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March 17, 2022 | PICK OF THE MONTH | VOL-8, NO-04

Industry: Healthcare Facilities | **Max Healthcare Institute Limited** | **BUY**

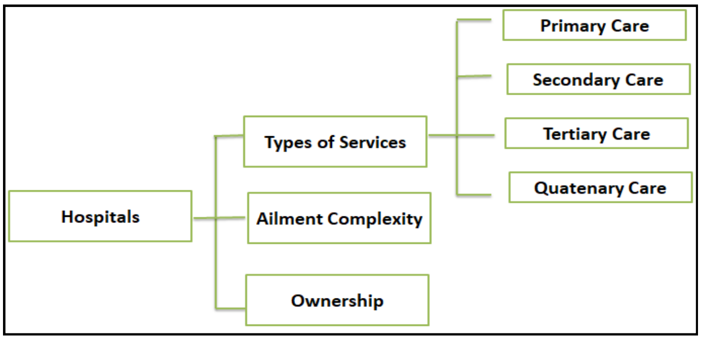
CMP: Rs.350 | **TARGET PRICE: Rs.421** | **TIME : 12 months**

Overview of Healthcare Sector: There has been a revolutionary change witnessed globally over the past 2 years; especially in the healthcare industry, where taking ownership of ones' wellbeing was the requisite leading to the well-known conscious shift from illness to wellness. Developments are routed towards personalized focus, reforming the industry towards being more accessible and affordable. The healthcare sector has become one of India's prominent sectors, both in terms of revenue and employment. *The healthcare industry in India is made up of hospitals, medical apparatus, clinical trials, outsourcing, telemedicine, medical tourism, health insurance, and medical equipments.* The hospital industry (occupies ~80% of the total healthcare market) in India is anticipated to increase to Rs8.6tn (USD132.84bn) by FY22 from Rs4tn (USD61.79bn) in FY17 at a CAGR of 16-17%. The Government of India is planning to increase public health spending to 2.5% of the country's GDP by 2025 *(as per IBEF).*

Driving Trends: (i) Home Healthcare: emerged as one of the strongest contender especially during the pandemic. The market is anticipated to reach levels of USD21.3bn by 2027. (ii) Hospitals: the budgetary allocation is planned to increase to 2.5% by 2025. This would influx demand for tertiary care and specialty hospitals in particular. As per Invest India report, the hospital segment alone has the potential to garner investments of USD32bn. (iii) Health Insurance: The government's PMJAY scheme under Ayushman Bharat Yojana is expected to increase the health insurance penetration by about 34-50%. (iv) Pharmaceuticals, Devices and Diagnostics: significant opportunities across OTC drugs, vaccines and contract manufacturing, manufacturing of oxygen concentrators. (v) Technological Investment: technological development in AI, ML, big data and IoT is enabling access to care.

Broadly categorised, **Primary Care** has outpatient units that offer basic point-of-contact medical and preventive healthcare services, where patients come for routine health screenings and vaccinations, **Secondary Care** has facilities that diagnose and treat ailments that cannot be treated in primary care facilities and act as second point of contact in the healthcare system. They are further classified into *general secondary care and Specialty care hospitals* and **Tertiary Care** provides advanced healthcare services, usually on referral from primary or secondary medical care providers. Metropolitan cities like Delhi, Mumbai, Chennai and Kolkata have renowned hospital groups associated with them; Max, Hinduja, Fortis, Apollo to mention a few. The Indian healthcare delivery system is bifurcated into two major components viz; Public (govt. owned and managed) and Private (privately owned and managed, trust owned but managed by a private player, owned by one private player and managed by the other).

Exhibit 01: Structure of the Healthcare Sector



Source: Max Healthcare RHP, Progressive Research

As per KPMG's Report- *Covid-19 Induced Healthcare,* India's share of public and private healthcare spending was estimated to be 3.6% of GDP (including both public healthcare and out of pocket expenses) which appears to be quite low as compared to various developed counterparts. As per Union Budget 2021-22, the total public health sector allocation stood at 1.2% of GDP and is anticipated to increase to 2.5% by 2024-25E.

SNAPSHOT

52 week H / L	Mcap (INR mn)
473/161	339,453
Face value: 10	
BSE Code	NSE CODE
543220	MAXHEALTH

Annual Performance

(Rs mn)	FY20	FY21	FY22E	FY23E
Total Revenue	39,907	36,010	51,707	56,748
EBITDA	5,166	6,070	14,069	15,671
EBITDA (%)	12.95	16.86	27.21	27.61
Other Income	325	280	470	470
Interest	2,166	1,870	1,105	1,160
Depreciation	2,067	2,160	2,379	2,498
PBT	1,258	(450)	10,625	12,052
PAT	1,692	(950)	8,607	9,762
Equity (Rs mn)	5,372	9,659	9,659	9,659
EPS (INR)	2	(1)	9	10

Quarterly Performance

Parameters (Rs mn)	Mar-21	Jun-21	Sept-21	Dec-21
Sales (Net)	8,019	10,002	10,183	9,742
EBITDA	1,681	2,442	2,391	2,458
EBITDA (%)	21.0	24.4	23.5	25.2
Other Income	287	260	313	486
Interest	447	267	269	251
Depreciation	476	536	539	552
PAT	697	1,469	1,447	1,898
Equity (Rs mn)	9660	9,660	9,660	9,696

Ratio Analysis

Parameters (Rs mn)	FY20	FY21	FY22E	FY23E
EV/EBITDA (x)	68.6	56.7	24.5	21.7
EV/Net Sales (x)	8.9	9.6	6.7	6.0
M Cap/Sales (x)	8.5	9.4	6.6	6.0
M Cap/EBITDA (x)	65.7	55.9	24.1	21.7
Debt/Equity (x)	0.6	0.2	0.2	0.2
ROCE (%)	10.6	7.9	18.1	18.2
Price/Book Value (x)	5.6	5.9	5.3	4.7
P/E (x)	146.1	-	39.3	34.6

