Max Healthcare

A three-act play: growth, quality, returns

Max healthcare is the second largest healthcare provider in terms of revenue with best-in-class operating metrics (highest ARPOBs, occupancies) amongst the listed players in India. With a strong management team at the helm led by Abhay Soi, a turnaround specialist, and the backing of KKR, Max has reset and reshaped its strategy for growth, aided by cost initiatives and synergies between Max and Radiant assets. It has delivered remarkable improvement in profitability (~750bps of margin expansion) in the past two years. We believe the company is entering a high-growth phase, owing to significant expansion it has planned at strategic locations. We expect strong EBITDA CAGRs of 48%/25% over the next two/five years, led by expansion and operating leverage. Initiate with a BUY and target price of INR330/sh.

Well defined roadmap for expansion offers a long runway for growth
Max is planning to expand aggressively by adding ~2,100 beds, which is ~60% of the current capacity beds, over the next 5-6 years. This includes brownfield expansion in the most attractive markets such as Saket Smart, Delhi (~1,100 beds) and Nanavati hospital, Mumbai (~600 beds). As the company has strong brand equity and proven execution capabilities, we expect these facilities to turn profitable by the second year of operations. More importantly, the land bank at both these locations is already in place, which should result in lower Capex/bed (~INR12mn) and higher incremental RoCE for the new investments.

Multiple levers for margin expansion in place
Despite COVID-led challenges in FY21, Max's EBITDA margin improved from ~9% in FY19 to ~18% in FY21. While a large part of cost savings and synergies is captured in the Q4FY21 margin, we see further scope of improvement on account of: (a) optimisation of payor mix towards non-institutional and international patients, given Max has a greater proportion of scheme patients (~23% vs. 15-18% for peers); (b) ramp-up in the non-COVID business, which would drive higher ARPOBs (COVID business was ~15% of FY21 revenue and has lower ARPOBs); (c) margin improvement in the Nanavati hospital business from mid-single digit in FY20 to high-teens in the next two years; (d) operating leverage benefits (Exhibit 39-41).

Metrics: improving returns, comfortable leverage, strong balance sheet
We expect significant expansion in RoCE from ~9% in FY21 to ~22% in FY23, driven by improvement in profitability. The net debt to EBITDA is comfortable at ~1.2x/0.3x in FY21/22e, partly aided by recent QIP of INR12bn. Given a strong balance sheet and healthy cash flow generation, a large part of the brownfield expansion requirements will be met through internal accruals, in our view.

Our target price of INR330/sh provides ~19% upside potential; risks
Our TP of INR330/sh is based on SOTP valuation of (a) hospitals - 22x FY23e EV/ EBITDA; (b) Max@Home operations - 25x FY23e EV/EBITDA; (c) Max Lab operations - 25x FY23e EV/EBITDA. **Risks**: Delay in capacity addition, cost base stabilising at higher level post COVID, delay in payor mix improvement, and unfavourable change in agreement with partnered healthcare facilities (trusts).

Proforma Financial Summary

YE Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	35,990	40,230	36,290	50,671	58,030
EBIDTA	3,480	5,894	6,362	11,027	14,028
EBITDA Margins	9.7	14.7	17.5	21.8	24.2
Adj. PAT	-79	1,682	454	6,135	8,906
EV / EBITDA (x)	47.8	28.5	43.6	24.9	19.1
RoCE (%)	5.7	11.0	9.4	19.6	22.0

Source: Company, HSIE Research

BUY

CMP *(as on 06 Aug 2021)*	INR 278
Target Price	INR 330
NIFTY	16,238

KEY STOCK DATA	
Bloomberg code	MAXHEALT IN
No. of Shares (mn)	966
MCap (INR bn) / ($ mn)	269/3,612
6m avg traded value (INR mn)	521
52 Week high / low	INR 306/97

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.7	55.3	-
Relative (%)	10.8	48.3	-

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

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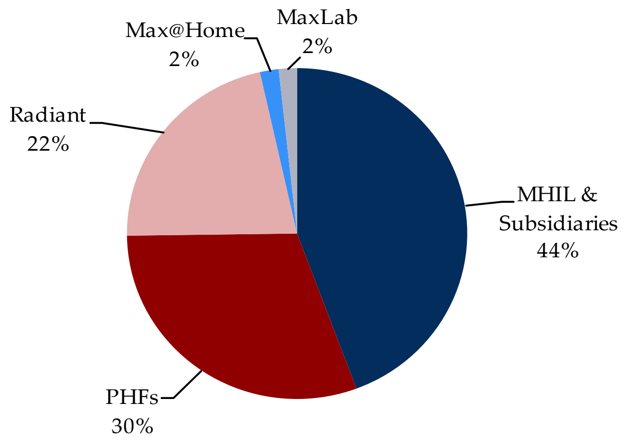
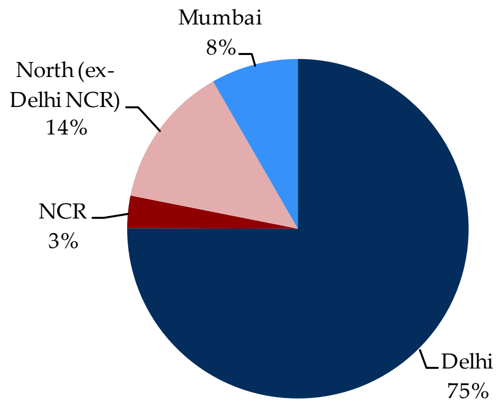
Focus charts

Exhibit 1: Hospital business contributes 95%+ of Max healthcare's revenue



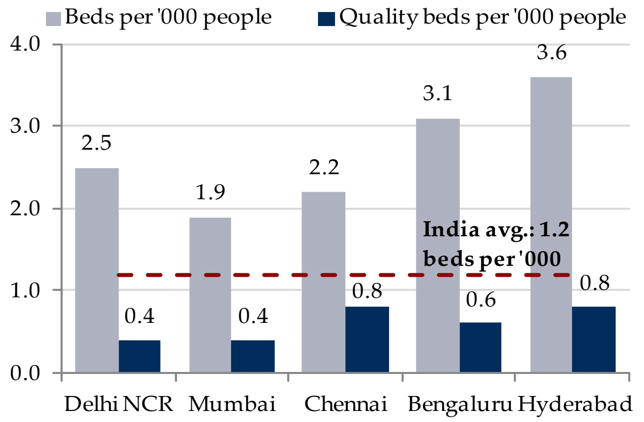
Source: Company, HSIE Research, FY21, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities (trusts)

Exhibit 2: Strong present in attractive markets - Metro cities account for ~85% of revenue



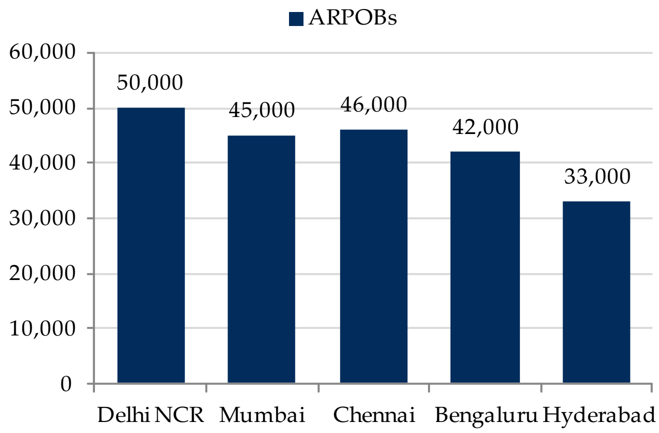
Source: Company, HSIE Research, FY21

Exhibit 3: Supply constraints in availability of quality beds offer scope for expansion in metros…



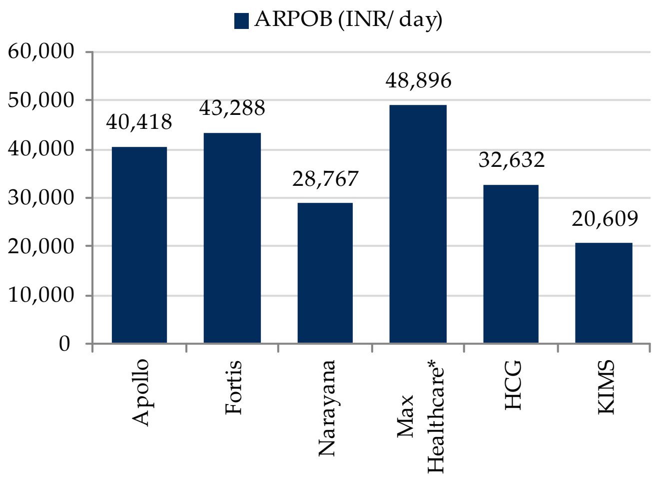
Source: Company, HSIE Research

Exhibit 4: …this coupled with higher propensity to pay results in attractive ARPOBs in these markets



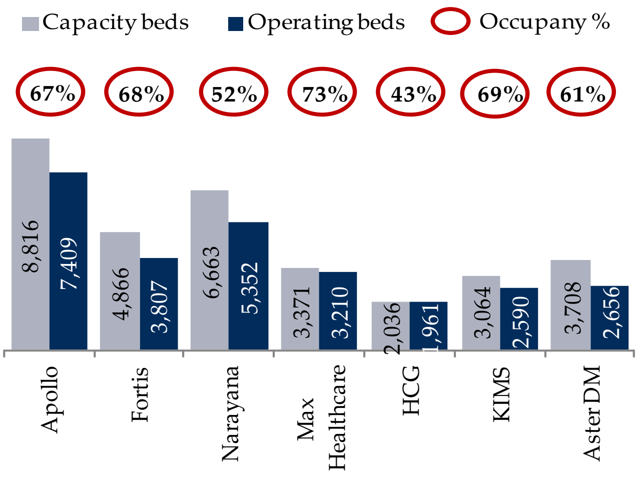
Source: Company, HSIE Research

Exhibit 5: Max enjoys industry leading ARPOBs compared to peers



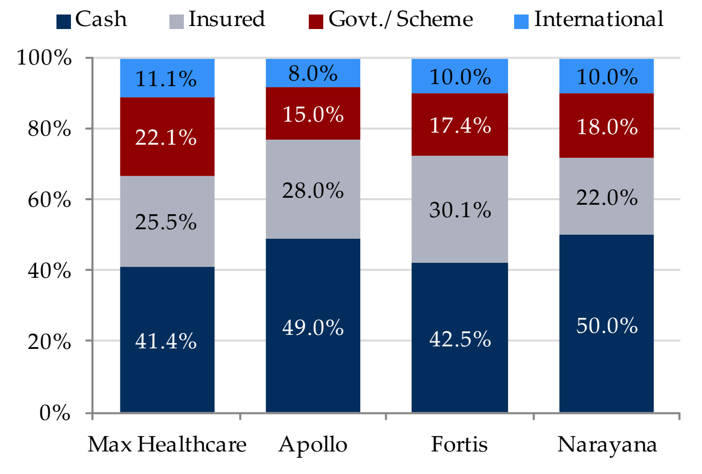
Source: Company, HSIE Research, FY21, * nos. excl. Max@Home and Max Lab revenues

Exhibit 6: Bed occupancy is at 73% which is highest among the peers



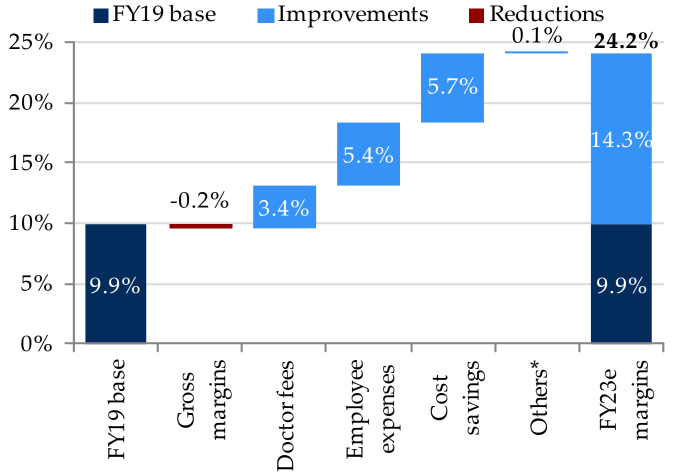
Source: Company, HSIE Research, FY20

Exhibit 7: Payor mix – planned reduction in scheme business is likely to aid margins going forward



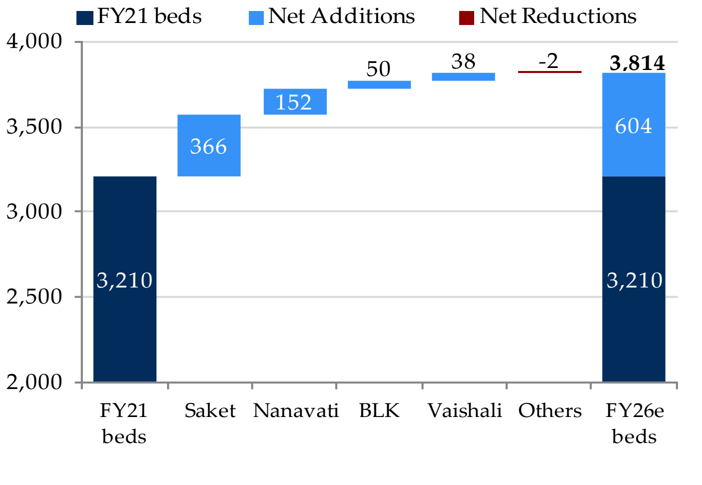
Source: Company, HSIE Research, FY20

Exhibit 8: EBITDA margins to expand by ~2.5x over FY19-23e



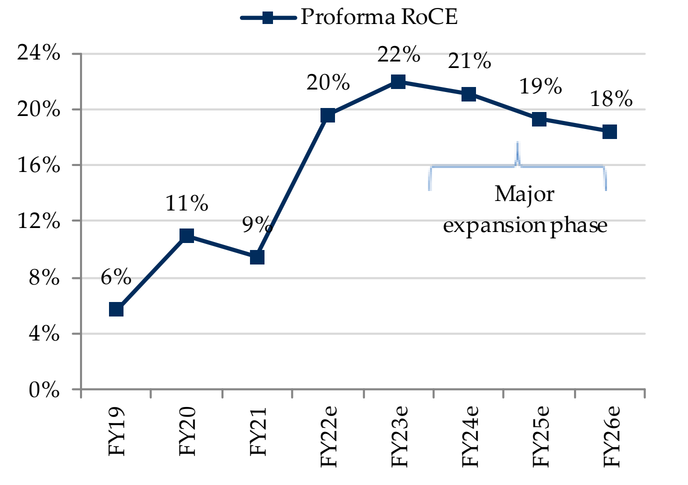
Source: Company, HSIE Research, *Others incl. operating leverage, Ind-AS impact and merger impact

Exhibit 9: We expect addition of ~600 operating beds over the next 5 years



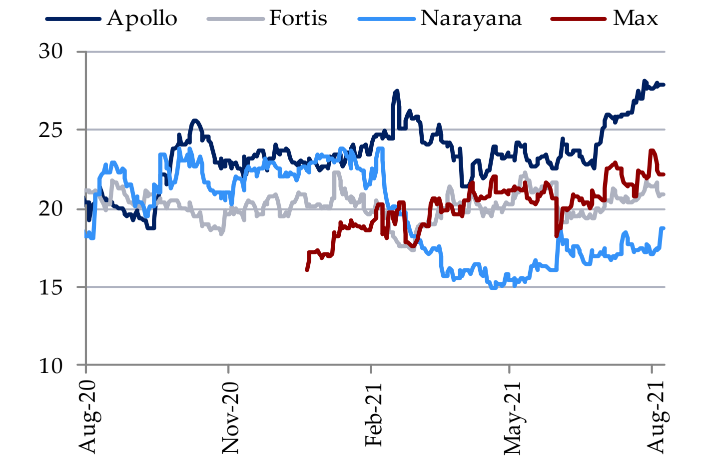
Source: Company, HSIE Research, Operating beds

