps

Exhibit 30: Extract of proforma common size income statement

Particulars	FY19	FY20	FY21	Q1 FY22
Proforma revenues	**35,990**	**40,230**	**36,290**	**13,222**
Consumables	23.3%	22.9%	26.8%	27.8%
Doctor fees	24.2%	23.6%	15.6%	13.4%
Employee costs	23.5%	22.2%	26.2%	21.0%
Other expenses	19.0%	16.7%	13.8%	10.5%
EBITDA margins	**9.9%**	**14.6%**	**17.5%**	**27.3%**

Source: Company, HSIE Research, Q1 nos. include vaccine revenue (~INR1.5bn) and EBITDA (INR600mn)

Savings in other expenses

Out of the INR3.3bn initiatives as mentioned above, INR2.2bn implemented in phase-1, represented the structural cost savings. In the below table, we list some of the major cost line items, which the company has managed to save and appear structural in nature, while a few are also transient on account of COVID-led savings.

Max has saved ~29% of other expenses over FY19-21e led by –
a) Structural cost optimisation: power & fuel, lab investigations, corp. overheads, eliminating waste and discretionary spends, etc
b) COVID-led savings: travel and conveyance, advertising, etc

Exhibit 31: Savings in other expense

Combined entity (INR mn)	FY19	FY20	FY21*	% chg.	Comments
Rent	422	62	151	-64%	Ind-AS impact
Facility maintenance	514	576	402	-22%	COVID-led savings, synergies
Power and fuel	666	617	560	-16%	Cost optimisation
Repairs to Plant	390	374	343	-12%	Cost optimisation
Outside lab investigation	515	417	152	-70%	Cost optimisation, regrouping
Travel and conveyance	184	195	102	-45%	COVID-led savings
Legal and prof. fees	806	904	313	-61%	COVID-led savings, synergies
Advertisement	642	818	183	-72%	COVID-led savings
Misc. expenses	118	88	53	-55%	Cost optimisation
Others	1,694	1,941	1,940	15%	NA
Total other expenses^	**5,951**	**5,991**	**4,200**	**-29%**	Cost optimisation coupled with COVID-led savings
As a % of sales	16.5%	20.4%	15.4%	-104bps	

Source: Company, HSIE Research, all nos. are excl. PHFs, % change column represent savings over FY19-21e, *FY21 nos. annualised for Max, ^without adj. one-offs, restatements or eliminations worth ~INR700mn for FY19 and FY20 each and ~INR300mn in FY21

Comparison with major peers

Cost structure

Consumables' costs in FY21 and Q1FY22 increased due to COVID and regrouping of some other expenses

Doctor fee structure has been rationalised over the last two years. As per Max, doctor fees at ~15-16% of revenue are sustainable

Employee cost optimisation has been offset by regrouping of some expenses

Savings in other expenses include HO cost optimisation and other line items as listed in Exhibit 31

Max has achieved the leanest cost structure among major peers

Exhibit 32: Comparison of hospitals' business cost structures of listed peers

Particulars	FY19	FY20	FY21	Q1 FY22
Consumables				
Max	23.3%	22.9%	26.8%	27.8%
Apollo*	25.4%	26.0%	27.1%	28.2%
Fortis	19.6%	19.3%	22.0%	23.8%
Narayana	24.8%	24.6%	28.6%	27.5%
Doctor Fees				
Max	24.2%	23.6%	15.6%	13.4%
Apollo*	23.3%	18.4%	17.9%	17.9%
Fortis	23.0%	23.9%	23.7%	21.3%
Narayana	17.8%	18.6%	22.2%	21.8%
Employee Costs				
Max	23.5%	22.2%	26.2%	21.0%
Apollo*	17.6%	18.9%	21.1%	17.6%
Fortis	19.3%	17.7%	19.7%	15.9%
Narayana	25.1%	24.3%	25.7%	21.9%
Other expenses				
Max	19.0%	16.7%	13.8%	10.5%
Apollo*	18.6%	20.1%	21.5%	18.0%
Fortis	34.6%	27.1%	26.5%	24.8%
Narayana	23.5%	20.8%	23.7%	21.3%
EBITDA margins				
Max	9.7%	14.6%	17.5%	27.3%
Apollo*	15.1%	16.5%	12.4%	18.4%
Fortis	9.5%	12.7%	8.1%	14.2%
Narayana	8.8%	11.7%	-0.2%	7.5%

Source: Company, HSIE Research, proforma nos. for Max (incl. PHFs),*Apollo revenues are grossed up for doctor fees, Q1FY22 data includes vaccine contribution

Depreciation

Max follows Straight Line Method (SLM) for depreciating both its tangible as well as intangible assets, which is in line with other listed players like Apollo, NH and Fortis.