Shareholding Pattern as on 31st December, 2021

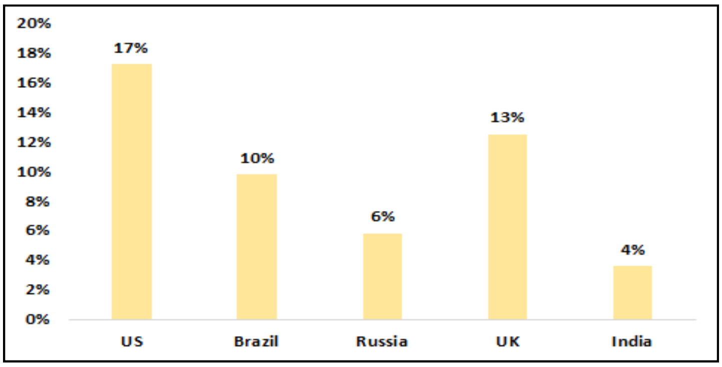
Parameters	No of Shares	%
Promoters	588,369,542	60.7
Institutions	313,608,911	32.3
Public	67,610,071	7.0
TOTAL	**969,588,524**	**100.0**

Source: Annual Report, Progressive Research

Note: Data is calculated as on 16th March, 2022

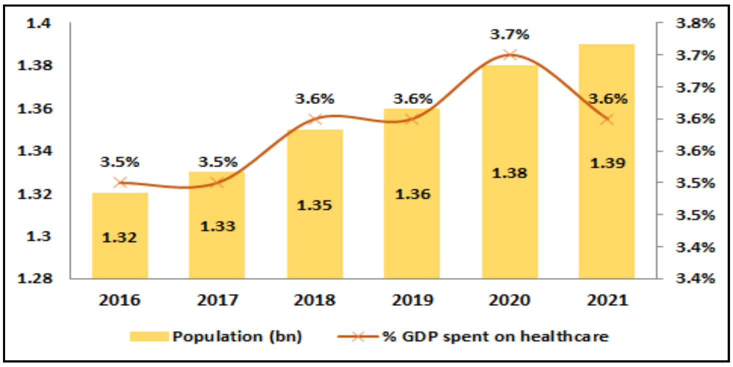
Overview of Healthcare Sector (contd.):

Exhibit 02: Public v/s Private Spend on Healthcare (as % of GDP)



Source: KPMG Report 2021, Progressive Research

Exhibit 03: Population and GDP Healthcare Spend in India



Source: KPMG Report 2021, Progressive Research

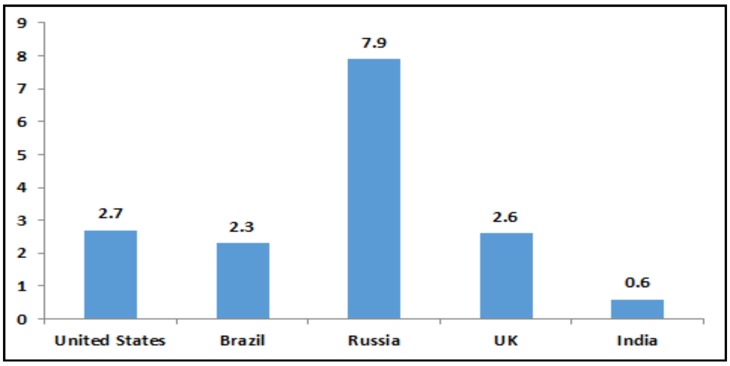
Exhibit 04: Major Segment in India's Healthcare Sector

Segments	Purpose
Hospitals	Govt. (healthcare centers, district, general hospitals) Private (nursing homes, mid-tier and top-tier private hospitals)
Pharmaceuticals	Includes manufacturing, extraction, processing, purification and packaging of materials for use as medications for humans/animals
Diagnostics	Comprises of businesses and labs that offer analytical or diagnostic services
Medical Equipments and Supplies	Includes establishments primarily manufacturing medical equipment & supplies e.g. surgical, dental, orthopedic, laboratory instruments, etc.
Medical Insurance	Includes health insurance & medical reimbursement facility covering an individual's hospitalization expenses
Telemedicine	Enormous potential in meeting challenges of healthcare delivery to rural and remote areas besides several applications in education, training and management of the sector

Source: Niti Aayog Document 2021, Progressive Research

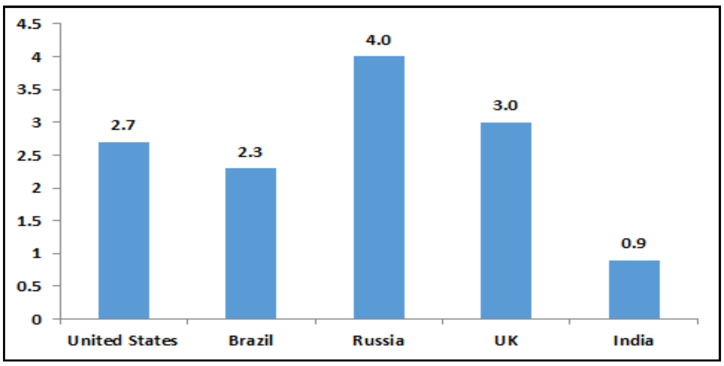
Healthcare infrastructure for quite some time has been one of the pain points in India. As of 12th May, 2021; there were only 0.5 public hospital beds per 1,000 population and mere 1.4 beds, including public and private hospital beds per 1,000 persons in India. Additionally, compared to the global average of 2.5 doctors per 1,000 people, the doctor to patient ratio in India remains quite low, at 0.9 doctors per 1,000 people. As per Niti Aayog, India is gradually progressing on the path to have 1 doctor per 1,000 population by 2024 as per the recommendations laid by the WHO.

Exhibit 05: Hospital Beds Per 1,000 Population



Source: KPMG Report 2021, Progressive Research

Exhibit 06: Doctor's Availability Per 1,000 Population



Source: KPMG Report 2021, Progressive Research

Overview of Healthcare Sector (contd.):