Exhibit 10: RoCEs to dilute marginally (post-tax) to remain attractive at ~22% in FY23e



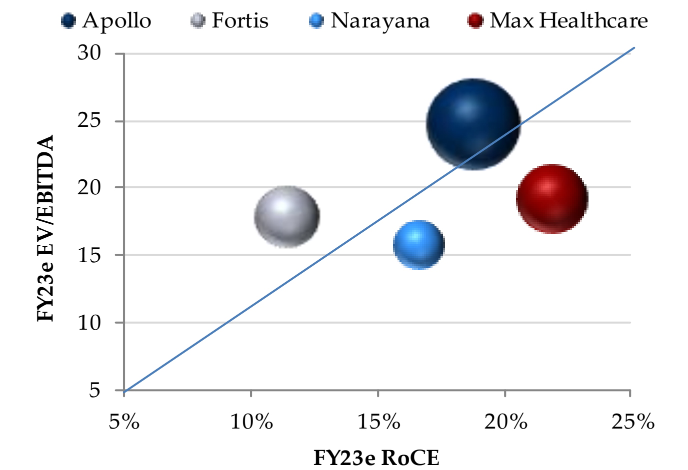
Source: Company, HSIE Research

Exhibit 11: The stock trades at 22x 1-yr fwd. EV/ EBITDA, ~20% discount to Apollo's overall business



Source: Bloomberg, HSIE Research

Exhibit 12: EV/ EBITDA vs. RoCE justifies premium valuation for Max



Source: Bloomberg, Company, HSIE Research, size of the bubble indicates FY23e EBITDA of a companies

Contents

Comparison of leading listed players

Exhibit 13: Max stands out among peers in terms of key operating and financial parameters

Particulars/ Hospitals	Apollo	Fortis	Narayana	Max HC	KIMS
No. of Hospitals	49	28	21	16	9
Capacity Beds (owned)	8,816	4,866	6,663	3,371	3,064
Operational Beds (owned)	7,409	3,807	5,352	3,210	2,590
Key Presence	Pan India	Pan India	Pan India - dominant in Karnataka and East	Delhi NCR & Mumbai	AP and Telangana
Expansion plans	Bolt-on acquisitions, brownfield expansion	Plans to add ~1,300 beds in 4 years, Capex of ~INR7.5bn, brownfield expansion	~USD 100mn in Cayman, selective expansion in India preferably in East	Nanavati (600 beds), Saket, Delhi (600 beds) for ~INR13bn in 4-5 years	~50% capacity addition possible by adding new units in Central and South India
Other businesses	Pharmacy, AHLL (clinics/ diagnostics), Apollo 24/7	SRL - Diagnostics	Cayman Islands	Max@Home, Max Lab (Diagnostics)	None
Operating Parameters (FY21)					
ARPOB (INR/ day)	40,418	43,288	28,767	48,896	20,609
ALOS	4.2	3.6	3.8	5.2	5.5
Occupancy (FY20/21)	67%/55%	68%/55%	52%/36%	73%/65%	80%/79%#
Revenue per bed	6.8	8.2	3.7	10.9	5.4
EBITDA per bed	0.9	0.7	0.2	1.9	1.2
EV per bed	53.8	51.0^	21.5	86.0	37.6
Gross block per bed	9.9	13.4	3.6	11.5	4.4
Financial Parameters (FY21)					
Revenues	1,05,600	40,301	25,823	36,290	13,299
FY16-21 CAGR	11.2%	-0.9%	9.9%	NA	21.5%
EBITDA Margin	10.8%	11.2%	7.1%	17.5%	27.9%
RoCE (FY21/22)	7.0%/15.9%	2.2%*/NA	3.6%/15.6%	9.4%/19.6%	21.8%/NA
Net Debt/ EBITDA	2.6	1.9*	3.9	1.2	0.0
Hospitals					
Hospitals Revenue	50,022	31,240	19,763	34,918	13,280
FY16-21 CAGR	6.2%	-1.8%	5.7%	NA	21.4%
FY20-23e CAGR	13.3%	11.1%*	9.0%	13.0%	NA
Hospitals as % of revenues	47.4%	77.5%	76.5%	96.2%	99.9%
EBITDA	6,926	2,530	1,082	6,160	3,709
FY20-23e CAGR	16.2%	23.0%*	19.7%	33.7%	NA
EBITDA Margin	13.8%	8.1%	5.5%	17.6%	27.9%

Source: Company, Bloomberg, HSIE Research, INR mn, *consensus estimates, ^EV is for entire business, #on census bed

Financial projections

We forecast 26% revenue CAGR over FY21-23e, driven by higher ARPOBs and improved occupancy as the non-COVID business picks up across units. However, EBITDA growth is expected to be significant in the same period at 48% CAGR on account of: (a) margin improvement in Nanavati hospital – we model ~1,224bps of improvement from 6% in FY20 to 19% in FY23e; (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 pending to be realised in FY22.

We expect healthy double digit growth across hospitals over FY21-23e on the back of improved occupancy and higher ARPOBs

Exhibit 14: Revenue summary

INR mn	FY19	FY20	FY21	FY22e	FY23e	FY21-23e CAGR
Hospitals	**35,121**	**39,053**	**34,918**	**48,594**	**54,890**	**25.4%**
MHIL and subsidiaries	16,126	17,842	17,349	22,798	24,805	19.6%
PHFs	12,134	13,012	11,925	16,042	17,821	22.2%
Less: Inter-co. adj.	-2,419	-2,436	-2,850	-3,128	-3,475	10.4%
Radiant	9,280	10,636	8,493	12,882	15,738	36.1%
Max@Home	**626**	**768**	**696**	**870**	**1,088**	**25.0%**
MaxLab	**243**	**409**	**676**	**1,207**	**2,052**	**74.2%**
Total Revenues	**35,990**	**40,230**	**36,290**	**50,671**	**58,030**	**26.5%**

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 15: EBITDA break-up

INR mn	FY19	FY20	FY21	FY22e	FY23e	FY21-23e CAGR
Hospitals	**3,475**	**5,717**	**6,160**	**10,709**	**13,446**	**47.7%**
MHIL and subsidiaries	1,547	2,846	3,855	5,659	6,456	29.4%
PHFs	773	1,423	1,650	2,805	3,465	44.9%
Less: Inter-co. adj.	-25	-1	-130	-109	-166	13.1%
Radiant	1,180	1,450	785	2,354	3,691	116.8%
Max@Home	**63**	**115**	**84**	**152**	**218**	**61.4%**
MaxLab	**24**	**61**	**118**	**241**	**452**	**95.3%**
Proforma EBITDA	**3,562**	**5,894**	**6,362**	**11,027**	**14,028**	**48.5%**

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

We expect hospital business EBITDA margin to improve by 685bps over FY21-23e

Exhibit 16: EBITDA margin summary

INR mn	FY19	FY20	FY21	FY22e	FY23e	FY21-23e CAGR
Hospitals	**9.9%**	**14.6%**	**17.6%**	**22.0%**	**24.5%**	**685bps**
MHIL and subsidiaries	9.6%	15.9%	22.2%	24.8%	26.0%	381bps
PHFs	6.4%	10.9%	13.8%	17.5%	19.4%	561bps
Radiant	12.7%	13.6%	9.2%	18.3%	23.5%	1,421bps
Max@Home	**10.0%**	**15.0%**	**12.0%**	**17.5%**	**20.0%**	**800bps**
MaxLab	**10.0%**	**15.0%**	**17.5%**	**20.0%**	**22.0%**	**450bps**
Proforma EBITDA margins	**9.9%**	**14.6%**	**17.5%**	**21.8%**	**24.2%**	**664bps**

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

SOTP-based valuation

The stock is trading at 19x FY23e EV/ EBITDA, ~5%/20% discount to Apollo's hospital/overall business

Max has outperformed the sector by 109% and Nifty by 104% in the past one year

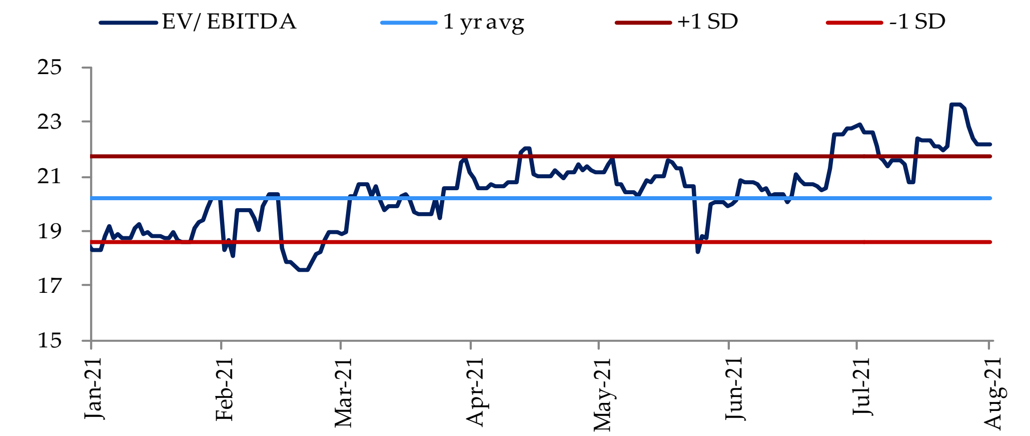
Our target price of INR330/sh is based on SOTP valuation of (a) the hospitals business (incl. PHFs) - 22x FY23e EV/ EBITDA; (b) Max@Home operations - 25x FY23e EV/EBITDA; (c) Max Lab operations – 25x FY23e EV/EBITDA. We value Max's hospital business at 22x EV/EBITDA, a ~10-15% premium to Apollo's hospital business, owing to Max's strong hospital franchise (focus on quaternary care, presence in metro cities) and superior growth visibility over the next five years.

Exhibit 17: SOTP valuation

	FY23e EBITDA	Multiple	INR mn
Hospitals			
MHIL	6,456	22.0	1,42,027
PHFs	3,465	22.0	76,239
Radiant	3,691	22.0	81,203
Pro-forma hospitals EBITDA	**13,612**	**22.0**	**2,99,469**
Max Home	218	25.0	5,438
Max Lab	452	25.0	11,288
Fair value of Max's operating assets	**14,281**	**22.1**	**3,16,196**
CWIP			2,019
Enterprise Value (EV)			**3,18,220**
Less: Net debt (FY22e)			1,527
Less: Lease liabilities (FY22e)			1,811
Implied Market Cap			**3,14,883**
No. of equity shares			966.0
Target price			**330**

Source: HSIE Research

Exhibit 18: The stock is trading at ~22x 1-yr fwd. EV/EBITDA, ~10-12% premium to its own historical average



Source: Bloomberg, HSIE Research

An eye on the future: ~75% upside potential seen in 4 years

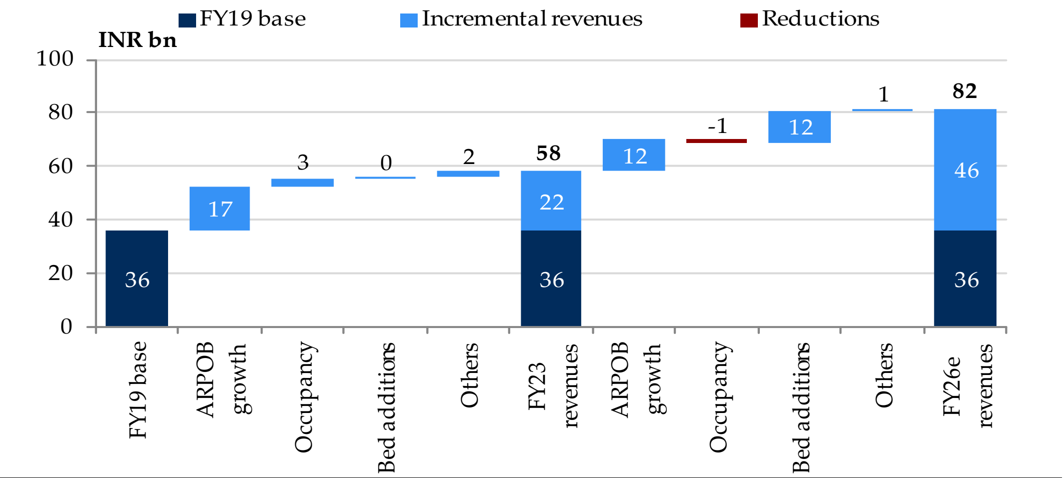
Max has a well-defined roadmap for expansion, which is expected to aid higher growth trajectory of 25% EBITDA CAGR over the next five years. We list our assumptions for the key fundamental drivers of the business.

- **ARPOBs** – We forecast 9.7% ARPOB CAGR over FY21-26e. 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.

__Revenue growth driver assumptions (FY21-26e)__ -
-ARPOB: 9.7% CAGR
-Occupancy: 74%+
-Capacity bed addition: 900
-Operating bed addition: 600

- **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 ~74% occupancy levels through FY26, given the strong underlying demand and its proven execution capabilities in these markets.
- **Bed addition** – We expect the addition of ~900 capacity beds and ~600 operational beds by FY26. Key bed addition assumed is at Saket Smart (~340 beds), Nanavati (~150 beds), BLK (~50 beds) and Vaishali (~38 beds).

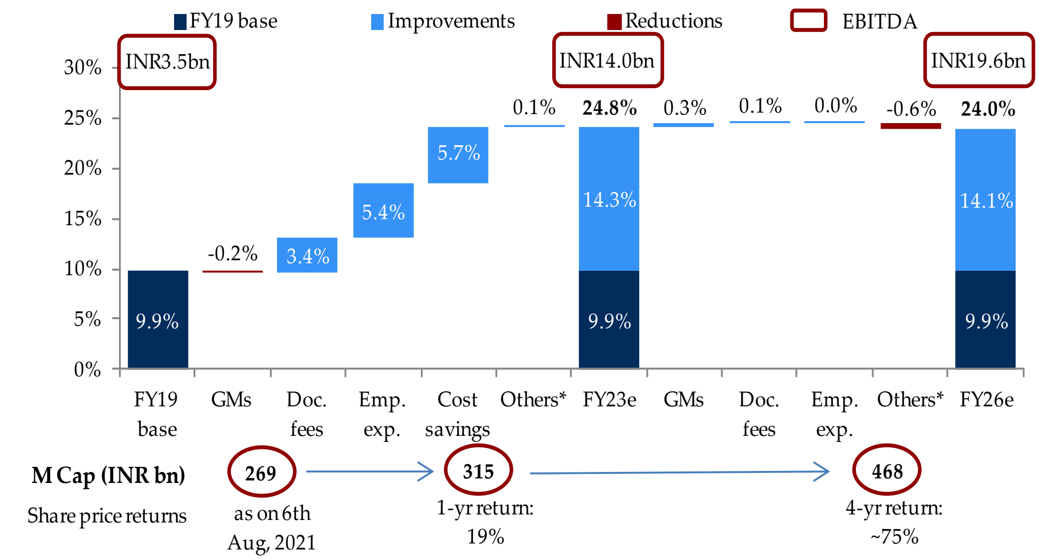
Exhibit 19: We forecast ~18% revenue CAGR…



Source: Company, HSIE Research

Exhibit 20: …and ~25% EBITDA CAGR over the next five years

__EBITDA growth (FY21-26e) led by__ -
(a) optimisation of payor mix; (b) turnaround of Nanavati hospital; (c) operating leverage



At 22x EV/EBITDA, we see upside potential of ~75% in the next four years

Source: Company, HSIE Research

Business overview

Promoted by Abhay Soi (21.8% stake) and KKR (48.6% stake via Kayak Investments)