Most hospital companies use SLM method. Fortis follows most aggressive accounting (higher depreciation), followed by Max and then Apollo/NH.

Exhibit 33: Comparison of depreciation vs. listed peers

Particulars	FY19	FY20	FY21
Implied depn rate			
Max (excl. PHFs)	8.2%	8.8%	7.0%
Apollo	6.6%	7.7%	6.0%
Narayana	5.6%	6.8%	6.2%
Depn % of sales			
Max	5.1%	5.2%	6.0%
Max (excl. PHFs)	6.0%	6.3%	6.8%
Apollo	4.1%	5.5%	5.4%
Narayana	4.8%	5.9%	7.1%

Source: Company, HSIE Research, erstwhile Max nos. till FY20, combined entity nos. from FY21

Finance costs

Max's finance costs are slightly higher than peers

Exhibit 34: Comparison of finance costs vs. listed peers

Particulars	FY19	FY20	FY21
Max (excl. PHFs)	6.1%	8.0%	9.3%
Apollo	8.1%	10.4%	8.3%
Narayana	7.5%	8.3%	7.3%

Source: Company, HSIE Research, erstwhile Max nos. till FY20, combined entity nos. from FY21

Working capital (WC) days

Minimal working capital required for hospitals' business

The hospitals' business has lower WC days as receivable and payable days tend to offset each other. Accordingly, Max's working capital days are expected to be ~5 days, which would be comparable to pure-play hospital companies like NH.

Max's working capital days are one of the best in the industry

Inventory days are comparable to pure-play hospitals entity like NH

Max seems to offer higher credit period to debtors...

...while also enjoying higher credit period from suppliers

Exhibit 35: Working capital days of Max vs. peers

Particulars	FY19	FY20	FY21
Working capital days			
Max (excl. PHFs)	22	33	-1
Apollo	34	28	15
Narayana	2	-5	-12
Inventory days			
Max (excl. PHFs)	6	8	8
Apollo	22	24	9
Narayana	11	7	7
Debtor days			
Max (excl. PHFs)	79	81	54
Apollo	39	33	46
Narayana	34	31	39
Creditor days			
Max (excl. PHFs)	63	56	63
Apollo	27	29	40
Narayana	43	42	58

Source: Company, HSIE Research, erstwhile Max nos. till FY20, combined entity nos. from FY21

Financial projections

We forecast 20% revenue CAGR over FY21-24e, driven by higher ARPOBs and improved occupancy as the non-COVID business picks up across units. Consequently, EBITDA growth is expected to be significant in the same period at 41% CAGR on account of: (a) margin improvement in Nanavati hospital – we model ~1,574bps of improvement from 6% in FY20 to 22% in FY24e; (b) steady shift in payor mix towards non-institutional patients; (c) higher contribution from international patients as travel restrictions ease (international business was 4% in FY21 vs. 11% in FY20); (d) ramp-up in the non-COVID business, which would drive higher ARPOBs (COVID business was ~15% of FY21 revenue and has lower ARPOBs); (e) a portion of synergies worth INR0.4bn to be realised in FY22.

We expect healthy double-digit growth across hospitals over FY21-24e on the back of improved occupancy and higher ARPOBs

Exhibit 36: Revenue summary

INR mn	FY20	FY21	FY22e	FY23e	FY24e	FY21-24e CAGR
Hospitals	**39,053**	**34,918**	**46,513**	**51,325**	**58,096**	**18.5%**
MHIL and subsidiaries	17,842	17,341	22,682	24,591	27,956	17.3%
PHFs	13,012	11,925	16,018	17,515	19,341	17.5%
Less: Inter-co. adj.	-2,436	-2,842	-3,604	-3,678	-3,868	10.8%
Radiant	10,636	8,493	11,417	12,896	14,667	20.0%
Max@Home	**768**	**696**	**1,044**	**1,410**	**1,762**	**36.3%**
MaxLab	**409**	**676**	**1,232**	**1,894**	**2,659**	**57.8%**
Total Revenues	**40,230**	**36,290**	**48,789**	**54,628**	**62,517**	**19.9%**