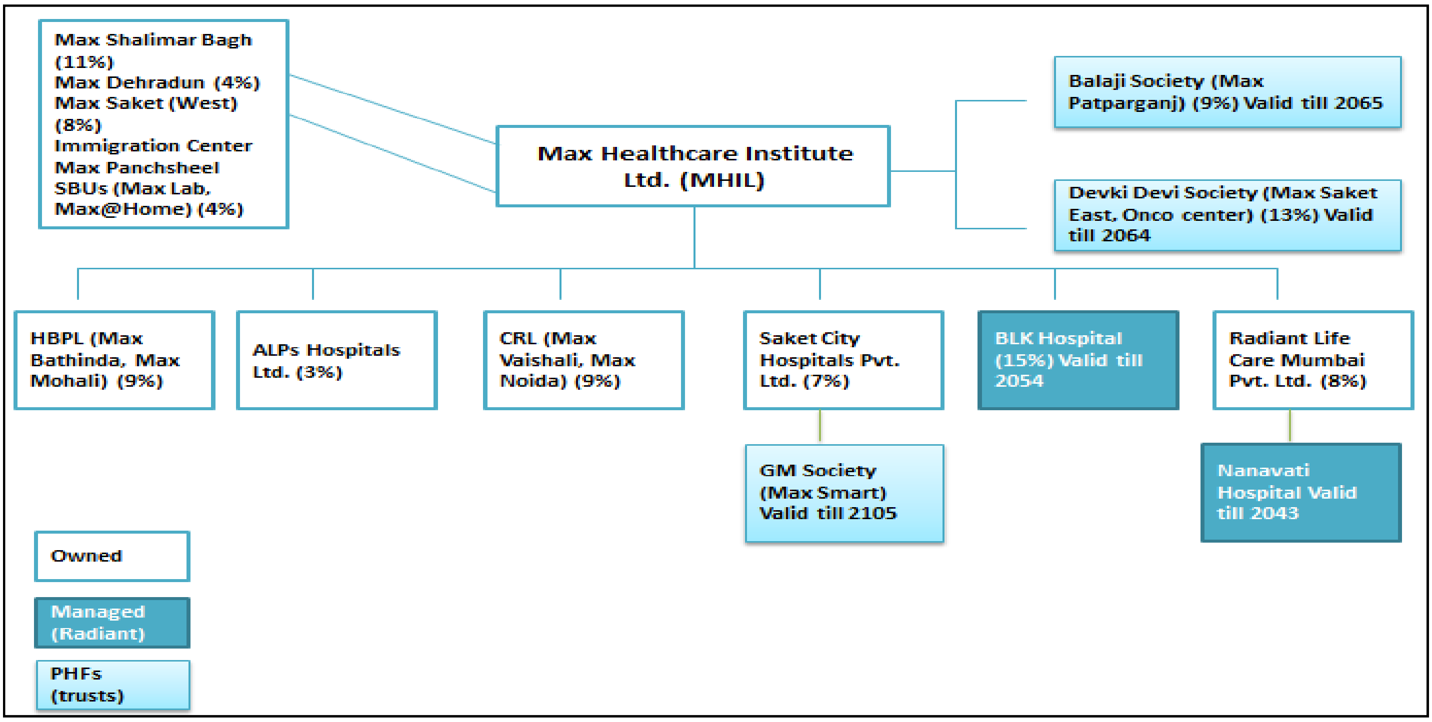
Notable Reforms undertaken by the GOI: (i) Ayushman Bharat, (ii) National Digital Health Mission (NDHM) (iii) Rapid augmentation of healthcare infrastructure, (iv) Augmenting testing capacity, (v) Adequate provisioning of medical supplies, (vi) Liberalized FDI *(100% FDI is allowed in constructing hospitals under automatic routes. 100% FDI is allowed under automatic route in investing in greenfield pharmaceutical projects. 74% FDI is allowed under automatic route to invest in brownfield projects. 100% FDI under automatic route is permitted in medical device manufacturing).*

The pandemic served as a blessing in disguise for the healthcare industry. The unprecedented waves reinforced the importance towards the healthcare sector; thus strengthening efforts to be further prepared for any uncertainties in the near term. As per the 2021 Global Health Security Index (GHS), among 195 nations, India stood at an overall rank at 66 with a score of 42.8 and a decline of 0.8 points since 2019 in the GHS index. The study underlines that India has improved in detection and reporting category, but there has been no enhancement of its prevention protocols, health system or rapid response processes. Overall, with recent developments and changes in government's priorities, the healthcare sector as an investment opportunity is quite promising going forward.

About the Company: Max Healthcare Institute Limited (MHIL) 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. It has 17 healthcare facilities (~3400+ beds) across the NCR Delhi, Haryana, Punjab, Uttarakhand and Maharashtra with almost 85% of the bed capacity being in Metro/Tier 1 cities. Apart from hospitals; MHIL also operates a homecare and pathology business under brand names Max@Home and Max Labs respectively. Max@Home offers health and wellness services at home while Max Labs provide pathology services outside its hospital network.

Business Structure: 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)- MHIL further strengthened its footprint in Delhi and gained access to Mumbai's healthcare market as well.

Exhibit 07: Network Structure



Source: Company PPT– Q3FY22, Progressive Research

Investment Rationale:

1. Key Hospitals:

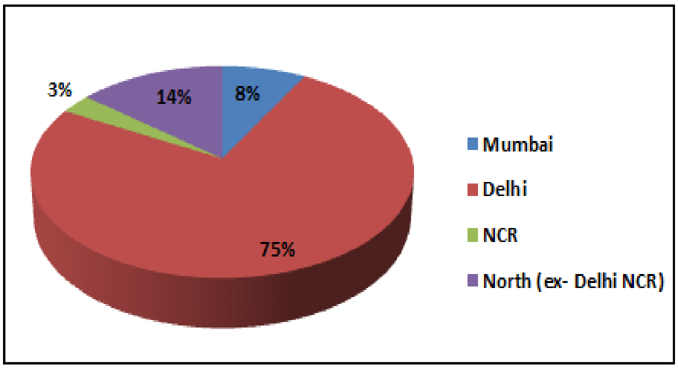
Exhibit 08: Key Specialities Across Hospitals

Hospitals	Operating	Key Specialities
Max Super Speciality Hospital, (West Block) Saket	201	Onco, Cardiac, Neuro
Max Super Speciality Hospital, (East Block) Saket	320	Onco, Cardiac, Neuro
Max Smart Super Speciality Hospital, Saket	250	Onco, Cardiac, Neuro
BLK-Max Super Speciality Hospital, Rajendra Place	540	Onco, Cardiac, Ortho, Bone Marrow Transplant (BMT) & Other transplants
Nanavati Max Hospital, Mumbai	328	Onco, Ortho, Transplants
Max Hospital, Gurugram	72	Dental, Cardiac
Max Super Speciality Hospital, Patparganj	402	Onco, Cardiac, Neuro, OBGY, Nephro
Max Super Speciality Hospital, Vaishali	378	Onco, Cardiac, Neuro, OBGY, Nephro
Max Super Speciality Hospital, Shalimar Bagh	280	Onco, Cardiac, Neuro, Gastro
Max Super Speciality Hospital, Mohali	220	Cardiac, Ortho
Max Super Speciality Hospital, Bhatinda	200	Oncology
Max Super Speciality Hospital, Dehradun	201	Neuro
Max Multi Speciality Centre, Panchsheel Park	201	Onco, Cardiac, Neuro
Max MedCentre, Lajpat Nagar (Immigration Department)	Standalone Specialty clinics with outpatient and day care services	
Max Institute of Cancer Care, Lajpat Nagar		
Max Multi Speciality Centre, Noida		
Max MedCentre, Mohali		