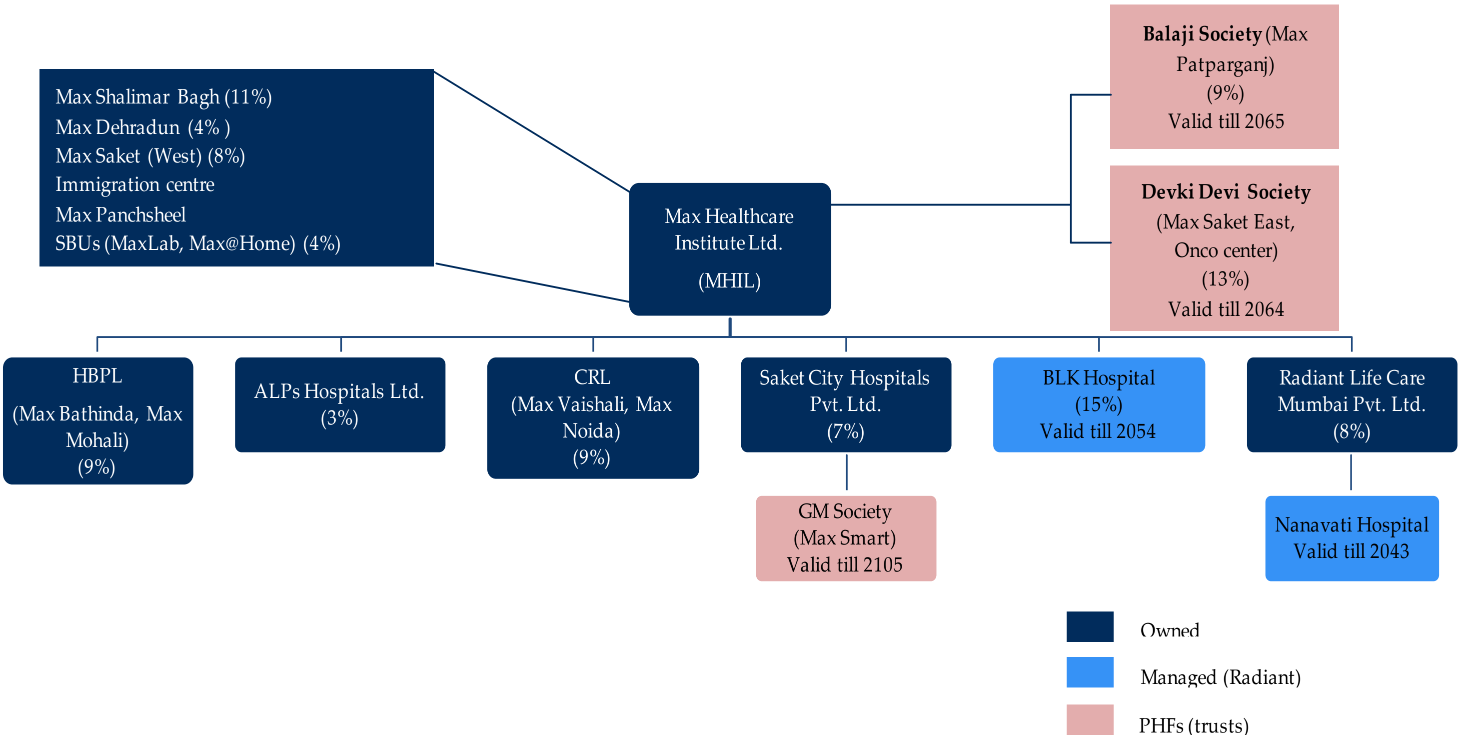
Second largest hospital chain in India in terms of revenue

Primarily operates assets in metro cities - Delhi NCR and Mumbai

Max Healthcare is the second largest hospital chain in India in terms of revenue. It operates 16 healthcare facilities (12 hospitals and 4 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 revenues. 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 21: Business structure with FY21 revenue share



Source: Company, HSIE Research

Transaction structure

Max India (MIL) and Life Healthcare each held 49.7% stake in MHIL.

↓

June'19: Radiant acquired Life Healthcare's stake in MHIL for INR80/sh and a total value of INR21.4bn.

↓

June'20: (a) Demerger of Max Bupa and Antara into a new entity Advaita;
(b) Demerger of Radiant's healthcare business into MHIL; (c) Merger of residual MIL with MHIL

↓

The Max-Radiant merger is considered as complete w.e.f. 1st June, 2020

↓

Shareholding post-merger:
Abhay Soi – 23.3%
KKR – 47.0%
Max promoters – 12%
Public – 17.7%

↓

KKR acquired additional 4.99% stake of MHIL from erstwhile Max promoters

↓

Revised Shareholding (at the time of listing, Aug'20):
Abhay Soi – 23.3%
KKR – 51.9%
Max promoters – 7.0%
Public – 24.8%

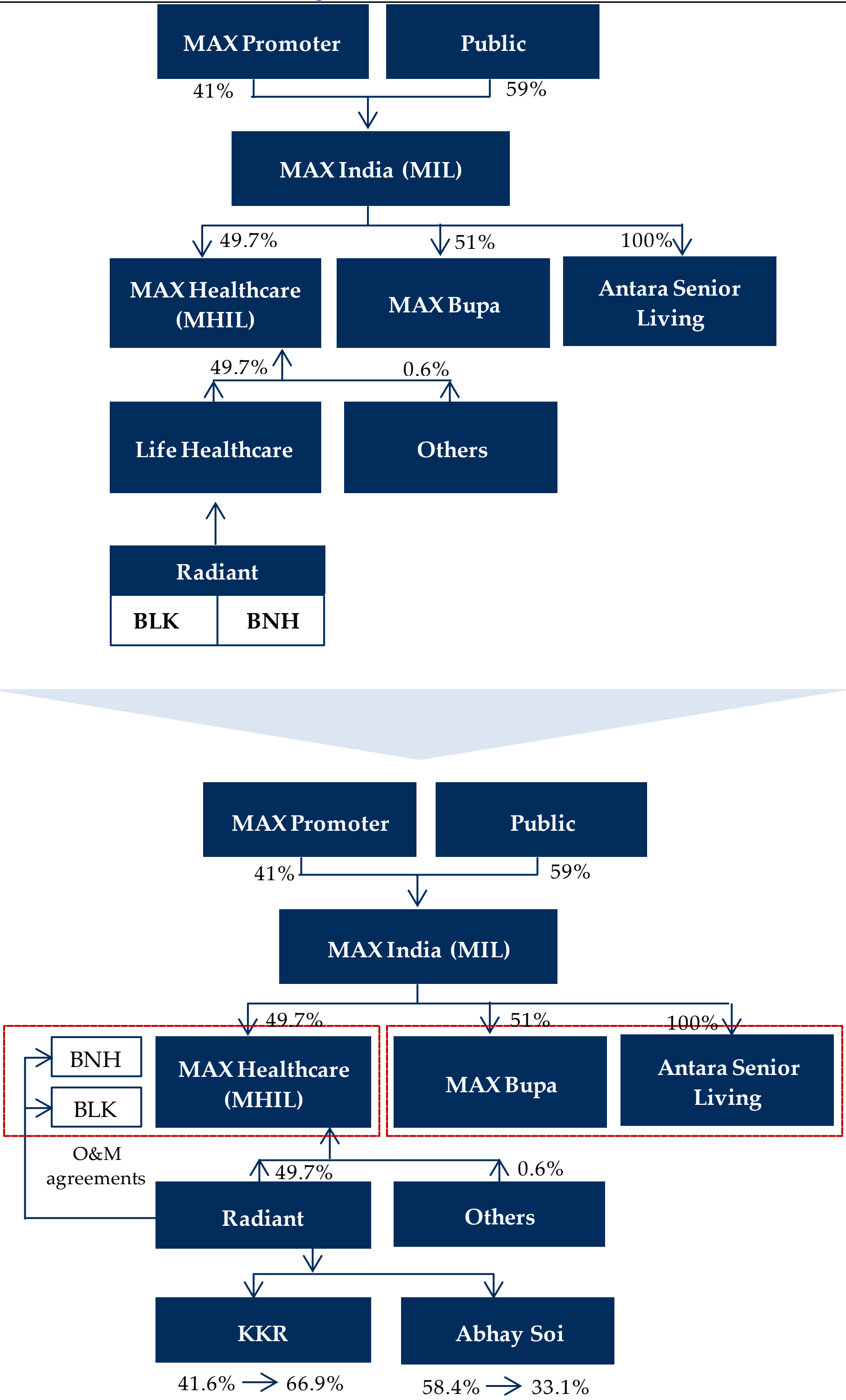
↓

Mar'21: QIP of INR12bn resulted in ~5% dilution of promoter stake, shareholding reduced to ~70% in compliance with SEBI guidelines.

↓

New Shareholding:
Abhay Soi – 21.8%
KKR – 48.6%
Public – 29.6%

Exhibit 22: The Max-Radiant amalgamation structure



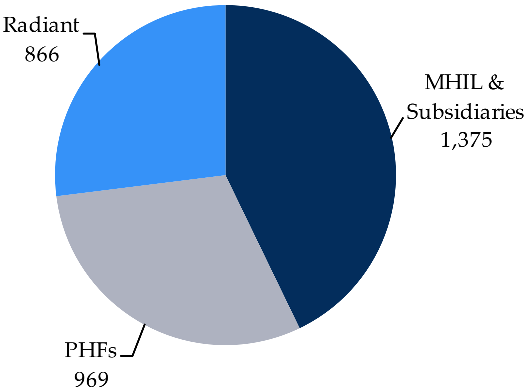
Source: Company, HSIE Research, BLK – BL Kapur, BNH – Dr. Balabhai Nanavati Hospital

Dominant player in north India

Hospital network:
-10 owned/ leased
-4 partnered facilities
-2 O&M hospitals

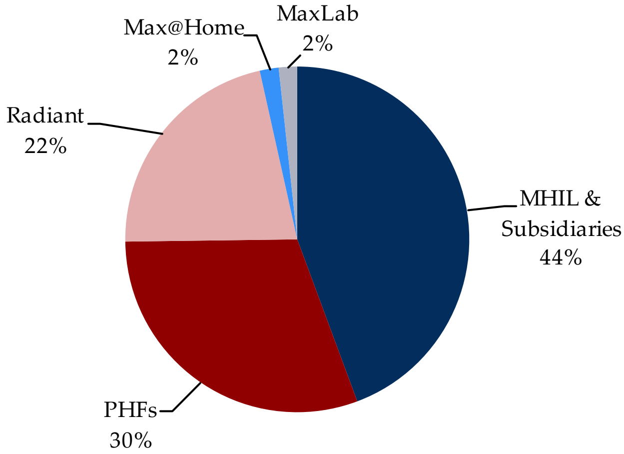
Max's hospital network consists of 10 owned/ leased hospitals, four partnered healthcare facilities (PHFs) - viz., Saket East block (Devki Devi Society), Saket Smart (Gujarmal Modi Society), Patparganj (Balaji Society), Institute of Cancer Care, Lajpat Nagar - and two Radiant hospitals operated on an O&M basis, viz., BL Kapur and Nanavati. It has a dominant presence in the northern region, which accounts for ~92% of its revenues.

Exhibit 23: Operating beds break-up



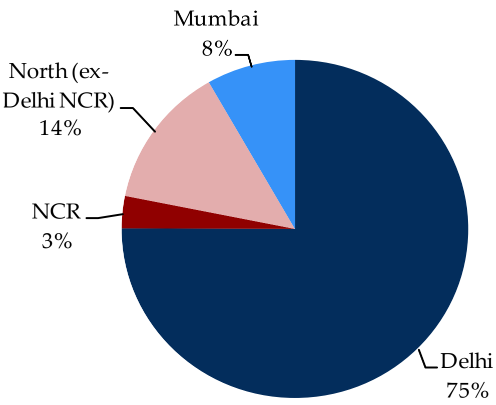
Source: Company, HSIE Research, FY21, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

Exhibit 24: Revenue break-up



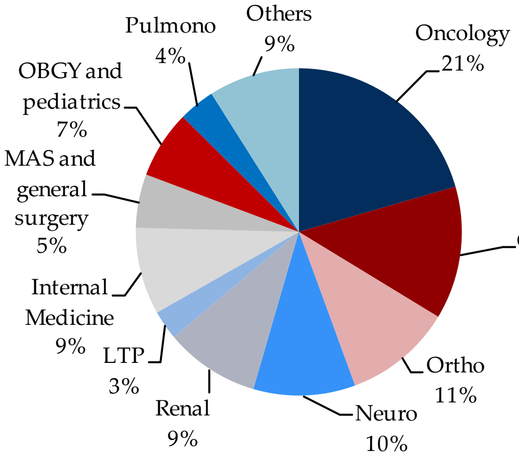
Source: Company, HSIE Research, FY21, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

Exhibit 25: Regional split of revenues – north India accounts for ~92% of its revenues



Source: Company, HSIE Research, FY21

Exhibit 26: Focus on quaternary care: onco, neuro, cardiac, ortho and transplants are key specialties



Source: Company, HSIE Research, FY20

Exhibit 27: Regional split of hospital business

FY21 data	Delhi	NCR (ex-Delhi)	Mumbai	North (ex-Delhi NCR)
Operated Hospitals/ Facilities	10	2	1	3
Capacity beds	2,369	72	328	602
Operational beds	2,308	72	328	500
Operational beds %	71.9%	2.2%	10.2%	15.6%
Hospitals	BLK, Saket (East + West), Smart, Patparganj, Vaishali, Shalimar Bagh	Gurugram	Nanavati	Mohali, Bathinda, Dehradun
Revenue % of hospitals	75%	3%	8%	14%
EBITDA % of hospitals	84%	2%	0%	13%
ARPOB* (INR/ day)	52,767	60,134	49,000	40,330
Occupancy* %	65.4%	68.0%	61.0%	64.5%

Source: Company, HSIE Research, *ARPOBs and Occupancies are ex-4 medical centers, North India includes Punjab and Uttarakhand

Industry-leading operating parameters

Superior ARPOBs led by focus on quaternary care and metros

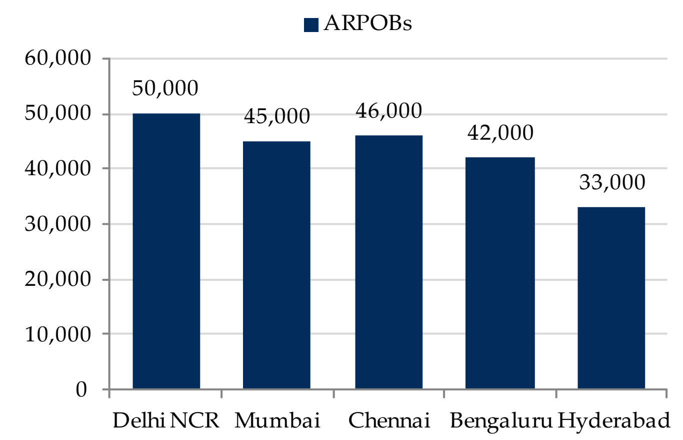
~85% of beds located in tier-I cities

Within tier-I cities, Delhi, Mumbai and Chennai enjoy the best ARPOBs in the country

~70% of hospitals revenue comes from quaternary and tertiary care

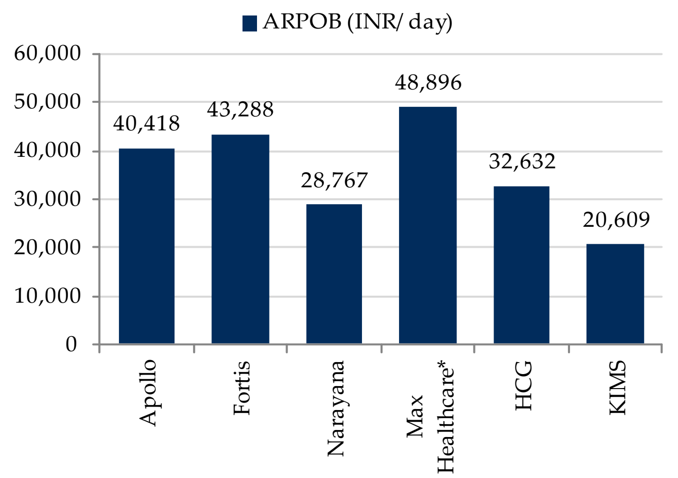
The company operates predominantly in the Delhi NCR and Mumbai regions, with ~85% of its beds located in metro/tier-I cities. As a result, it enjoys better ARPOBs than other listed peers. Within tier-I cities, Delhi, Mumbai and Chennai enjoy industry-leading ARPOBs as these markets are characterised by high per capita incomes and higher insurance penetration than the other cities. Delhi and Mumbai also face a huge demand-supply gap in terms of availability of quality beds, which offers scope for further expansion. Metro cities also attract most of the international patients, with Delhi, Chennai and Mumbai accounting for 75%+ of medical tourists from abroad, which also drives the overall ARPOBs higher. Besides this, Max also focuses on high-end tertiary and quaternary care, which contributes ~70% of its overall hospital revenues and aids overall ARPOBs. Max runs the largest oncology programme in North India and the largest bone marrow transplant (BMT) programme in Asia.