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

EBITDA growth is expected to be driven by: (a) optimisation of payor mix; (b) turnaround of Nanavati hospital; (c) operating leverage

Exhibit 37: EBITDA break-up

INR mn	FY20	FY21	FY22e	FY23e	FY24e	FY21-24e CAGR
Hospitals	**5,854**	**6,226**	**11,960**	**13,962**	**16,646**	**38.8%**
MHIL and subsidiaries	2,982	3,965	6,331	7,047	8,090	26.8%
PHFs	1,423	1,690	3,704	4,144	4,898	42.6%
Less: Inter-co. adj.	-1	-130	-188	-108	-294	31.3%
Radiant	1,450	701	2,112	2,879	3,953	78.0%
Max@Home	**15**	**70**	**157**	**254**	**352**	**71.7%**
MaxLab	**25**	**67**	**271**	**436**	**665**	**115.4%**
Proforma EBITDA	**5,894**	**6,362**	**12,387**	**14,651**	**17,663**	**40.5%**

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

We expect hospital business EBITDA margin to improve by ~1,082bps over FY21-24e

Exhibit 38: EBITDA margin summary

INR mn	FY20	FY21	FY22e	FY23e	FY24e	FY21-24e change
Hospitals	**15.0%**	**17.8%**	**25.7%**	**27.2%**	**28.7%**	**1,082bps**
MHIL and subsidiaries	16.7%	22.9%	27.9%	28.7%	28.9%	607bps
PHFs	10.9%	14.2%	23.1%	23.7%	25.3%	1,115bps
Radiant	13.6%	8.3%	18.5%	22.3%	26.9%	1,869bps
Max@Home	**2.0%**	**10.0%**	**15.0%**	**18.0%**	**20.0%**	**1,000bps**
MaxLab	**6.0%**	**9.8%**	**22.0%**	**23.0%**	**25.0%**	**1,517bps**
Proforma EBITDA margins	**14.6%**	**17.5%**	**25.4%**	**26.8%**	**28.3%**	**1,072bps**

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

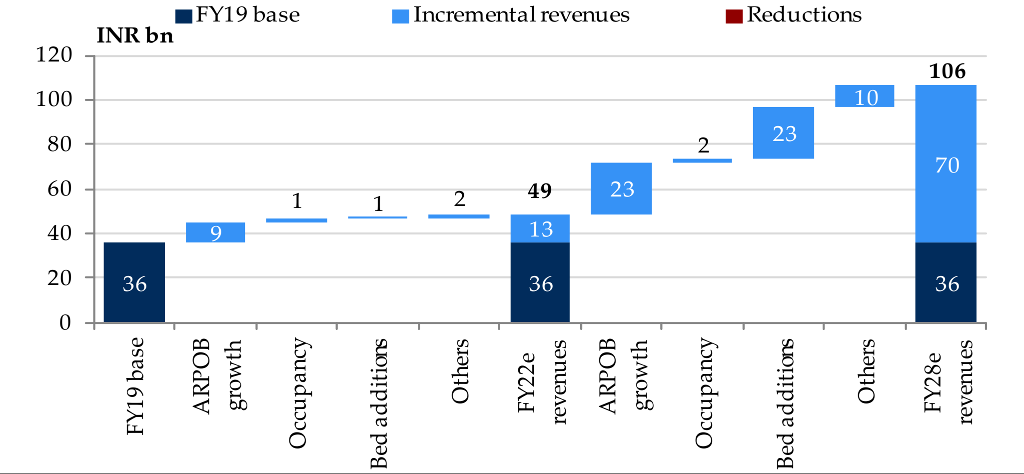
An eye on the future: ~95% upside potential seen in five years

Max has a well-defined roadmap for expansion, which is expected to aid higher growth trajectory of 24% EBITDA CAGR over FY21-28e. We list our assumptions for the key fundamental drivers of the business.