Source: Company PPT, Progressive Research

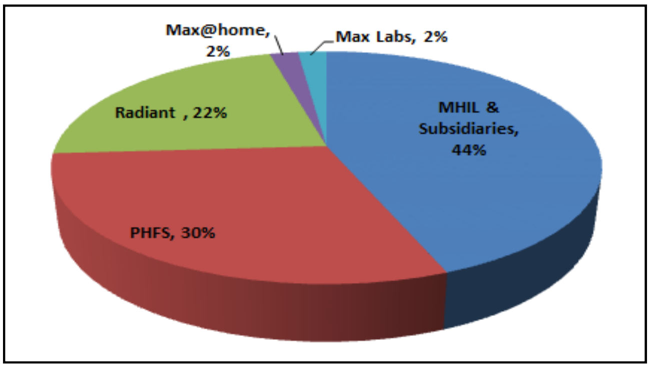
(A) Dominance in the North: MHIL's overall hospital network consists of 11 owned/ leased hospitals, four Partnered Healthcare Facilities (PHFs); viz., Saket East block (Devki Devi Society), Saket Smart (Gujarmal Modi Society), Patparganj (Balaji Society), Institute of Cancer Care, Lajpat Nagar and two Radiant hospitals operated on an Operations & Management (O&M) basis, viz., BL Kapur and Nanavati. The dominant presence is in the Northern region, which accounts for ~92% of its revenues.

Exhibit 09: Regional Hospital Breakup



Source: Company, Progressive Research

Exhibit 10: Revenue Breakup-FY21



Source: Company, Progressive Research

(B) The NCR Spread:
(i) Saket Complex: Located in South Delhi, the Saket complex constitutes of three flagship units namely *Saket East Block, West Block* (together known as Max Saket) and *Saket Smart*. The East Block and Max Smart are PHFs which attract a higher proportion of outstation/international patients, as they offer high-end tertiary and quaternary care. The ~521 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, amongst 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.

Investment Rationale (contd.):

(ii) BLK: Initially a charitable gynecology hospital; BLK became a leading multi-disciplinary hospital in 1959. Being a flagship unit at a prime location in Delhi, it attracts international patients. Part of the Radiant group, this 540-bedded quaternary care hospital is run by MHIL as per the O&M model (trust owns the land, building and other assets but the right-to-use rests with MHIL). Given these are longer term contracts (till 2054 for BLK), MHIL treats them as contract assets and pays a certain nominal fixed payout plus a share in cash profits to its trustees for the same.

(iii) 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 NABH accredited hospitals offering services across 28+ specialties, including cardiac, onco, neuro, OBGY and nephrology, to mention a few. They also have the NABL accredited Max Labs, which contributes to the captive as well as non-captive pathology business. Location wise both the units are highly accessible to local as well as inter-state patients, which gives it the additional edge. The occupancy in this cluster is very high at ~80% level (pre-Covid).

Other Key Units:

In 2011, MHIL commissioned its tertiary care hospital in Shalimar Bagh, Northwest Delhi (280-bed) which offers services in 34+ clinical specialties in the fields of cardiac, onco, neuro, gastro, etc. Led by the Covid business, the hospital was running at ~74% occupancy as 60% of the beds were dedicated for Covid patients which however impacted the Average Revenue Per Occupied Bed (ARPOBs) in FY21. MHIL has a 72-bed hospital in Gurugram (part of ALPS Hospitals Ltd and is to be merged with Saket City Hospitals Ltd; wholly owned subsidiary of the company). It is one of the best dental clinics and cardiac hospitals in the region. This unit does not have any contribution from the institutional segment which in turn translates into higher ARPOBs and it clocks the highest Ebitda/bed in the network. 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.

(C) The Non NCR Reach:

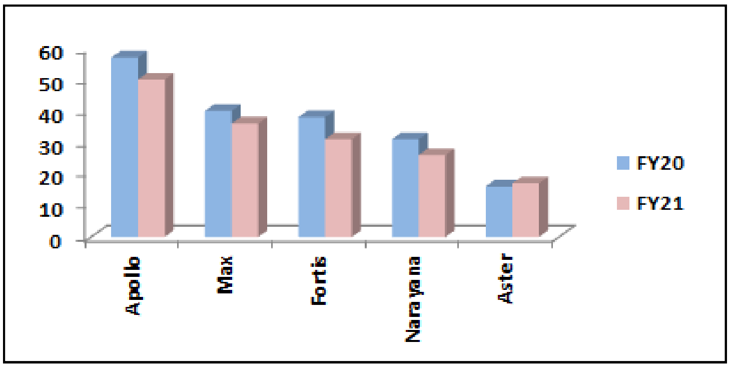
(i) Mumbai: Presence of MHIL in the Mumbai market (after the merger with Radiant) is through Nanavati, its flagship hospital. The state-of-the-art ~330-bed, quaternary care hospital, is also run on the O&M model similar to BLK. The company targets growth of the international business at this unit, betting on the close proximity to the international airport. It is yet another of the few hospitals with no institutional business, perk for better ARPOBs. The multiple triggers for growth include, the brownfield expansion, strong brand recall, larger focus on quaternary and tertiary care and well adopted cost control measures.

(ii) North-Excluding Delhi: MHIL has expanded its presence in other northern states with 2 units in Punjab and 1 in Uttarakhand.

- **Punjab**: MHIL through PPP agreement with the government of Punjab has set up super specialty hospitals in the state, a 220-bed hospital in Mohali and a 200-bed hospital in Bathinda. Cardiac and ortho are the key specialties offered at the Mohali unit while the Bathinda unit has been recognised as one of the best cancer hospitals in Punjab. The Mohali unit has ramped up decently after the regulatory headwinds faced due to stent price control. On the other hand, after the execution challenges (high operating costs) that the unit faced; the company has turned around the same into Ebitda positive with a steady margin growth expected going forward.
- **Uttarakhand**: MHIL has a super specialty hospital in Dehradun (201-beds) known for its Center of Excellence in the field of neurosciences. Majority of the business for this unit comes from the institutional segment; which lead to lower ARPOBs. Focus on payor mix optimization makes this unit an interesting candidate to contribute to margin expansion going forward.