Exhibit 28: Metro cities – attractive markets with high propensity to pay…



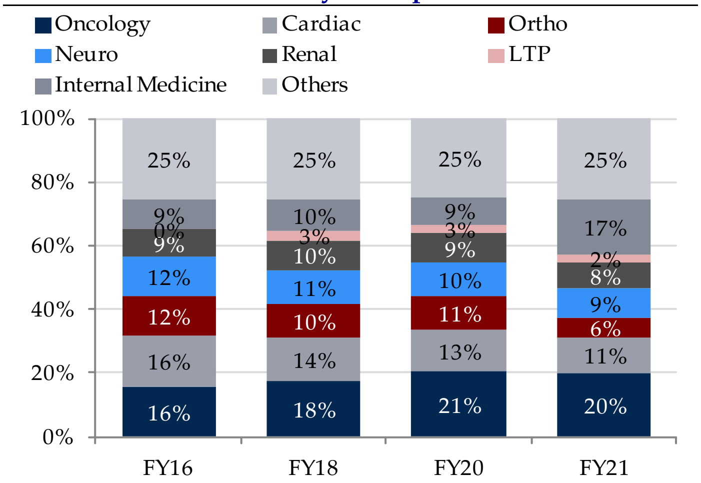
Source: Company, HSIE Research

Exhibit 29:…which has led to industry leading ARPOBs for Max compared to peers



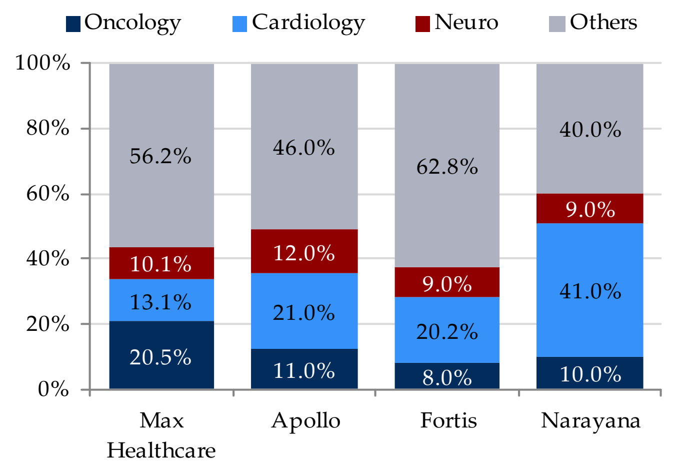
Source: Company, HSIE Research

Exhibit 30: Focus on quaternary care: For instance, share of onco increased by ~475bps over FY16-20



Source: Company, HSIE Research, FY20

Exhibit 31: Contribution of onco to overall revenues is highest compared to most peers



Source: Company, HSIE Research

With ~73% occupancies pre-COVID, Max operates at industry-leading occupancy levels

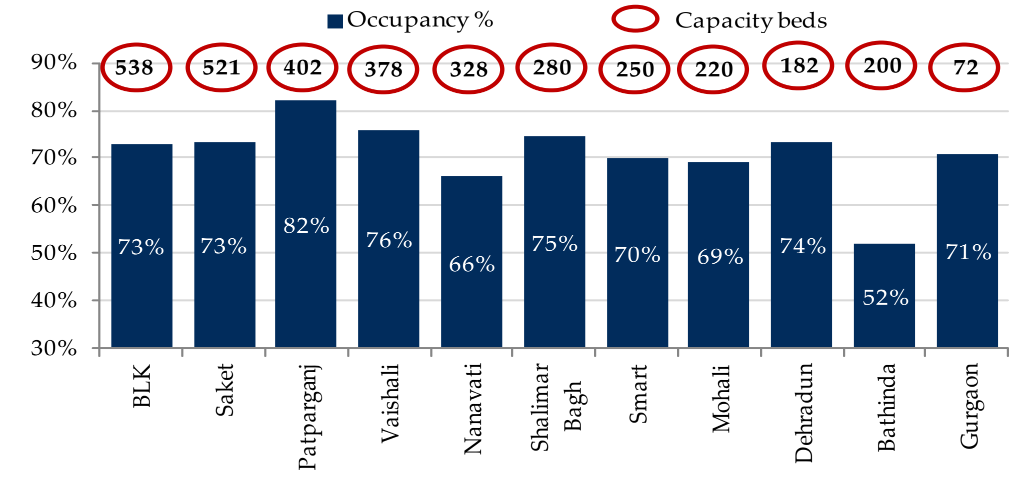
Key hospitals like Saket, BLK, Vaishali, Nanvati are situated at strategic locations

Hospitals with highest occupancies:
Patparganj – 82%
Vaishali – 76%
Shalimar Bagh – 75%

High occupancy levels across network hospitals

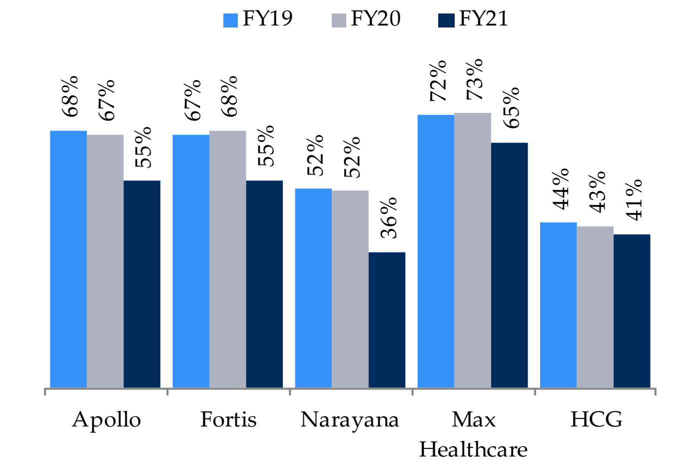
Max operated at an average occupancy of ~73% of the pre-COVID level, significantly above its listed peers (Exhibit 33). Most of its hospitals barring Nanavati and Bathinda operated at 70%+ levels with few key ones, especially in the Delhi NCR region, operating at 75%+ levels. Besides having a well established brand name, its key units are located strategically such as the Saket complex (~15-20mins from Delhi airport), BLK (~30mins from airport), Vaishali (Noida-Ghaziabad corridor) and Nanavati (~10mins from Mumbai airport, and has potential to increase catchment area with Mumbai metro commissioning) which positions it favorably to tap into not only local demand but also a good proportion of outstation/ international patients.
The company expects the current capacity to meet growth requirement for the next 3-5 years. This would primarily be aided by optimising payor mix by focusing on increasing CTI patients over the same period. Despite its major bed expansion plan (to add ~2,100 beds) in the next 5-6 years, we expect the company to sustain high occupancy level, given its strong execution capabilities and brand recall in the region.

Exhibit 32: A few key hospitals in the Delhi NCR region enjoy 75%+ occupancy (of the pre-COVID level)



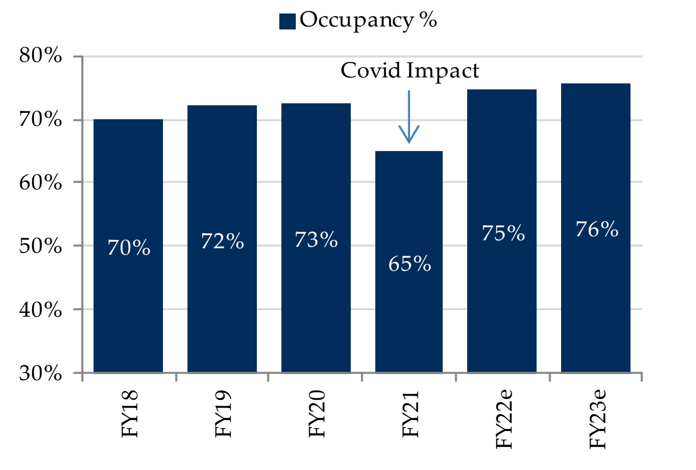
Source: Company, HSIE Research, FY20 occupancies

Exhibit 33: Max operates at significantly higher occupancy levels compared to peers



Source: Company, HSIE Research

Exhibit 34: Occupancy levels improved steadily pre-COVID



Source: Companies, HSIE Research

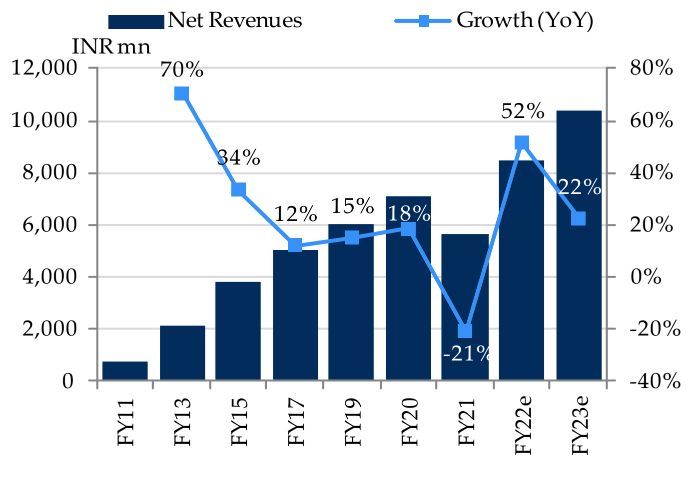
Successful track record of turning around assets

Strong track record of turnaround:
-BLK and Nanavati turned EBITDA neutral within 3/4 years

We expect Nanavati's margin to increase to high teens in next 2 years from mid single digit levels in FY20

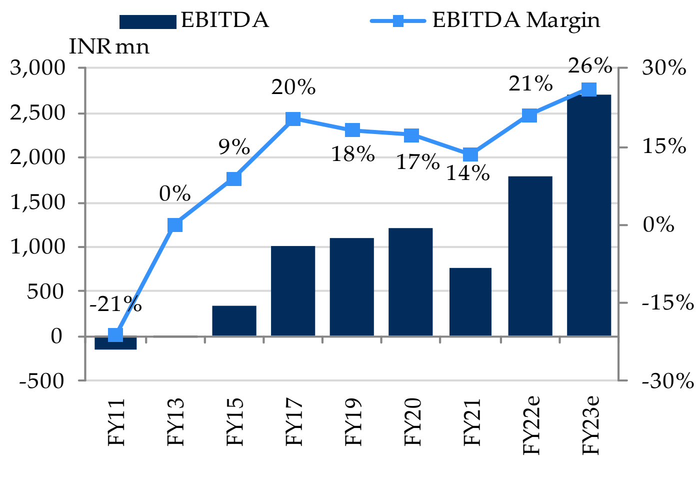
Abhay Soi, a turnaround specialist, entered the healthcare industry in 2010 by taking over operations at Delhi's BL Kapur, a 650-bed quaternary care hospital in Karol Bagh, after raising capital from JP Morgan. The hospital had been in operation for 50 years but was being run inefficiently and incurring losses. Abhay Soi successfully turned it around and within three years the hospital broke even at the EBITDA level. Its EBITDA margin improved from -21% in FY11 to 17% in FY20 and revenue/EBITDA grew at robust 13%/30% CAGRs over FY15-20. In 2014, Abhay Soi's Radiant Life Care, backed by KKR, took over the operations of Nanavati hospital, a 350-bed quaternary care hospital, in Mumbai. At that time, the hospital was in deep distress, operating at ARPOB of ~INR12,000, clocking revenue of INR90mn per month with -20% EBITDA margin, which led to a cash burn of INR50mn per month. Within a span of four years, the hospital operations were revamped, achieving EBITDA break-even. EBITDA margin improved from -16% in FY15 to 6% in FY20, with a revenue CAGR of 19% over the same period. The hospital has significant scope of margin expansion. With the implementation of VRS, Max plans to cut down on its high personnel costs, which will aid in potentially increasing the margin to high teens in the next 2-3 years.

Exhibit 35: BLK: Revenue grew at 22% CAGR over FY11-21



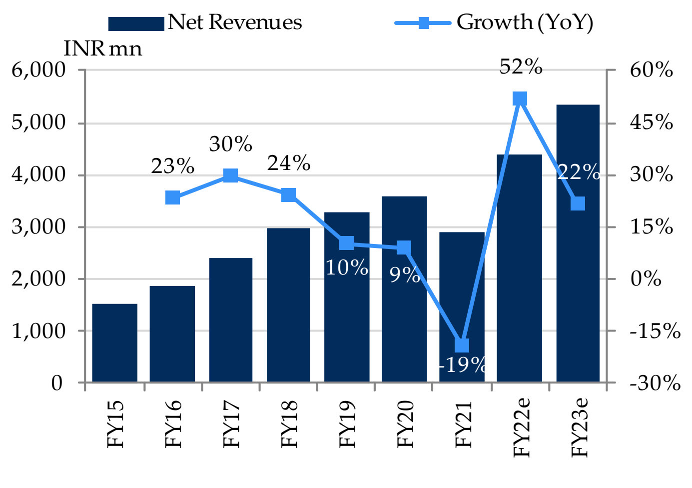
Source: Company, HSIE Research

Exhibit 36: BLK: EBITDA margin improved from -21% to ~14% over the same period



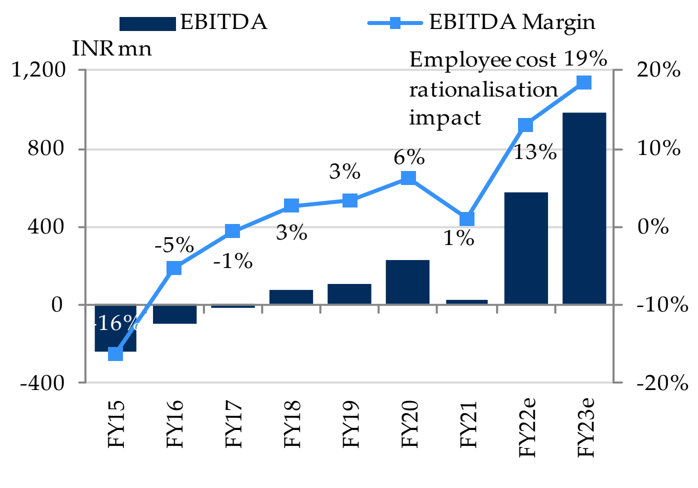
Source: Company, HSIE Research

Exhibit 37: Nanavati: Revenue grew at ~12% CAGR over FY15-21



Source: Company, HSIE Research

Exhibit 38: Nanavati: EBITDA margin to reach high-teens post employee cost restructuring



Source: Company, HSIE Research

Margin expansion levers in place

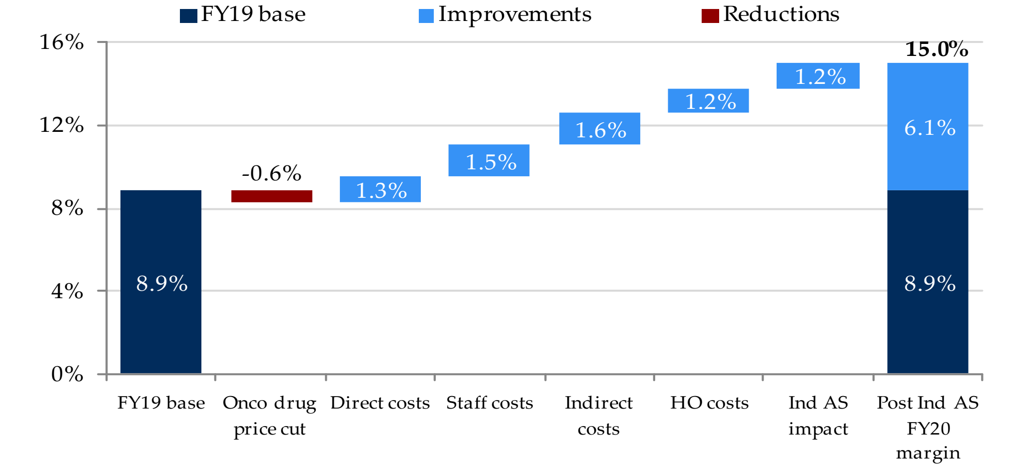
Strong delivery on cost saving initiatives

Cost savings worth INR3.3bn across material costs, manpower costs, and indirect expenses realised over the past three years

With successful turnaround of Radiant assets, the management team planned a cost rationalisation exercise for the newly acquired Max assets three years back. These majorly comprised savings in material cost (renegotiation of contracts), manpower (realignment of roles and responsibilities, reduced minimum guarantees in doctor fees, aligning staff strength to occupancy levels) and corporate overheads (HO cost optimisation) and shutdown of unviable units.