<u>Revenue growth driver assumptions (FY21-28e)</u> -
-ARPOB: 11% CAGR
-Occupancy: ~65-77%
-Capacity bed addition: 1,630

- **ARPOBs –** We forecast ~11% ARPOB CAGR over FY21-28e. With strong presence in metro cities, focus on quaternary care, and optimisation of payor mix, Max's ARPOB growth is expected to be higher than the industry average of ~7% witnessed in the past five years (pre-COVID).
- **Occupancies** – Max enjoys industry-leading occupancies, owing to its concentrated presence in Delhi and Mumbai – markets that are characterised by demand-supply mismatch for quality beds and strong demand for medical tourism. Despite the aggressive expansion plans in place, we expect Max to maintain 70%+ occupancy levels through FY28e, given the strong underlying demand and its proven execution capabilities in these markets.
- **Bed addition** – We expect the addition of ~1,630 capacity beds by FY28. Key capacity bed addition assumed is at Saket Smart (~600 beds), Vikrant Children's Foundation (~300 beds), Nanavati (~440 beds), Mohali (~190 beds) and Shalimar Bagh (~100 beds).

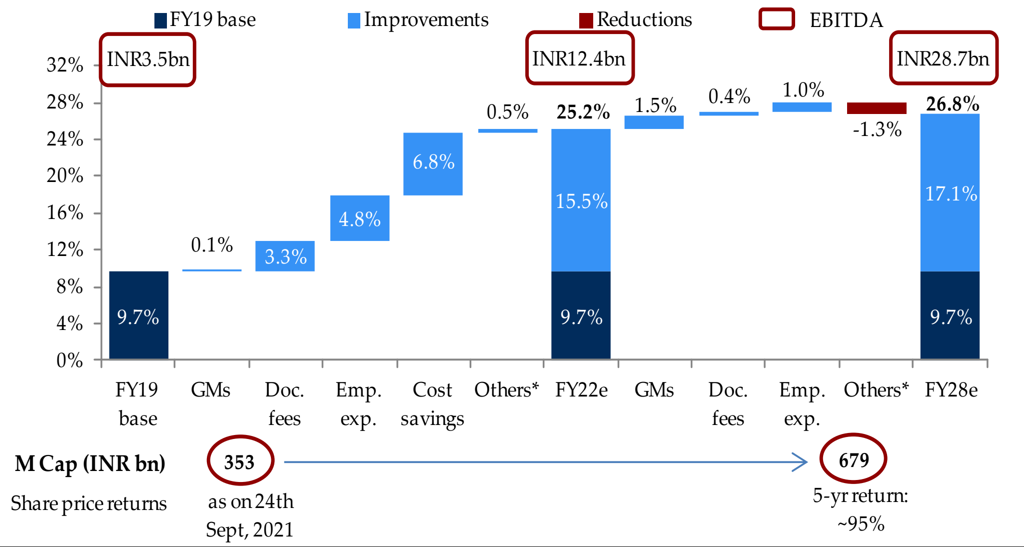
Exhibit 39: We forecast ~17% revenue CAGR over FY21-28e…



Source: Company, HSIE Research

Exhibit 40: …and ~24% EBITDA CAGR over the same period

At ~23x EV/EBITDA, we see an upside potential of ~95% in the next five years



Source: Company, HSIE Research

Change in estimates and target price

We tweak our FY22/23e EBITDA estimates by 4%/-5% to factor in improved outlook for core hospitals' business and revised expansion timelines. We also roll forward our target price to Mar'24 EBITDA (from Mar'23). Maintain BUY.

Exhibit 41: SOTP valuation based on FY24 estimates

	FY24e EBITDA	Multiple	INR mn
Hospitals			
MHIL	7,795	22.0	1,71,500
PHFs	4,898	22.0	1,07,750
Radiant	3,953	22.0	86,955
Proforma hospitals EBITDA	**16,646**	**22.0**	**3,66,206**
Max Home	352	30.0	10,572
Max Lab	665	30.0	19,942
Fair value of Max's operating assets	**17,663**	**22.5**	**3,96,719**
CWIP			5,769
Enterprise value (EV)			**4,02,488**
Less: Net debt (FY23e)			793
Less: Lease liabilities (FY23e)			3,662
Less: Contingent consideration (FY23e)			3,872
Implied market cap			**3,94,161**
No. of equity shares			966.0
Target price			**410**