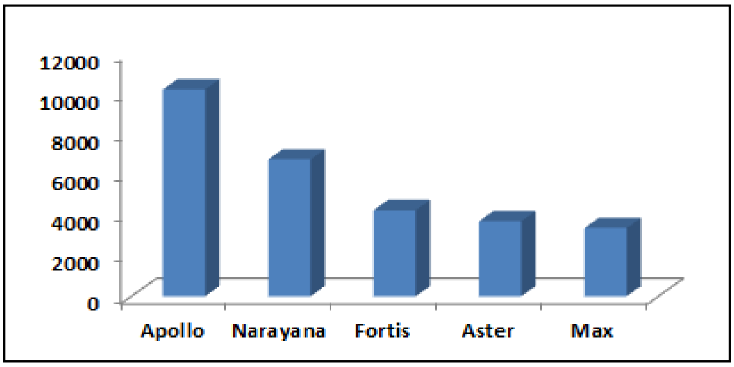
On peer comparison, MHIL is the **second largest** hospital by revenues, **3rd** in terms of the operating bed capacity and **5th** in terms of the total bed capacity.

Exhibit 11: Peer Revenue Comparison (Rs bn)



Source: Individual Company Reportings, Progressive Research

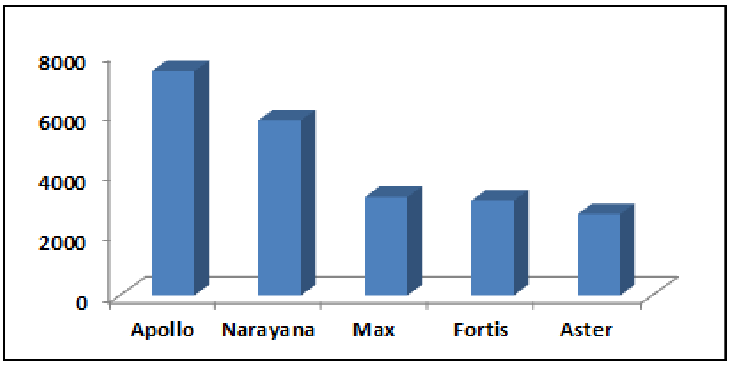
Exhibit 12: Peer Bed Capacity Comparison-FY21



Source: Individual Company Reportings, Progressive Research

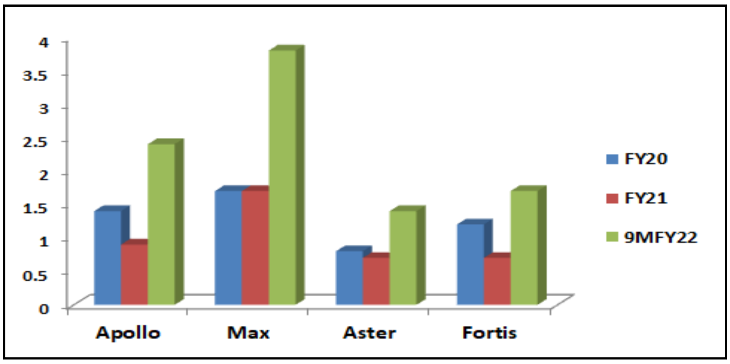
Investment Rationale (contd.):

Exhibit 13: Peer Operational Bed Capacity Comparison-FY21



Source: Individual Company Reportings, Progressive Research

Exhibit 14: Peer Ebitda/Bed Comparison (Rs mn)

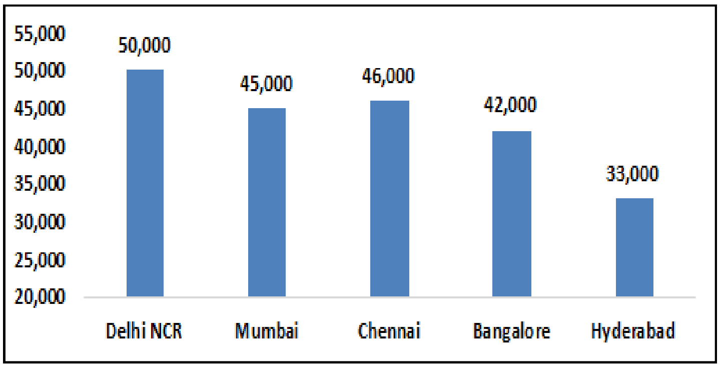


Source: Individual Company Reportings, Progressive Research

2. Dominance in ARPOBs: Higher Than Peers

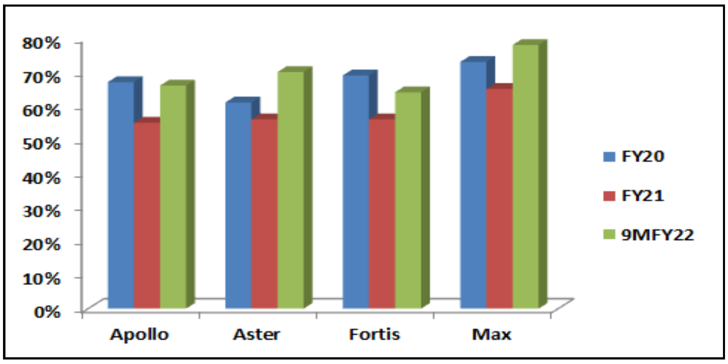
The company operates predominantly in the Delhi NCR and Mumbai region, with the benefit of having ~85% of its beds located in metro/tier-I cities which is why it has been enjoying better ARPOBs as compared to other industry players. The key ones in the tier-I cities are Delhi, Mumbai and Chennai that enjoy industry leading ARPOBs led by high per capita income and higher insurance penetration as compared to other cities. There have been demand supply gaps as well in Delhi and Mumbai with regard to availability of quality beds, which extends the scope for further expansion. These cities also attract international patients, with Delhi, Chennai and Mumbai accounting for 75%+ of medical tourists from abroad, boosting the overall ARPOBs higher.

Exhibit 15: Higher ARPOBs-Metro Cities (in '000s)



Source: Company, Progressive Research

Exhibit 16: Better Occupancy-Metro Presence



Source: Individual Company Reportings, Progressive Research

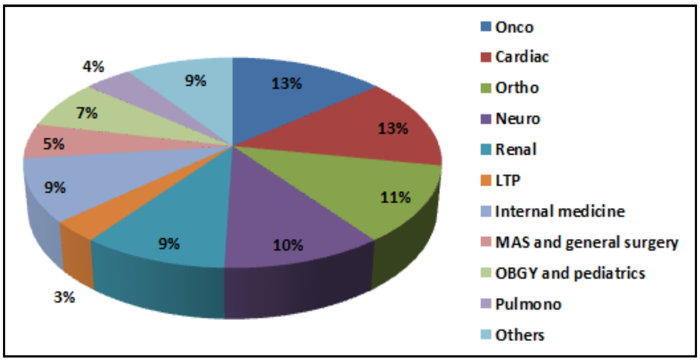
MHIL focuses on high-end tertiary and quaternary care, which contributes ~70% of the overall revenues from hospitals and further gives impetus to the overall ARPOBs. The focus of the company has always been on quaternary care where onco, neuro, cardiac, ortho and transplants are the key specialties. MHIL runs the largest oncology programme in North India and the largest BMT programme in Asia. Contribution of the Onco segment to the overall revenues is highest (20.5% in FY21 of the major chronic therapies) when compared to the peers.