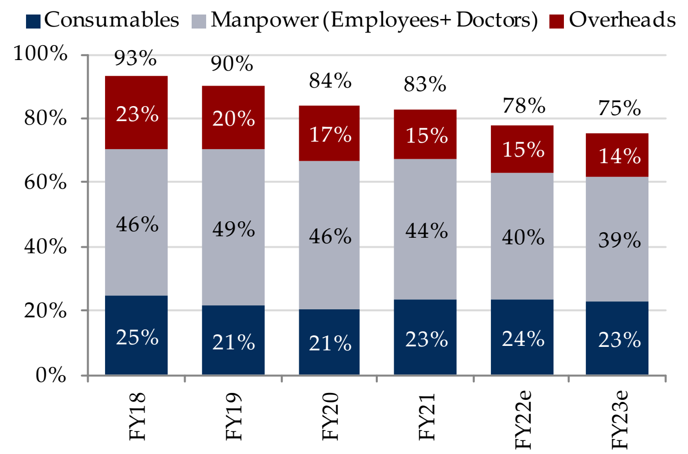
The first series of initiatives identified cost savings worth INR2.2bn in FY20, of which INR1.4bn was captured in FY20 and the remaining INR0.8bn in FY21. The second series of initiatives pegged synergies worth INR1.1bn, of which INR0.7bn was realised in FY21 and the balance INR0.4bn was expected to come through in FY22.

Exhibit 39: The first series of initiatives reflected in EBITDA margin improvement of ~490bps in FY20



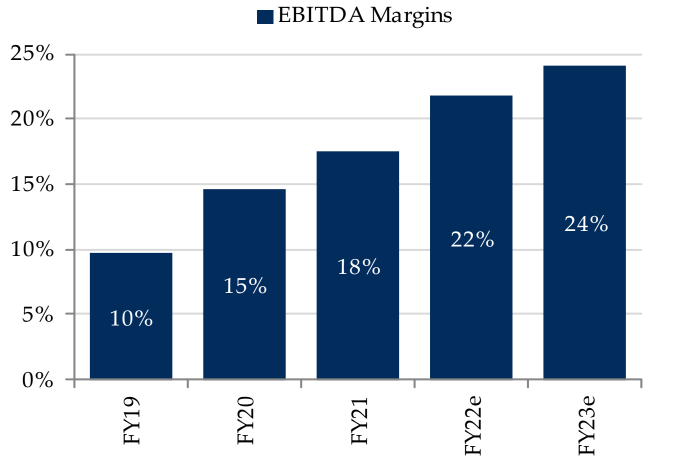
Source: Company, HSIE Research

Exhibit 40: With the implementation of cost initiatives, cost structure is expected to get leaner...



Source: Company, HSIE Research

Exhibit 41: ...resulting in EBITDA margin expansion of ~1,400bps over the same period



Source: Company, HSIE Research

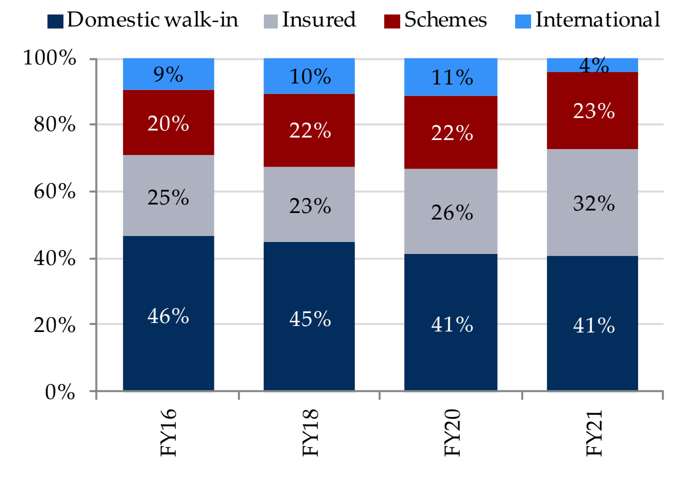
Bed share:
CTI – 65%
Schemes – 35% (to bring this down to < 15% in 3-4 yrs)

Revenue share:
CTI – 77%
Schemes – 23%

Optimisation of payor mix offer scope for margin expansion

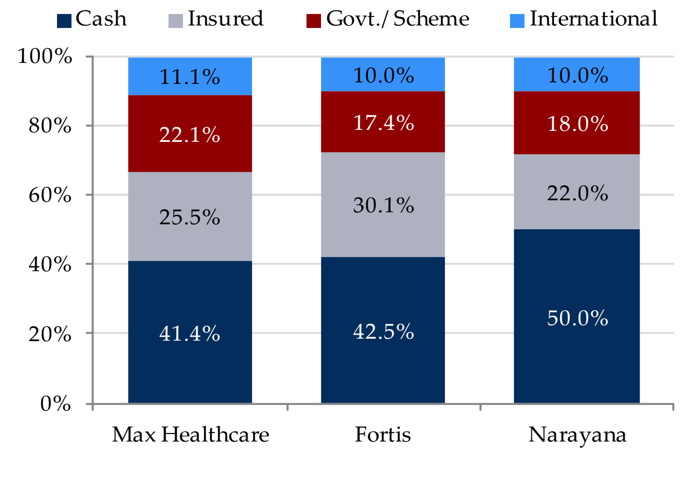
Max's current payor mix structure is sub optimal compared to most listed peers. ~65% of its beds are occupied by what are known as cash, TPA, international (or CTI) patients who contribute ~77% to revenues, while the balance ~35% beds are occupied by scheme patients who contribute only ~23% to revenues. The company's endeavor is to reduce the proportion of scheme business, given it is EBITDA negative. The aim is to reduce the bed share from ~35% currently to less than 15% in the next 3-4 years which, we believe, will pare down its revenue contribution to ~10% levels.

Exhibit 42: High share of schemes patients offers scope for margin expansion



Source: Company, HSIE Research

Exhibit 43: Peer group data (pre-COVID) validates the same



Source: Company, HSIE Research, FY20 data

Rising share of international patients to aid growth, margins

Medical tourism industry is worth USD8-9bn in India

According to McKinsey, the number of medical tourists in India could rise 4.5x to 3mn over 2018-2030e

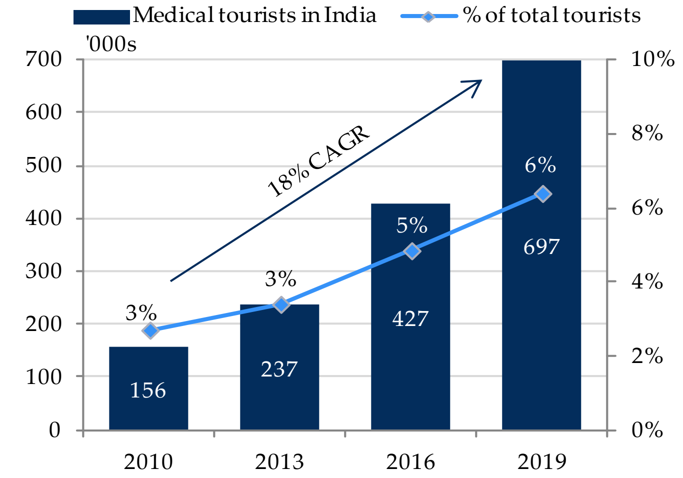
International segment accounts for 10% of revenues for large listed players

Max's share from international business (pre-COVID):
Bed share – 5.3%
Revenue share – 10.8%

The medical tourism industry in India is ~USD8-9bn in size. According to McKinsey, the number of medical tourists in India could increase 4.5 times to 3mn over 2018-2030e. The availability of affordable, quality treatment makes India a preferred destination for foreign patients. The estimated cost for foreign patients coming to India is ~1/5th-1/10th of the western countries, depending upon the treatment. That said, India's increasing medical tourism demand is emerging from parts of the Middle East, Africa and Western Asia. As a country, we compete with Singapore, Thailand and Malaysia, which are also emerging as a medical tourism destination. Currently, there are ~800 National Accreditation Board for Hospitals (NABH) accredited and 36 Joint Commission International (JCI) accredited hospitals in the country.

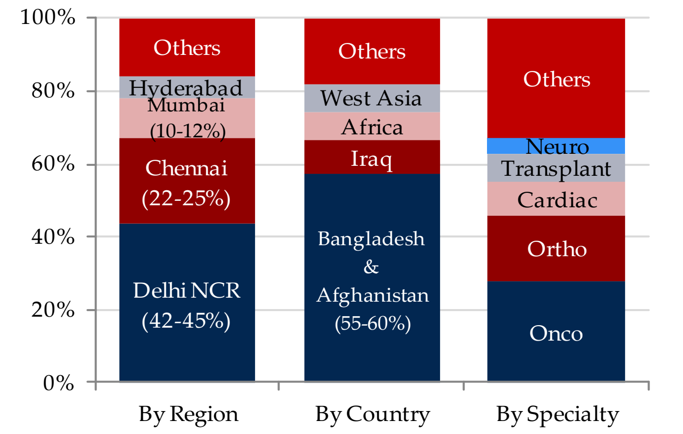
Max aims to grow its international patient segment aggressively, which currently contributes ~11% of the hospital revenues (pre-COVID) compared to ~10% for most listed players like Apollo, Fortis and Narayana Health. Among the metro cities, Delhi is the most preferred destination, accounting for over 40% of the medical tourists visiting India. Key therapies such as onco, ortho, cardiac, transplants and neuro form 65% of the overall demand. This bodes well for a company like Max as it has Centers of Excellence across all these therapies in the Delhi NCR region. Moreover, it also runs the largest onco programme in north India and the largest bone marrow transplant (BMT) in Asia. Three of its flagship hospitals in Delhi (Saket East, Saket West and BLK) are JCI accredited. Besides this, Nanavati, its flagship hospital in Mumbai, also houses Centers of Excellence across all these therapies and is just a ~10min-drive from the airport. We expect a significant ramp-up in this business segment as travel restrictions ease.

Exhibit 44: Medical tourism in India has grown at a healthy 18% CAGR over the last decade



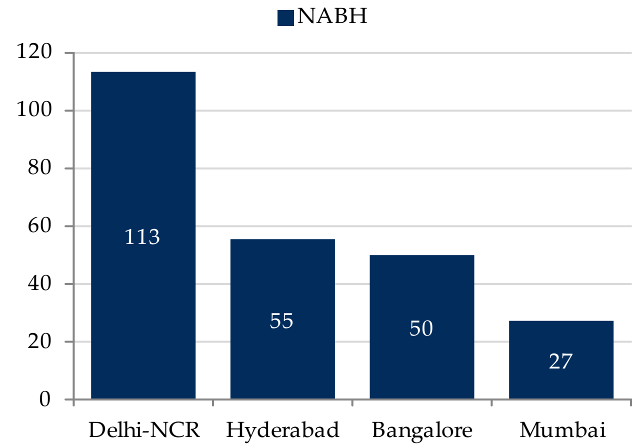
Source: Company, Ministry of Tourism, HSIE Research, Data as of 2017-18

Exhibit 45: Delhi, Chennai and Mumbai account for the lion's share of medical tourists in the country



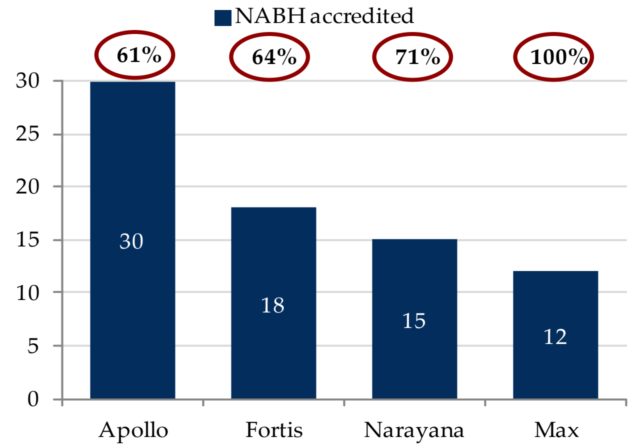
Source: Ministry of Tourism, HSIE Research

Exhibit 46: ~14% of the ~800 NABH accredited hospitals in India are located in the Delhi NCR region



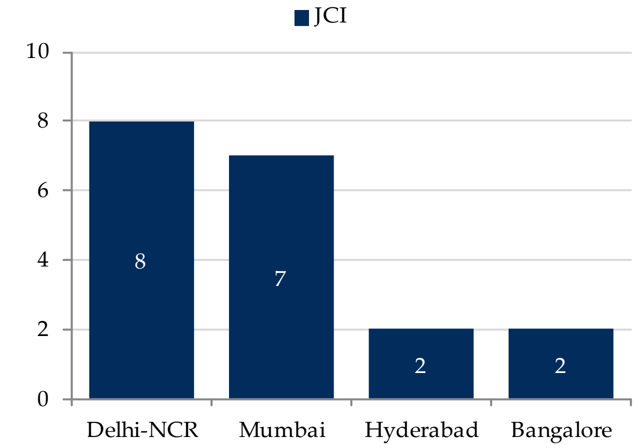
Source: NABH, HSIE Research

Exhibit 47: All of the 12 hospitals of Max are NABH accredited



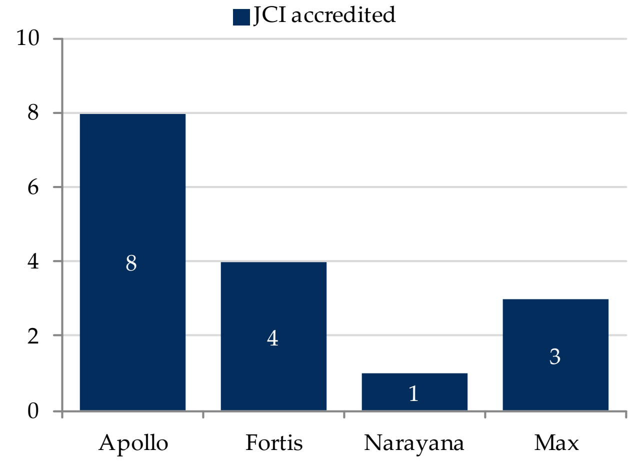
Source: NABH, Company, HSIE Research,% represents hospitals within network that are NABH accredited, FY20 data