Source: HSIE Research

Exhibit 42: SOTP valuation based on FY28 estimates

	FY28e EBITDA	Multiple	INR mn
Hospitals			
MHIL	12,174	22.0	2,67,836
PHFs	7,613	22.0	1,67,489
Radiant	6,152	22.0	1,35,338
Proforma hospitals EBITDA	**25,939**	**22.0**	**5,70,663**
Max Home	702	30.0	21,046
Max Lab	2,091	30.0	62,738
Fair value of Max's operating assets	**28,732**	**22.8**	**6,54,446**
CWIP			2,719
Enterprise value (EV)			**6,57,871**
Less: Net debt (FY27e)			(27,769)
Less: Lease liabilities (FY27e)			2,897
Less: Contingent consideration (FY27e)			3,355
Implied market cap			**6,79,388**
No. of equity shares			966.0
Target price			**705**

Source: HSIE Research

Risks

- **Hospitals** – Delay in capacity addition, delay in improvement in payor mix, slower-than-expected pick-up in non-COVID business, cost base stabilising at higher level post COVID, and unfavourable change in agreement with partnered healthcare facilities (trusts).
- **SBUs –** Delay in scaling up the business via organic or inorganic route.

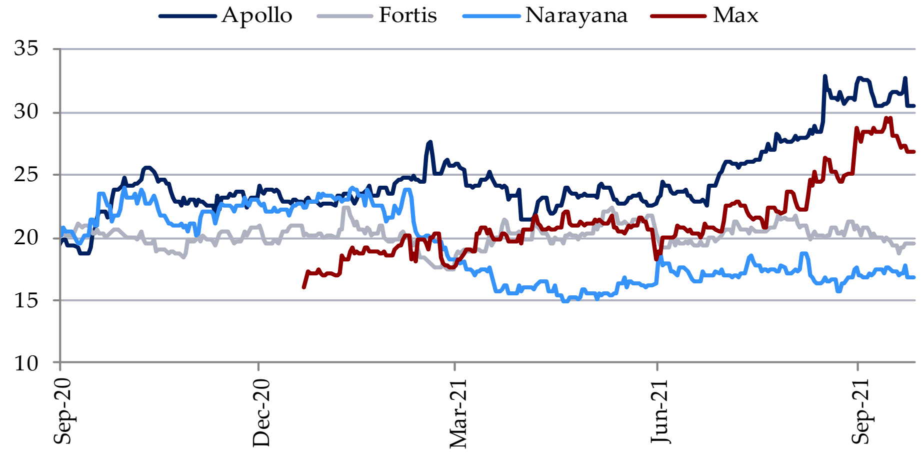
Peer set comparison and valuation chart

Exhibit 43: Peer-set valuation

Domestic cos	M.Cap (INR bn)	CMP (INR/sh.)	RECO	TP	EV/EBITDA (x)		ROE		PER(x)		CAGR (FY20-23e)	
					22E	23E	22E	23E	22E	23E	EBITDA	Sales
Max Healthcare	353	365	**BUY**	**410**	29.4	24.6	21.2	22.3	5.5	4.9	*35.5%*	*10.7%*
Apollo	680	4,732	ADD	4,410	34.4	26.8	18.2	21.4	73.5	52.3	*18.3%*	*17.1%*
Narayana	106	521	ADD	575	16.8	13.6	23.6	25.2	35.2	27.3	*24.4%*	*10.8%*
Fortis	205	272	NA	NA	21.2	18.1	6.0	7.1	61.3	41.4	*26.1%*	*12.9%*
HCG	31	249	NA	NA	18.9	15.5	-3.9	2.0	-110.9	256.3	*15.6%*	*9.6%*
KIMS	98	1,224	NA	NA	21.0	18.1	25.0	21.0	36.0	30.6	*29.2%*	*19.1%*
Aster DM	107	213	NA	NA	11.3	9.6	10.9	13.7	26.0	18.4	*9.0%*	*8.9%*
Shalby	19	180	NA	NA	17.0	14.3	6.6	7.6	27.9	23.9	*17.5%*	*12.4%*

Source: Bloomberg, HSIE Research, price as on Sept 24, 2021, Max TP based on FY24 estimates; whereas Apollo and NH TP based on FY23 estimates