3. Improvement in Occupancy:

The focus remains on improving the utilization of the existing beds across the network as there is very little scope to increase capacities in the near term as expansions have been lined up from H2FY24. For the last two years, the occupancy was impacted due to higher share of Covid beds which has now started declining with reducing number of cases; seen through the non-Covid occupancy inching up gradually. Pre-Covid as well, MHIL had average occupancy of ~73% which is above its listed peers led by the well established brand names as well as strategically located units which cater to domestic as well as international patients. MHIL expects occupancy to improve to 76-77% in FY22 and further in FY23/24E with optimal target of 80%+ occupancy across the network. This would be achieved by optimising the payor mix with focus on increasing CTI patients, improvement in occupancy, improving share of tower specialties to support the overall growth.

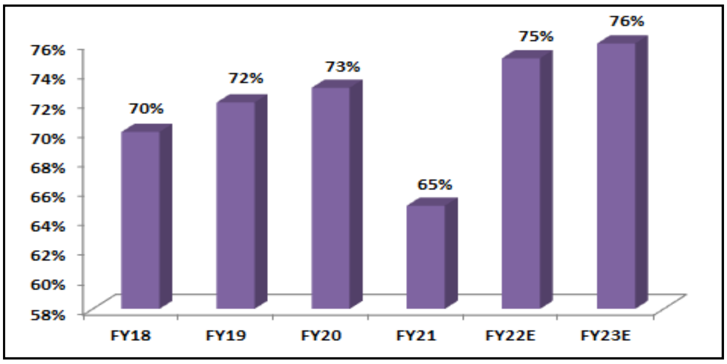
Investment Rationale (contd.):

Exhibit 17: Therapeutic Breakup



Source: Company, Progressive Research

Exhibit 18: Gradual Improvement in Occupancy



Source: Company PPT, Progressive Research

4. Capex Underway:

There was aggressive expansion undertaken by MHIL through the organic and inorganic route leading to almost 50% capacity addition of the current capacity in the Northern region. This also included non-profitable exits. Accordingly, there were bed expansions undertaken that led to increase in the overall occupancy rate. Back again, 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. MHIL has existing valuable land bank which will enable it to add 3,300+ beds through brownfield and greenfield expansion. *In Oct'21, MHIL board approved the expansion initiative through purchase of two parcels of land admeasuring ~5.26 acres and ~6.11 acres located in Gurugram (Haryana) at Sector 56 and Sector 53 respectively. The land was offered to the company for allotment on freehold basis for setting up two hospitals, following acceptance of its bids made under the e-auction of Institutional Properties.* The company expects regular maintenance capex of ~Rs1.6bn per year. Land cost for greenfield project in Gurugram would be ~Rs1.8bn, which is expected to be paid by FY22 end. For Mohali, Nanavati and Saket complex (settled dispute with Vikrant foundation), the company already has a land bank for the expansion.

- **Expansion in Gurugram:** MHIL already has one hospital in Gurugram (72-bed capacity). It further plans to expand the bed capacity in NCR region by addition of two hospitals of ~500 beds each which will significantly ramp up its existing footprint in NCR region.
- **Nanavati Hospital:** MHIL plans to add ~440 net beds in Nanavati Max Hospital (Mumbai). It plans addition of ~329 beds in phase 1 by H2FY25 as part of a new block. (*Demolition of ~160 beds to be done before commencement of Phase 2).*
- **Saket Complex, Delhi:** Currently having ~770 beds, the company plans to create a medical hub spread across 23 acres of land in South Delhi (having 2300+ beds). The additions would be across Max Smart (~1100 beds in four phases) and Vikrant foundation (~500 beds in 2 phases). Further, addition of 100 beds in Shalimar Bagh is expected to be operational end of FY23, while the Mohali hospital should have added 190 beds also to be operational by H2FY24.

5. Inorganic Route, Proved Right:

Alongwith expansions being undertaken; MHIL follows the strategy of looking for acquisitions, O&M arrangements, service agreements which would complement the existing business model. This helps in establishing footing across newer cities, without the need to start from scratch. With the pre-determined aim of expanding in the metros and Tier 1 cities; the acquisitions done so far have been on the similar lines; be it the BLK/Max or the Nanavati hospital. These have shown increased steady sales with an uptick in the Ebitda margins over the years. And hence, it is a proven business strategy for the good. *Furthermore, MHIL has the right asset to get its operations aligned towards the right direction. Mr. Abhay Soi known as the turnaround specialist, who had taken over the inefficient and loss making BLK hospital in Delhi was responsible for breakeven in a span of 3 years. Even in the case of Nanavati (was in deep distress with negative operating margins), when Radiant care which was backed by Mr. Soi took over the operations; the hospital was revamped and achieved Ebitda breakeven in 3-4 years.*

(i) Max has entered into a long-term services agreement with Muthoot Hospitals for O&M of 300+ beds hospital being constructed and developed at Sector 10, Dwarka. This is the first phase of the hospital and has a potential to add another 1,000+ beds in due course of time. The current arrangement is, however, restricted to the first phase only. It is built to suit the model with long term exclusive service agreement for 30 years, extendable to 60 years. The construction is well under way with super structure already completed and MEP tendering in progress. The hospital is expected to be commissioned in H1FY24. When commissioned, it shall be operated under the name of Max Super Speciality Hospital, Dwarka. The arrangement highlights the focus and success of the **strategic asset light model** of growth and to start with, it will add ~8-10% to the overall capacity in near future.