Exhibit 48: Out of the 36 JCI accredited hospitals in India, 15 are located in Delhi NCR and Mumbai regions



Source: JCI, Company, HSIE Research

Exhibit 49: Three units of Max - Saket East, Saket West and BLK are JCI accredited



Source: JCI, Company, HSIE Research, FY20 data

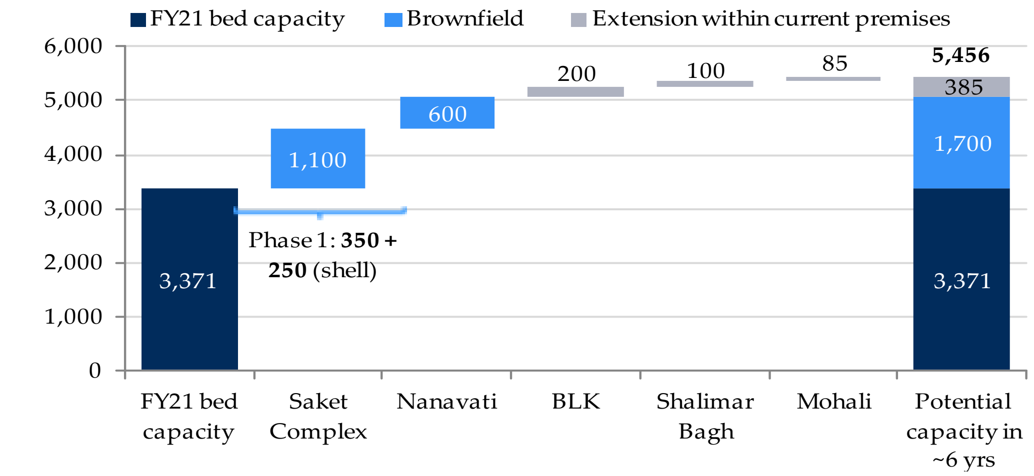
Brownfield expansion adds long-term growth visibility

Added 1,700+ bed capacity (~50% of current capacity) from 2011-15

Max aggressively expanded capacity from 2011 to 2015 via the organic and inorganic route, adding ~1,700 beds (~50% of current capacity) in the north. This was followed by a period of consolidation wherein the company focused on ramping up the existing capacities and exited a few non-profitable units in Greater Noida and Pitampura. The company plans to add significant capacities through brownfield expansion in metros such as Delhi and Mumbai, for which they already have a land bank in place.

Focus on brownfield expansion in Saket complex and Nanavati over the next 3-4 years

Exhibit 50: Potential to add ~2,100 beds across locations at a lower Capex



Source: Company, HSIE Research

Unlike listed peers, Max does not have adequate excess idle capacity, especially at its key units (it already operates 3,200+ beds out of 3,371 capacity beds)

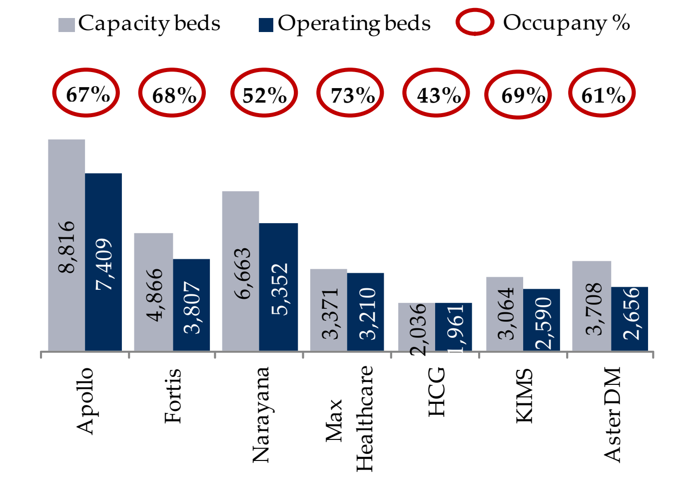
Despite some of Max's key facilities operating at 75%+ occupancy levels, the company expects the current capacity to meet growth requirement for the next 3-5 years. However, over the medium to long term, the company plans to add beds in order to cater to the rising demand and capitalise on the potential growth opportunities. Currently, unlike most listed players, it does not have adequate excess idle capacity, given it is already operating at 73% occupancy level (pre-COVID). At key locations, such as Saket, Patparganj, BLK, and Nanavati, it already operates ~95-100% of bed capacity. Max has laid out a roadmap to expand capacity at two of its key units in two phases over the course of the next 3-5 years – 1,100 bed expansion at Saket Smart (South Delhi) and 600 bed expansion at Nanavati (Mumbai).

Plans to add ~2,100 beds over the next ~5 years: Saket Smart – 1,100 beds Nanavati – 600 beds Others – 385 beds

Estimates a capex outlay of INR13bn for 600 beds at Nanavati and 600 beds at Saket (Phase-I), implying capex/ bed of just INR12mn to be funded mainly through internal accruals

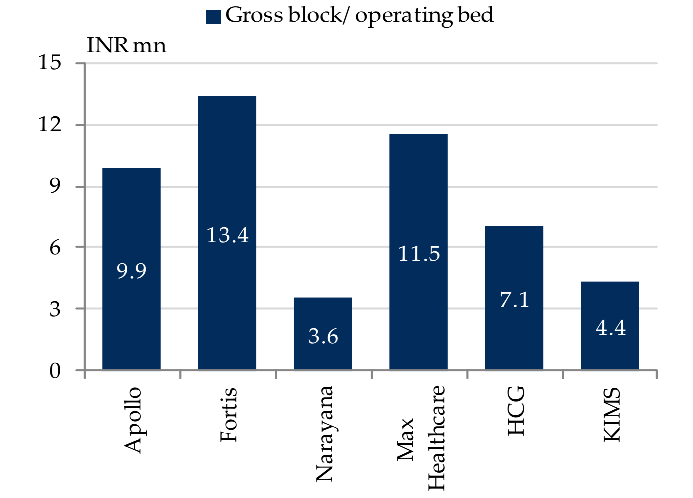
The company already has access to 7.2 acres of land bank at Saket and 3.9 acres of land at Juhu. The expansion at Saket Smart (GM Modi Society) will be in two phases; in the first phase, a 350-bed capacity is to be added along with a 250-bed shell in the next three years and the remaining beds will be added over the next 2.5-3 years. The company has received most of the approvals and expects to float expansion tenders and start construction over the next 3-4 months as soon as it gets the requisite forest/ tree transplantation approval. At Nanavati, the company has been granted most of the approvals and expects to float tenders in a couple of months. The Nanavati expansion is expected to be completed over the next 4-5 years, including demolition of 100-120 beds to bridge the new premises with the existing facility. Post the expansion, Nanavati is expected to hold a capacity of ~800 beds. The company has guided for ~INR13bn capital outlay for 600 beds at Nanavati and Phase-I/ 600 beds (350 + 250 shell) at Saket, which is expected to be funded through internal cash accruals.

Exhibit 51: Max operates at high occupancy levels with ~95% of beds being operationalised



Source: Company, HSIE Research

Exhibit 52: Max's gross block/ bed compares favorably with peers given its high concentration in metros



Source: Company, HSIE Research

Given land bank is in place and Capex/bed of INR12mn for the expansion, we expect RoCE to dilute marginally on account of expansion, but still remain attractive at 23%(pre-tax) in the long run

Exhibit 53: RoCE to remain attractive at 23% (pretax) despite significant expansion

	Current	FY23e	FY26e	Guidance
Incremental Capex/bed (INR mn)	11	NA	12	13
Capacity beds	3,371	3,371	4,273	NA
Operating beds	3,210	3,262	3,814	NA
New beds operationalised	NA	NA	BLK (50), Nanavati (152) and Smart (350)	NA
ARPOB (INR/ day)	48,896	65,627	77,566	~73,000
ARPOB CAGR – 5 year		16%	9.7%	~8%
Occupancy	65%	76%	74%	75%
EBITDA margin	18%	24%	24%	22%
EBITDA per bed capacity (INR mn)	1.8	4.0	4.2	3.8-4.4
EBIT per bed capacity (INR mn)	1.1	3.3	3.4	3.1-3.7
Pre-tax RoCE	12%	27%	23%	24-28%
Post-tax RoCE	9%	22%	18%	NA

Source: Company, HSIE Research

Profiles of key hospitals

Historically, Max has had a dominant position in the northern region, which contributed to its entire revenue. Post the merger with Radiant, the company solidified its presence in the north with BLK whilst also gaining access to high-potential but difficult-to-crack markets of Mumbai with Nanavati. Currently, ~92% of its revenue comes from the North, while Mumbai contributes to the remaining ~8% of revenue.

Exhibit 54: Hospital-wise summary

Hospitals	Location	Revenues (INRbn)	Adj. EBITDA margin	Operating beds	Occupancy	Key specialties
Saket	South Delhi	9.2	13%	504	63%	Onco, cardiac, neuro
Smart	South Delhi	2.6	17%	248	69%	Ortho, cardiac, uro
BLK	Central Delhi	5.6	13%	538	59%	Onco, cardiac, ortho, BMT & other transplants
Patparganj	East Delhi	4.0	20%	401	68%	Cardiac, onco, neuro, OBGY, nephro
Vaishali	East Delhi	3.7	23%	337	66%	Cardiac, onco, neuro, OBGY, nephro
Shalimar Bagh	Northwest Delhi	4.0	18%	280	74%	Cardiac, onco, neuro, gastro
Gurgaon	NCR	1.1	13%	72	68%	Dental, cardiac
Nanavati	Mumbai	2.9	1%	328	61%	Onco, ortho, transplants
Mohali	Punjab	2.9	26%	211	69%	Cardiac, ortho
Bathinda	Punjab	0.4	8%	116	47%	Onco
Dehradun	Uttarakhand	1.5	18%	173	71%	Neuro

Source: Company, HSIE Research, FY21 data

Delhi NCR hospitals contributed to ~75% of Max revenues in FY21

- **Delhi NCR –** Max operates most of its hospitals in this region, the key ones being the Saket Complex (three units – East block, West block and Smart), East Delhi Complex (Patparganj and Vaishali), BLK, Shalimar Bagh and Gurugram. These are well-established hospitals with a decent track record of steady revenue growth, accounting for more than 75% of hospital revenue in FY21**.** Saket Complex, BLK and East Delhi Complex are its flagship facilities. In FY21, these facilities were materially impacted by COVID, given they have a higher proportion of revenue from outstation/international patients with revenue declining by 13% in the year. We expect gradual but strong recovery at these units as travel restrictions ease. **However, it is worth noting that despite the pandemic, the company was able to improve its EBITDA margin profile at these flagship units to ~20% level (+341 bps YoY) in FY21 on the back of strong cost control measures (material, manpower and some indirect costs) as well as some operational synergies**. With visibility on improvement in payor mix and focus on international segment (high-margin business), we forecast healthy revenue/EBITDA growth of 25%/43% CAGR for the region over FY21-23e**.**

Saket Complex constitutes 3 flagship hospitals -
Max Saket (East): 320 beds
Max Saket (West): 210 beds
Saket Smart: 250 beds

Key specialties offered –
Max Saket (East + West): onco, cardiac and neuro
Saket Smart: ortho, cardiac and urology

  - **Saket Complex –** Located in South Delhi, the Saket Complex constitutes of three flagship units of the company – Saket East Block, Saket West Block (together known as Max Saket) and Saket Smart. Two of these, namely, East Block (Devki Devi Society) and Max Smart (GM Modi Society) are partnered healthcare facilities (PHFs). These hospitals attract a higher proportion of outstation/international patients, given they offer high-end tertiary and quaternary care. Moreover, all three hospitals are NABH accredited and form a part of a strategic cluster as they are within the same vicinity. Max Saket (East + West block) is also JCI accredited, which helps in drawing international patients. The ~520 bedded Max Saket (320 beds at East block, 201 at West block) offers a complete spectrum of treatment across 38 specialties like onco, cardiac and neuro, among others and the 250 bedded Saket Smart offers services across 22+ specialties including ortho, cardiac and urology. The company plans to add 1,100 beds at Saket Smart (200 beds at existing unit, 900 beds at a new building besides the existing facility) in two phases over the next six years. In FY21, the cluster operated at ~65%

occupancies with an ARPOB of INR58,000+ generating 19%+ EBITDA margin.

Max operates BLK on O&M basis - an asset-light model

BLK is a NABH + JCI accredited hospital with Centers of Excellence (CoE) in the areas of onco, cardiac, ortho and BMT, liver & other transplants, among others

- **BLK –** Initially started as a charitable gynaecology hospital, BLK became a leading multi-disciplinary hospital in 1959. A part of the erstwhile Radiant group, this 650-bedded quaternary care hospital is run by the company on the O&M model, where the trust owns the land, building and other assets but the "right-to-use" rests with Max. Given these are longer term contracts (till 2054 for BLK), Max treats them as contract assets and pays a certain nominal fixed payout plus a share in cash profits to its trustees for the same. These assets are amortised over the life of the contract in Max's P&L. BLK, being a flagship unit at a prime location in Delhi, attracts a lot of international patients. Almost 25% of its FY18 net revenue came from the international business, which grew at a robust 69% CAGR over FY11-18.

East Delhi Complex constitutes 2 flagship hospitals -
Patparganj: 402 beds
Vaishali: 378 beds

Both units are strategically located resulting in company-leading occupancies of ~80% for this cluster

Recently commissioned 100-bed onco tower at Vaishali

- **East Delhi Complex –** The East Delhi Complex constitutes of two super-specialty hospitals at Patparganj (a unit of Balaji Society) and Vaishali. The 402-bedded facility at Patparganj and 378-bedded hospital at Vaishali are both NABH accredited hospitals offering services across 28+ specialties, including cardiac, onco, neuro, OBGY and nephrology, among others. They also house the NABL accredited Max Labs, which contribute to captive as well as non-captive pathology business. While Vaishali is located strategically at the Noida-Ghaziabad corridor, Patparganj is just 6-7kms away from Vaishali making both these units highly accessible to local as well as inter-state patients. The occupancy in this cluster is very high at ~80% level (pre-COVID). Recently, a 100-bed oncology tower got commissioned at Vaishali. The company has managed to improve the EBITDA margin profile of this cluster significantly by ~788bps to 21%+ over FY19-21, primarily driven by operating leverage and cost control measures.

Other key units –
Shalimar Bagh: 280 beds
Gurugram: 72 beds

- **Other units –** In 2011, Max commissioned its tertiary care hospital in Shalimar Bagh, northwest Delhi. It offers services in 34+ clinical specialties in the fields of cardiac, onco, neuro, gastro, etc. The 280-bed hospital was running at an occupancy level of ~74% last year on the back of higher COVID business (~60% beds dedicated to COVID at a point in time). This led to low single digit decline in ARPOBs in FY21. Despite the higher share of lower-ARPOB COVID business, the unit operated at high double digit EBITDA margin in FY21. In 2007, Max started a 72-bed hospital in Gurugram, which is now a part of ALPS Hospitals Ltd. (to be merged with Saket City Hospitals Ltd), a wholly owned subsidiary of the company. It is one of the best dental clinics and cardiac hospitals in the region, offering services in 35+ specialties. It is one of the few units where Max has managed to cut down the government business to nil, leading to high ARPOBs (over INR60,000). Besides these, the company also operates other centers like multi-specialty center at Panchsheel Park, cancer center and MedCenter (immigration department) at Lajpat Nagar and a multi-specialty center at Noida.