Exhibit 44: Max is trading at ~10-15% discount to Apollo



Source: Bloomberg, HSIE Research, 1-yr fwd. EV/ EBITDA

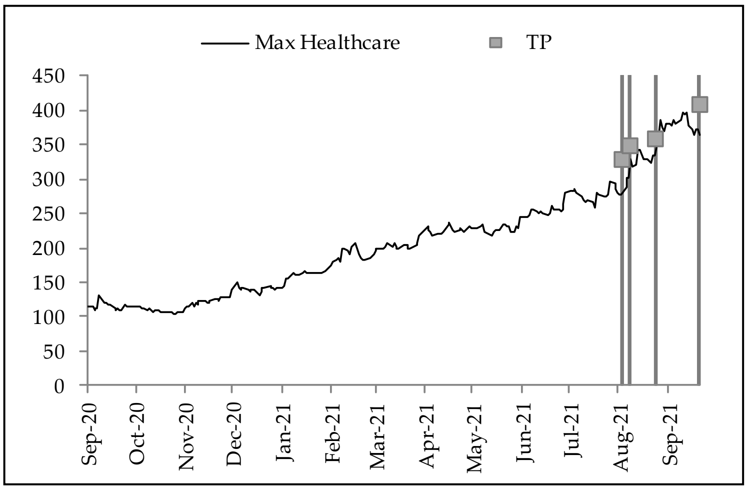
Proforma financials

Proforma Financial Summary (including PHFs)

Year to March (INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	**33,913**	**35,990**	**40,230**	**36,290**	**48,789**	**54,628**	**62,517**
YoY growth		*6%*	*12%*	*-10%*	*34%*	*12%*	*14%*
Gross Profits		27,692	31,029	26,557	37,450	42,140	48,455
Gross Margin (%)		76.9%	77.1%	73.2%	76.8%	77.1%	77.5%
EBITDA	**3,120**	**3,485**	**5,894**	**6,362**	**12,387**	**14,651**	**17,663**
EBITDA Margin (%)	**9.2%**	**9.7%**	**14.6%**	**17.5%**	**25.4%**	**26.8%**	**28.3%**
EBIT		2,079	4,153	3,870	10,434	12,390	15,278
EBIT Margin (%)		5.8%	10.3%	10.7%	21.4%	22.7%	24.4%
Tax rate (%)		362.3%	-1.7%	21.6%	10.7%	13.4%	14.7%
Adj. PAT		-161	1,682	451	7,918	9,754	12,225
PAT Margin (%)		-0.4%	4.2%	1.2%	16.2%	17.9%	19.6%
Capital Employed		29,792	37,815	41,543	43,954	50,379	59,866
Net Debt		12,416	12,350	6,618	4,225	793	-2,823
Lease liabilities				4,123	3,885	3,662	3,453
Contingent consideration				4,193	4,027	3,872	3,728
EV		3,49,117	3,50,497	3,67,456	3,64,660	3,60,851	3,56,881
Mcap		3,30,108	3,30,108	3,52,523	3,52,523	3,52,523	3,52,523
Book value		27.2	23.3	59.4	65.9	74.0	84.2
Adj. EPS		-0.3	3.1	0.5	8.2	10.1	12.7
Adj. RoCE		**5.9**	**10.4**	**8.3**	**21.2**	**22.3**	**23.0**
Adj. RoE		**-1.1**	**12.4**	**2.6**	**31.0**	**29.9**	**29.5**
EV/Revenues (x)		9.7	8.7	10.1	7.5	6.6	5.7
EV/ EBITDA		**100.2**	**59.5**	**57.8**	**29.4**	**24.6**	**20.2**
Net Debt/EBITDA (x)		5.5	3.5	2.3	1.0	0.6	0.2
Net Debt/Equity (x)		1.3	1.6	0.7	0.4	0.2	0.1
P/E (x)			116.6	782.0	44.5	36.1	28.8
P/BV (x)		13.4	15.7	6.1	5.5	4.9	4.3

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco.	Target
9-Aug-21	278	BUY	330
12-Aug-21	301	BUY	350
30-Aug-21	335	BUY	360
27-Sep-21	365	BUY	410

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

We, **Bansi Desai, CFA** and **Karan Vora, CA**, authors and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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