Investment Rationale (contd.):

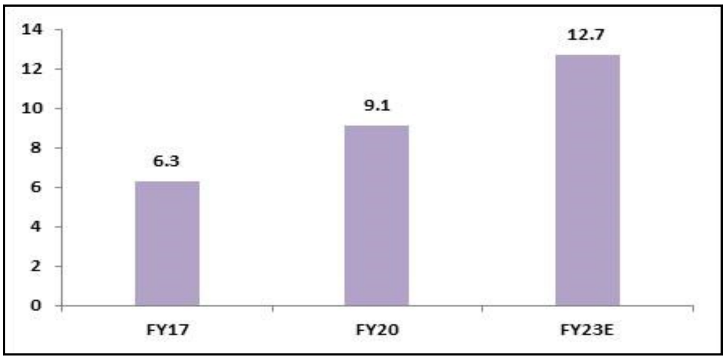
(ii) Max acquired Eqova Healthcare, a company with long term exclusive rights to aid development and provide medical services to a 400 bed hospital built on 2.1 acres of land parcel in Patparganj, Delhi, owned by Nirogi Charitable and Medical Research Trust. The site is very close to the existing Max Super Speciality Hospital, Patparganj, which has been consistently reporting high level of occupancies (more than 81% during the FY18-20 period). The hospital shall thus enjoy both revenue and cost synergies with the existing facility. Presently, a 20 bedded hospital is already operating at the site. Under phase 1, 250 beds will be commissioned in H1FY26 and the hospital will cater to high end medical programmes such as oncology, organ transplant and offer multi-disciplinary care in the area of cardiac sciences, neurosciences, renal sciences, etc. Another 150 beds will be operationalised in phase 2 after commissioning of the phase 1. The initial acquisition of majority stake is by way of upfront purchase of 26% stake, with an Escrow mechanism set up for additional 34% under call/put options to be exercised linked to achievement of certain milestones. In addition, the parties have agreed to call/put options for the balance stake to be exercised on achievement of defined milestones.

6. The Asset Light Adjacencies:

(i) Max Labs: Max Labs is a non-captive business division of MHIL, providing diagnostics and pathology services to the patients outside its hospitals. These pathology services are offered by MHIL either directly through its own labs or via network of partners, including third-party clinics, nursing homes, path labs and franchisees. The business operates in 12 cities, mainly in the North Indian States of Delhi NCR, Uttarakhand and Punjab, thereby capitalizing upon its strong brand in the region. All of its labs are NABL-accredited and it has become the third-largest player in the North. As of Dec'21, Max Labs has 265+ partner-run collection centres, 18 company owned collection centres, 160+ Phlebotomist at Site (PAS), 210+ Pick-Up Points (PUPs), 25+ Hospital based Lab Management (HLMs), 24+ Cities of operations and offers 1,900+ test portfolio. *(As per the company PPT)*.

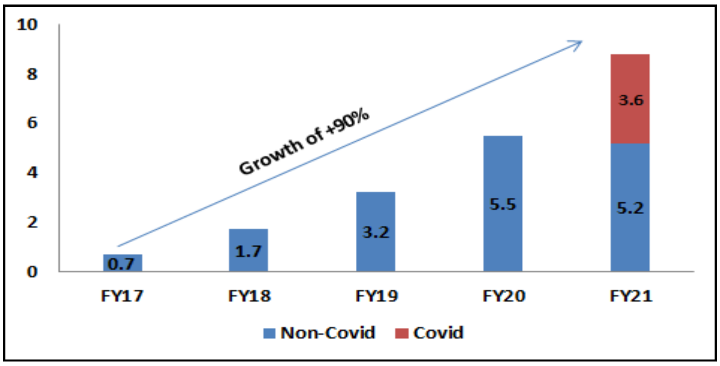
The company is working towards expanding this business aggressively aiming to achieve revenue of ~Rs5-6bn in the next few years from the current Rs790mn in 9MFY22. MHIL is also exploring the inorganic route of expansion to achieve the desired scale of operations. The business primarily caters to the B2B and B2C segments wherein the B2B business renders services to patients in partnerships with other clinics, path labs and franchisees while the B2C segment growth is driven by expansion of company-owned and partner-owned collection centers and home collections. In FY21, Max Labs operated at mid-teen Ebitda margin. These are expected to expand further on the back of improved scale and wider test menu offerings. Max Labs has seen strong traction over last few years (~90% gross revenue CAGR over FY17-21 to Rs676mn in FY21).

Exhibit 19: Indian Diagnostic Industry (USD bn)



Source: Company PPT, Progressive Research

Exhibit 20: Max Labs Revenues (USD mn)



Source: Company PPT, Progressive Research

(ii) Max@Home: The Indian home care market is expected to grow at a CAGR of 15-19% over the next 5 years from USD5.4bn in 2020 to USD11-13bn by 2025. Max@Home is another non-captive business vertical of MHIL, providing quality healthcare services at patient's home. It covers service offerings right from preventive care to pre/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. With the launch of X-ray and ECG at home, it became the first player in the region to offer radiology services at home. The company is accredited by the Quality and Accreditation Institute (QAI), which is the only certifying body for home and healthcare in India. Max@Home has also expanded its operations to include BLK and Dehradun hospitals in its network. It currently attends daily volumes of ~960 calls and manages 2,000+ transactions/shifts on a day-to-day basis.

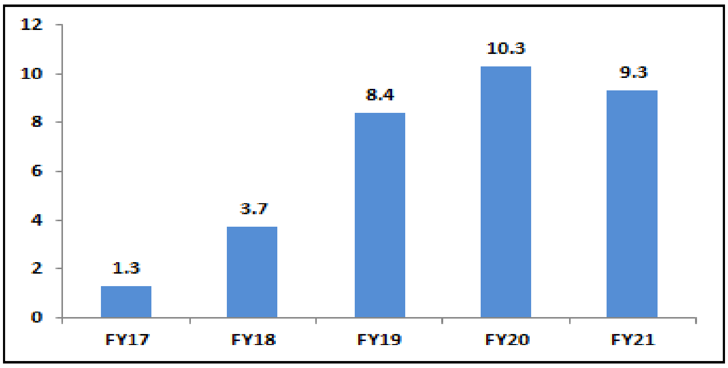
Please Turn Over

Investment Rationale (contd.):

(ii) Max@Home: While the patient preference for at-home care remains low in India, Covid has expedited the shift in patient behavior to some extent. The healthy CAGR growth since inception has been mainly driven by strong performance across most of the key service lines on the back of omnichannel presence, limited competition and Covid-led structural tailwinds. 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 expand the target market and maintain strong double-digit growth going forward.

Overall, the company plans to build on both the adjacencies by scaling up Max Labs and Max@Home businesses to provide healthcare services outside the healthcare facilities.