Max operates this 350-bed quaternary care hospital on O&M model (similar to BLK)

Aims to grow international business, given its close proximity to Mumbai airport

To add ~600 beds (~450 beds on net basis) over the next six years

- **Mumbai** – The merger with Radiant provided access to the Mumbai market through Nanavati, its flagship hospital. The state-of-the-art ~350-bed, quaternary care hospital, run on O&M model (similar to BLK), is located near Juhu, a ~10min drive from the Mumbai airport. Given its close proximity to the international airport, the company aims to grow its international business at this unit. Moreover, the commissioning of Mumbai Metro lines will further increase the hospital's catchment area as a Metro station is potentially being planned just in front of the hospital. It is one of the few hospitals with no institutional business. The EBITDA margin is expected to improve from ~6% to ~19% over FY20-23e with the implementation of VRS. The company plans to add 600 beds (~450 beds on net basis) over the next six years. Given the brownfield nature of expansion, strong brand presence, higher focus on quaternary and tertiary care, favourable patient mix (100% CTI patients, increasing share of international patients) and solid track record of cost control, we believe the new hospital/building might break even within 2-3 years of commencement of full operations.

- **Other northern regions** – Max's presence in the north goes beyond the Delhi NCR region. Around 10 years back, the company expanded its presence in other northern states with 2 units in Punjab and 1 in Uttarakhand. These units contributed to ~12%/8% of hospital revenues/EBITDA in FY21.

Max operates 2 super-specialty hospitals in Punjab as a part of PPP agreement with the local govt. -
Mohali: 220 beds
Bathinda: 200 beds

Key specialties offered -
Mohali: cardiac and ortho
Bathinda: onco

  - **Punjab** – In 2011, Max entered into a PPP agreement with the government of Punjab and set up two super-specialty hospitals in the state – a 220 bed hospital in Mohali (near Chandigarh) and 200 bed hospital in Bathinda. Currently, both the units are a part of Hometrail Buildtech Pvt. Ltd. (HBPL), a wholly-owned subsidiary of the company. Cardiac and ortho are the key specialties offered at the Mohali unit. On the other hand, Bathinda unit has been recognised as one of the best cancer hospitals in Punjab. While the Mohali unit has ramped up well despite regulatory headwinds in FY19 due to stent price control, the Bathinda unit suffered a huge cash burn (~INR1.4bn) till FY20 on the back of execution challenges such as inability to ramp-up operating beds due to lack of availability of doctors and high operating costs. Of late, the company has turned around Bhatinda into positive EBITDA margin and expects the margin trajectory to be steady, going forward.

182 bed hospital in Dehradun

Known for CoE in the field of neurosciences

Aims to optimise payor mix (from schemes to CTI business)

  - **Uttarakhand** – After expanding its presence in Punjab in 2011, Max started a 182-bed super specialty hospital in Dehradun in 2012. Offering services across 25+ specialties, the hospital is known for its Center of Excellence in the field of neurosciences. Due to the city's peculiar demographic mix (older population, high number of government jobs), majority of the business comes from institutional segment, leading to very low ARPOBs. As the company executes its plan to optimise its payor mix, this could be one of the hospitals to benefit the most from margin expansion.

Max@Home – in nascent stages of growth

Max@Home offerings:
-ICU/ X-ray/ ECG/ COVID-care at home
-health attendants at home
-physiotherapy
-rehabilitation
-sample collection
-medicine delivery
-doctor visits
-onsite medical rooms, wellness programs and ambulance coverage
-other such nursing procedures

Largest home healthcare provider in the North

Accredited by Quality and Accreditation Institute (QAI) which is also a member of ISQua (International Society for Quality in healthcare)

Currently attends ~800 calls daily while also managing 2,000+ shifts per day

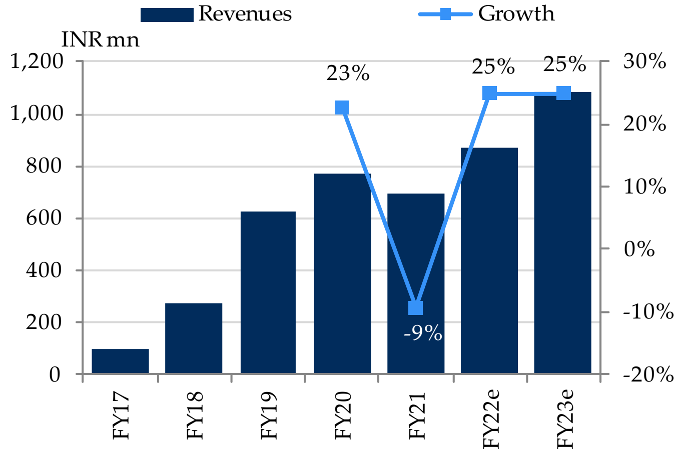
Asset light business with INR50-60mn of capital employed

Max@Home is a non-captive business vertical of Max Healthcare, which provides quality healthcare services at a patient's home. It covers 12+ service offerings right from preventive care to pre- and post-hospitalisation services, including critical care, ICU at home, X-ray and ECG at home, COVID-care at home, assistance-based services, physiotherapy, rehabilitation, sample collection, medicine delivery, doctor home visits, medical rooms, onsite wellness programs, onsite ambulance coverage and other such nursing procedures. To ensure seamless delivery of services and ease in accessibility, the company has created omnichannel access for patients who can book services on the website, mobile app, WhatsApp and 24x7 helpline.

It has become the largest home healthcare service provider in the region within 3-4 years of its inception. 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 FY20, it was accredited by the Quality and Accreditation Institute (QAI), which is the only certifying body for home and healthcare in India. It is also a member of ISQua (International Society for Quality in healthcare). Max@Home has also expanded its operations to include BLK and Dehradun hospitals in its network. 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 remains 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.

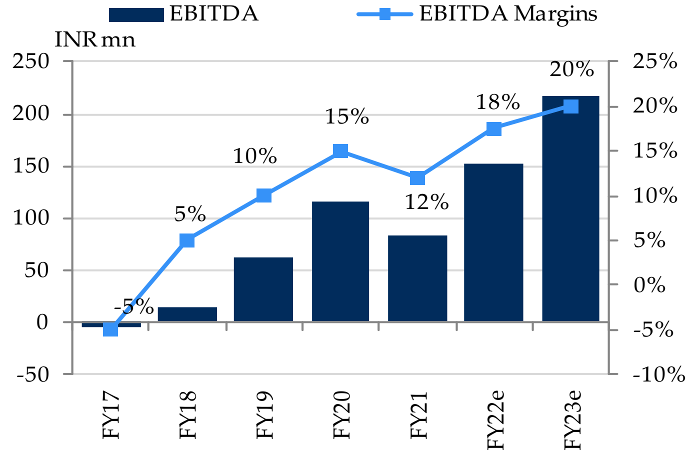
- Max@Home revenues stood at INR696mn in FY21, having grown at a healthy ~64% CAGR since its inception in FY17. This growth has been mainly driven by strong performance across most of the key service lines on the back of omnichannel presence, limited competition in the region, COVID-led structural tailwinds and a low base. Going forward, the company aims to explore new service lines and extend its existing offerings to dental at home, chemotherapy at home, dialysis at home, etc., which would help to expand its target market and maintain strong double-digit growth rates over the medium-to-long term.
- EBITDA margin are in high teens in FY21. With better fixed cost management, logistics cost optimisation and operating leverage, we expect the EBITDA margin to expand further by ~800bps over FY21-23e.
- We forecast 25%/61% revenue/EBITDA CAGR over FY21-23e with enhanced an EBITDA margin of ~20% over FY21-23e.

Exhibit 55: Max@Home has clocked strong 64% revenue CAGR since its inception in FY17



Source: Company, HSIE Research

Exhibit 56: We expect EBITDA to grow at ~61% CAGR over FY21-23e



Source: Company, HSIE Research

Max Lab – potential of value unlocking

3rd largest player in the north

Max Lab is a non-captive business division of Max Healthcare, which provides diagnostics and pathology services to the patients outside its hospitals. These pathology services are offered by Max either directly through its own labs or via a network of partners, including third-party clinics, nursing homes, pathology labs, and franchisees. The business has expanded steadily and operates in 12 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. All of its labs are NABL-accredited and it has become the third-largest player in the north after Dr. Lal Pathlabs and SRL.

Max Lab centers:
-85+ partner-run collection centers
-7 owned collection centers
-100+ Phlebotomist at site
-250+ pick-up points
-17 hospital based labs (HLMs)

Currently operates in 12 cities in the North; aims to add 10 more cities under coverage over the next 2-3 months

The company plans to expand aggressively and aims to achieve a revenue of INR5-6bn in the next few years from INR676mn in FY21, implying a stellar growth of 50%+ CAGR. To achieve this, the company has decided to hive off this vertical into a separate entity, which would be a wholly owned subsidiary of Max Healthcare. This will enable the management to maintain separate Key Performance Indicators (KPIs) and track the performance with improved focus, transparency, and accountability. The company will evaluate the inorganic route for expansion to achieve the desired scale and potentially unlock value at some stage in the future.

Provides 24x7 free sample collection with same day reports over e-mail

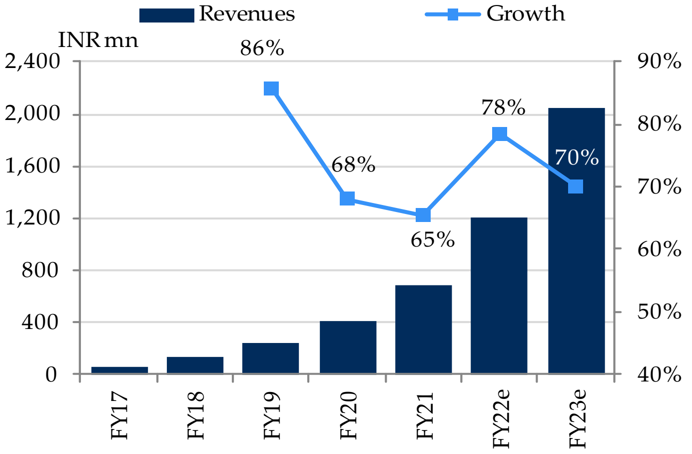
~14mn samples tested annually serving 0.65mn patients in FY21 with a wide test menu of 1,900+ tests

- Max Lab revenue, at INR676mn in FY21, has grown at ~91% CAGR in the past four years. The business primarily caters to the B2B and B2C segments. The B2B business renders services to patients in partnerships with other clinics, path labs and franchisees. Its growth has been mainly driven by continuous addition of new partners over the years. The B2C segment growth is primarily driven by expansion of company owned and partner owned collection centers and rapid growth in home collections.
- In FY21, Max Lab operated at mid-teen EBITDA margin. These are expected to expand further on the back of improved scale and wider test menu offerings.

We model 74%/95% revenue/ EBITDA CAGRs over FY21-24e

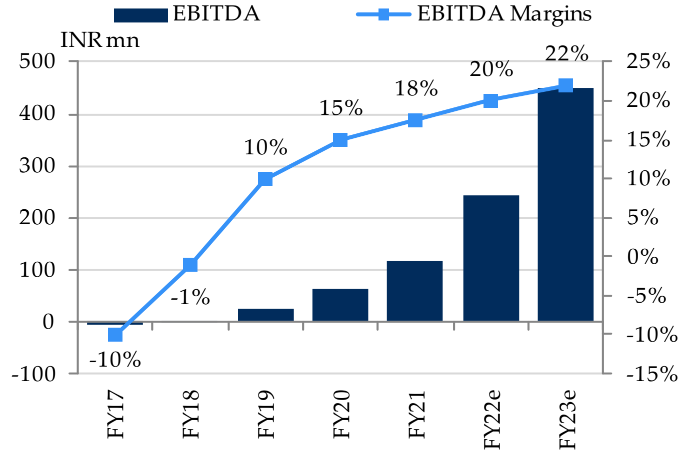
- We forecast a robust 74%/95% revenue/EBITDA CAGRs for this business over FY21-23e with enhanced EBITDA margins of ~22% over FY21-23e.

Exhibit 57: We expect Max Lab revenues to grow at 74% CAGR over FY21-23e…



Source: Company, HSIE Research

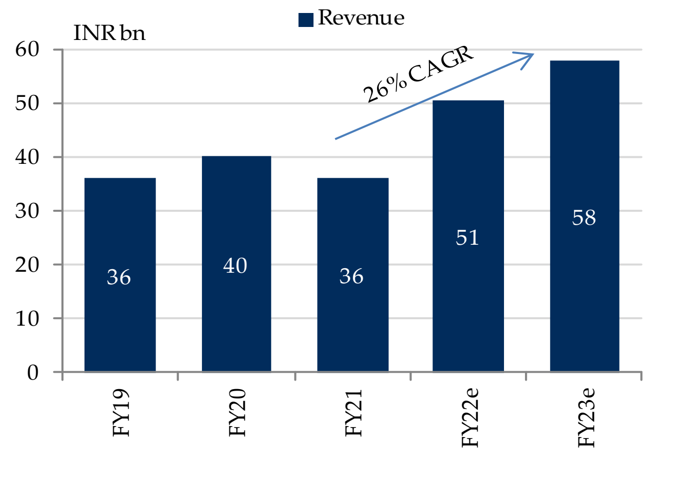
Exhibit 58: …and forecast ~450bps EBITDA margin expansion over the same period



Source: Company, HSIE Research

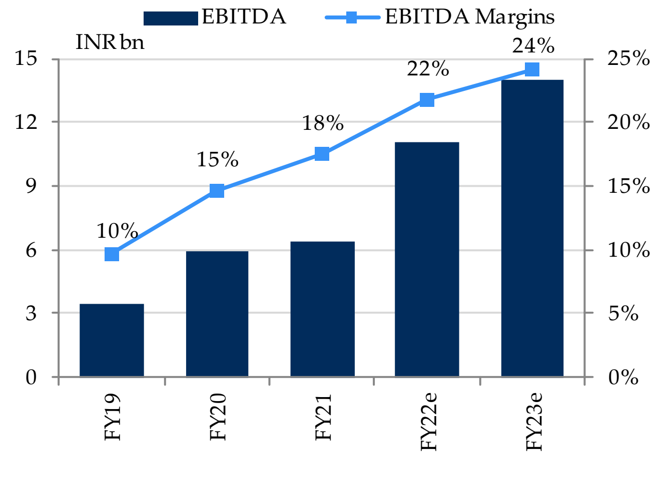
Financial Metrics

Exhibit 59: Overall revenue for Max including PHFs are expected to grow at ~26% over FY21-23e



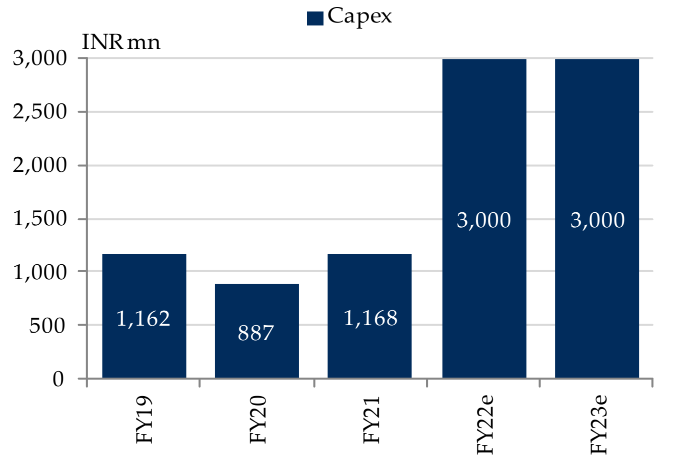
Source: Company, HSIE Research

Exhibit 60: EBITDA margin is expected to reach ~24% levels (+650bps) over the same period



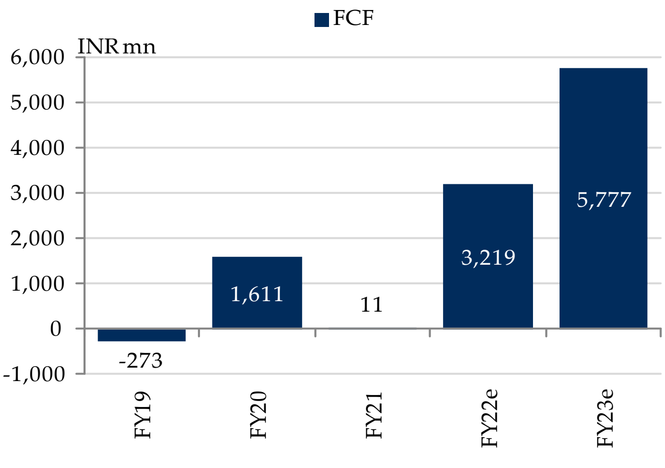
Source: Company, HSIE Research

Exhibit 61: A large part of estimated capex is expected to be back-ended…



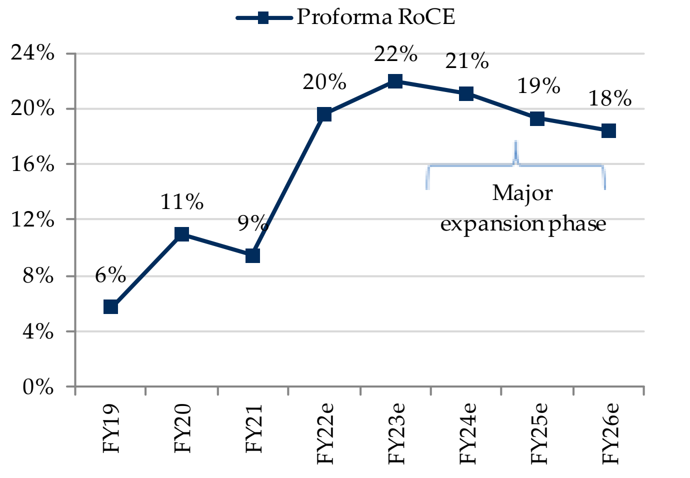
Source: Company, HSIE Research

Exhibit 62: …leading to robust FCF generation of ~INR 9bn over the next 2 years



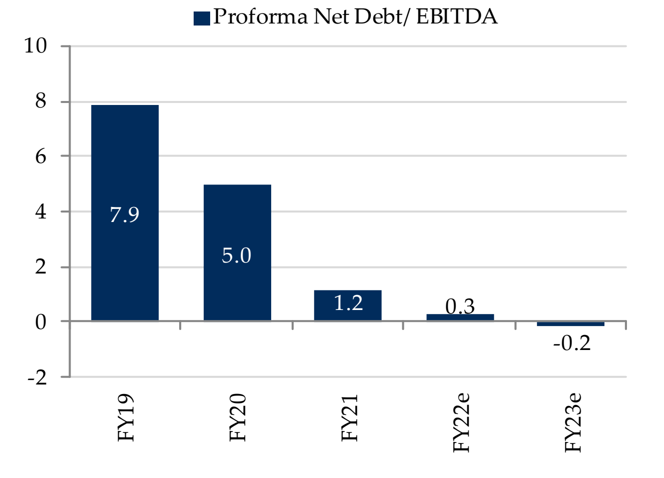
Source: Company, HSIE Research

Exhibit 63: RoCEs are expected to reach ~22% (post tax) in FY23e and then marginally dilute due to expansion



Source: Company, HSIE Research

Exhibit 64: QIP proceeds and strong FCF generation has significantly reduced net debt in FY21



Source: Company, HSIE Research

Valuation and risks

The stock is trading at 19x FY23e EV/ EBITDA, ~5%/20% discount to Apollo's hospital/overall business

Our target price of INR330/sh is based on SOTP valuation of (a) the hospitals business (including PHFs) - 22x FY23e EV/ EBITDA; (b) Max@Home operations - 25x FY23e EV/EBITDA; (c) Max Lab operations – 25x FY23e EV/EBITDA. We value Max's hospital business at 22x EV/EBITDA, a ~10-15% premium to Apollo's hospital business, owing to Max's strong hospital franchise (quaternary care, presence in metro cities) and superior growth visibility over the next five years.

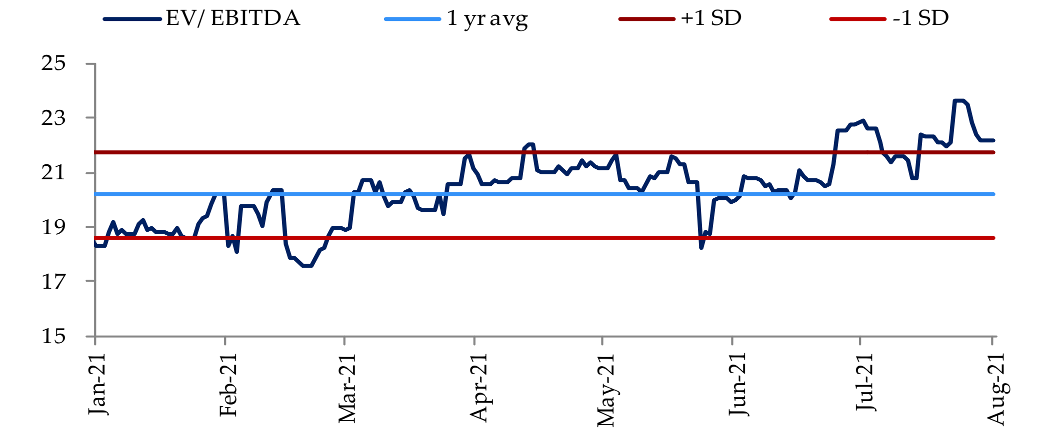
The stock has outperformed the sector by 109% and Nifty by 104% in the past one year

Exhibit 65: SOTP valuation

	FY23e EBITDA	Multiple	INR mn
Hospitals			
MHIL	6,456	22.0	1,42,027
PHFs	3,465	22.0	76,239
Radiant	3,691	22.0	81,203
Pro-forma hospitals EBITDA	**13,612**	**22.0**	**2,99,469**
Max Home	218	25.0	5,438
Max Lab	452	25.0	11,288
Fair value of Max's operating assets	**14,281**	**22.1**	**3,16,196**
CWIP			2,019
Enterprise Value (EV)			**3,18,220**
Less: Net debt (FY22e)			1,527
Less: Lease liabilities (FY22e)			1,811
Implied Market Cap			**3,14,883**
No. of equity shares			966.0
Target price			**330**

Source: HSIE Research

Exhibit 66: The stock is trading at ~22x 1-yr fwd. EV/EBITDA, ~10-12% premium to its own historical average



Source: Bloomberg, HSIE Research

Risks

Key risks – delay in capacity addition or improvement of payor mix, slower than expected growth in non-COVID business, cost base stabilising at higher level post COVID, and unfavourable change in agreement with PHFs (trusts)

- **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.

Proforma Financials

Proforma Financial Summary (including PHFs)

Year to March (INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	**33,913**	**35,990**	**40,230**	**36,290**	**50,671**	**58,030**
YoY growth		*6%*	*12%*	*-10%*	*40%*	*15%*
Gross Profits		27,692	31,029	26,557	38,393	44,380
Gross Margin (%)		76.9%	77.1%	73.2%	75.8%	76.5%
EBITDA	**3,120**	**3,480**	**5,894**	**6,362**	**11,027**	**14,028**
EBITDA Margin (%)	**9.2%**	**9.7%**	**14.7%**	**17.5%**	**21.8%**	**24.2%**
EBIT		2,079	4,153	3,870	9,007	11,770
EBIT Margin (%)		5.8%	10.3%	10.7%	17.8%	20.3%
Tax rate (%)		138.0%	-1.7%	21.6%	19.9%	17.4%
Adj. PAT		-79	1,682	454	6,135	8,906
PAT Margin (%)		-0.2%	4.2%	1.3%	12.1%	15.3%
Capital Employed		29,006	31,604	34,040	39,513	46,200
Net Debt		27,348	29,178	7,390	3,337	-2,629
EV		1,66,383	1,68,014	2,77,268	2,74,062	2,68,096
Mcap		1,49,515	1,49,515	2,68,824	2,68,824	2,68,824
Book value		27.2	63.0	59.4	64.9	72.9
Adj. EPS		-0.1	3.1	0.5	6.4	9.2
Adj. RoCE		**5.7**	**11.0**	**9.4**	**19.6**	**22.0**
EV/Revenues (x)		4.6	4.2	7.6	5.4	4.6
EV/ EBITDA		**47.8**	**28.5**	**43.6**	**24.9**	**19.1**
Net Debt/EBITDA (x)		7.9	5.0	1.2	0.3	-0.2
Net Debt/Equity (x)		1.9	0.9	0.3	0.1	-0.1
P/E (x)			88.9	592.4	43.8	30.2
P/BV (x)		10.2	4.4	4.7	4.3	3.8

Source: Company, HSIE Research

Financials

Consolidated Income Statement

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenues	**14,023**	**15,941**	**17,116**	**16,714**	**18,617**	**25,047**	**37,344**	**43,243**
Growth (%)	26.6	13.7	7.4	-2.3	11.4	34.5	49.1	15.8
Operative Expenses	3,987	4,231	4,259	3,645	3,918	5,944	8,890	10,068
Gross Profit	10,036	11,710	12,857	13,070	14,699	19,103	28,453	33,175
Gross Margins	71.6	73.5	75.1	78.2	79.0	76.3	76.2	76.7
Employee cost	6,324	7,066	7,961	8,275	8,756	11,217	14,725	16,491
Other expenses	2,994	3,383	3,938	3,439	3,280	3,847	5,810	6,397
EBITDA	**717**	**1,262**	**957**	**1,356**	**2,663**	**4,039**	**7,918**	**10,288**
Growth (%)	45%	76%	-24%	42%	96%	52%	96%	30%
Margins (%)	5.1	7.9	5.6	8.1	14.3	16.1	21.2	23.8
Depreciation	912	955	944	1,026	1,197	1,741	2,245	2,320
Other income	206	355	455	485	550	759	1,073	1,200
Interest	678	997	994	1,013	1,527	1,795	1,086	1,011
PBT	**-666**	**-336**	**-526**	**-198**	**489**	**-1,075**	**5,660**	**8,157**
Tax	37	-111	22	85	-63	459	1,518	1,892
Effective tax rate (%)	-5.5	33.0	-4.3	-42.9	-12.8	36.3	26.8	23.2
Recurring PAT	**-749**	**-221**	**-534**	**-255**	**552**	**-128**	**4,142**	**6,266**
Extraordinary items	0	0	0	0	0	2,337	0	0
MI/share of Profit/loss in JV	46	-4	-14	-28	0	0	0	0
Reported PAT	**-703**	**-225**	**-548**	**-283**	**552**	**-1,533**	**4,142**	**6,266**

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity capital	5,334	5,372	5,372	5,372	5,372	9,660	9,660	9,660
Reserves and surplus	5,948	5,818	4,968	4,260	4,502	46,727	51,282	57,989
Shareholder's funds	**11,282**	**11,190**	**10,340**	**9,632**	**9,874**	**56,387**	**60,942**	**67,648**
Minority Interest	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total debt	8,257	9,061	10,235	10,423	21,306	14,974	13,974	12,974
Total Liabilities	**27,975**	**29,110**	**30,167**	**23,772**	**34,845**	**80,148**	**83,822**	**89,652**
Net fixed assets	9,680	9,618	9,609	9,385	10,097	15,227	15,241	15,180
Capital work-in-progress	117	461	383	870	57	269	2,019	3,769
Total non-current assets	**27,546**	**28,107**	**28,892**	**29,183**	**30,561**	**74,200**	**75,065**	**75,861**
Investments	0	0	0	0	0	0	0	0
Inventories	232	231	283	260	434	538	1,023	1,185
Debtors	2,086	2,348	2,579	3,626	4,112	3,659	5,116	5,924
Cash & bank balance	112	153	91	76	2,748	6,266	8,472	13,438
Loans and Advances	120	255	269	267	94	273	284	296
Other current assets	355	508	1,100	243	297	509	517	527
Total current assets	**2,905**	**3,494**	**4,322**	**4,473**	**7,683**	**11,245**	**15,413**	**21,369**
Creditors	2,171	2,137	2,665	2,916	2,935	4,357	5,689	6,582
Provisions	100	135	144	161	203	394	394	394
Net current assets	**429**	**1,004**	**1,275**	**-5,411**	**4,284**	**5,949**	**8,757**	**13,792**
Total net assets	**27,975**	**29,110**	**30,167**	**23,772**	**34,845**	**80,148**	**83,822**	**89,653**

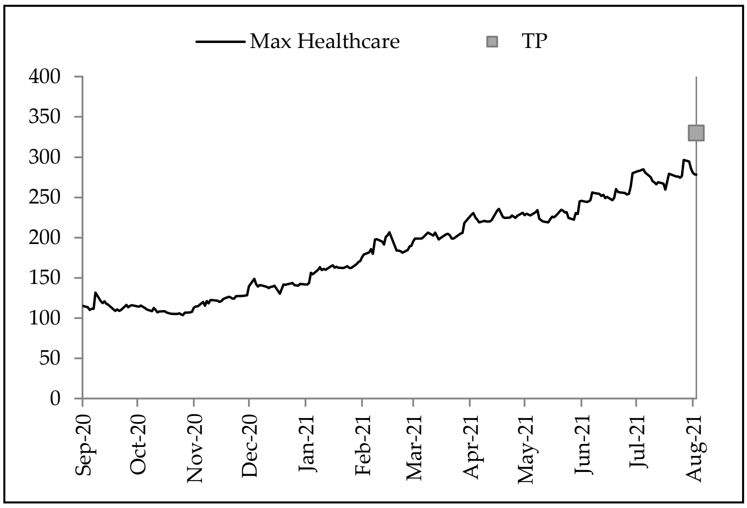
Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Profit Before Tax	**-190**	**-125**	**-265**	**83**	**891**	**-687**	**6,074**	**8,598**
Depreciation	912	1,076	974	1,026	1,197	1,741	2,245	2,320
Cash flow before WC	1,238	1,818	1,303	1,652	3,095	4,361	8,332	10,729
WC changes	2,720	89	-255	-481	-469	-3,763	-594	-61
Taxes paid	3,267	-346	-226	-281	-127	580	-1,518	-1,892
Cash flow from operations	**7,225**	**1,561**	**822**	**889**	**2,498**	**1,179**	**6,219**	**8,777**
Organic Capex	-16,028	-1,150	-655	-1,157	-887	-1,168	-3,000	-3,000
Inorganic Capex	0	0	0	-5	0	0	0	0
Cash flow from investing	**-13,401**	**-1,038**	**-1,004**	**-165**	**-1,267**	**-730**	**-1,927**	**-1,800**
Equity Capital Issues	2,835	0	0	0	0	11,792	0	0
Borrowings (net)	3,844	714	1,064	222	2,912	-8,168	-1,000	-1,000
Interest paid	-645	-954	-944	-962	-1,471	-1,710	-1,086	-1,011
Dividends paid	0	0	0	0	0	0	0	0
Cash flow from financing	**6,033**	**-482**	**120**	**-740**	**1,441**	**1,913**	**-2,086**	**-2,011**
Net change in cash	**-143**	**41**	**-61**	**-15**	**2,672**	**2,362**	**2,206**	**4,966**
Beginning cash	254	112	153	91	76	1,110	6,266	8,472
Closing cash	**112**	**153**	**91**	**76**	**2,748**	**6,266**	**8,472**	**13,438**
Free cash flow	**-8,803**	**411**	**167**	**-273**	**1,611**	**11**	**3,219**	**5,777**

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
09-Aug-21	278	BUY	330

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 & Karan Vora, CA**, authors and the names 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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