Exhibit 21: Direct To Customer Services Revenue Scale Up (USD mn)



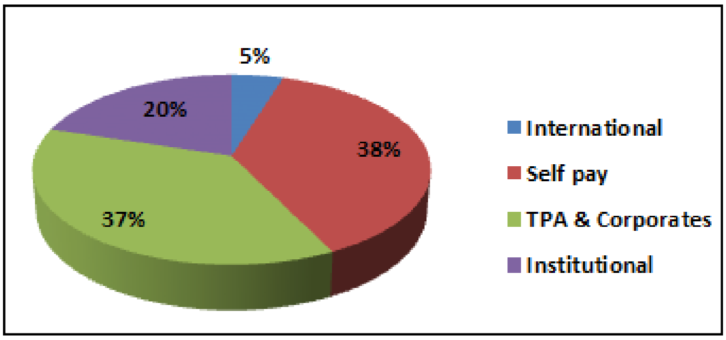
Source: Company PPT, Progressive Research

7. Other Growth Triggers:

(i) Improvising the Tower Speciality: After the slowdown witnessed in surgeries due to the pandemic outbreak; there has been a gradual pick up seen over the last few quarters, with the continued focus being on improving the case mix through high end surgeries. The key segments continue to be oncology, cardiology and neurology boosting the overall margin improvement and business mix. The company strategizes to take its tertiary care skills to newer regions of target and deepen its reach through developing high end procedures/ treatments across the tower speciality. Sophisticated procedures would improve the case mix for the company. Investments in medical technologies with expertise in tertiary care remain the key growth driver going forward.

(ii) Optimize the Payor Mix: The current payor mix which when compared to other players is sub-optimal and needs a rejig which is one of the focus areas as well. In the mix of FY21, ~65% of its beds were occupied by what are known as Cash, TPA, International (or CTI) patients that contribute ~77% to revenues, while the balance ~35% beds are occupied by scheme patients who contribute only ~23% to revenues. The company's endeavour is to reduce the proportion of scheme business, given that it is Ebitda negative. MHIL intends to improve its channel mix by improving the share of international, cash walk-in and private and public insured patients who have procured insurance coverage from third party insurance providers as these patients tend to provide higher average revenue per patient for similar procedures compared to central as well as state government and local body patients, due to tariff differences.

Exhibit 22: Payor Profile-9MFY22



Source: Company PPT, Progressive Research

The aim is to reduce the bed share from the current ~35% to less than 15% over the next 3-4 years which will reduce revenue contribution to ~10% levels.

In 9MFY22, the institutional patients accounted for 20.2% of bed share (institutional patients comprise patients under government and public sector employee health insurance schemes). This category of patients has 40% lower ARPOBs as compared to cash patients. MHIL targets to reduce share of patients in this category. It is simultaneously focused on increasing the share of revenues from international patients (4.8% in 9MFY22), where ARPOBs are comparable to cash patients. This share is expected to go up when the international travel restrictions come down and things get back to normalcy.

The medical tourism industry in India is ~USD8-9bn in size. According to McKinsey, the number of medical tourists in India could increase 4.5x to 3 million over 2018-2030E. This is majorly due to the facts of availability of affordable, quality treatment that makes India a preferred destination for foreign patients. 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 BMT in Asia.

Investment Rationale (contd.):

7. Other Growth Triggers (contd.):

(iii) Digital initiatives to create integrated service platform: As indicated in the annual report, digital adoption was fast forwarded by the events of 2020. Covid-19 necessitated the need for quick adoption of digital technologies in the healthcare system, making digital healthcare the new normal. The company leveraged on the brand, customer loyalty and data to build a digital ecosystem. In view of the same, MHIL has taken digital initiatives for efficiency and ease of delivery of healthcare services. As of Q3FY22, digital revenue through online marketing activities and web-based appointments stood at Rs1490mn i.e. ~11% of overall revenue; while video consults stood at ~13,300.

Some of the key features include:

- Video consultation platforms to connect with patients and doctors remotely
- The doctors can review uploaded documents, conduct video consultation, share prescription on mobile/web app
- The patients could book appointments, make payments and upload their documents using the mobile app

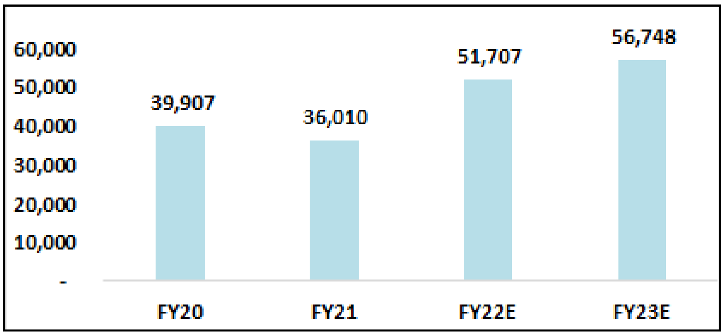
The app is also integrated with IOMT devices (Omron and Kardia) for real-time monitoring of vitals. Other Covid-19 related initiatives include (a) digitization of home isolation package workflows (b) data capturing, among others. Digitization is also applied in other non-clinical areas, such as patient and nurse feedback management, in-house kitchen processes and biometrics for employee attendance management. Artificial Intelligence (AI) is being deployed in clinical areas especially radiology to augment reporting and decision making. MHIL's AI solution for chest X-rays is deployed in Max Saket and Max Smart. Similarly, Predible Lung IQ solution enables nodule detection and fibrosis quantification for Covid-19 patients and hence helps radiologists assess severity and disease progression. There are other solutions as well in the field of orthopaedics and neurosciences that are currently helping doctors make informed clinical decisions.

(iv) Asset-light model with Real Estate Investment Trusts (REITs) for future expansion: MHIL's core competence lies in providing healthcare services ranging from primary to quaternary care. Being a capital intensive sector, the company has indicated that in addition to its plan of brownfield capacity expansion; it seeks to move towards an asset light model for the delivery of healthcare services through operations and management contracts, which will enable it to focus on its core healthcare operations and key medical competencies. For this, the company is looking to enter into partnership with real estate developers who could build the hospital facilities as per MHIL's specifications and it would then operate and manage the hospital facilities by leveraging its brand equity and expertise in healthcare services.

Financials:

(a) Sales and Ebitda growth leading to robust profits: We forecast 25.5% revenue CAGR over FY21-23E, driven by higher ARPOBs and improved occupancy as the non-Covid business picks up across different units. There was a cost rationalization exercise adopted for the newly acquired Max assets which comprised of renegotiation of contracts to save on material costs, savings on manpower, shutting down unviable units. These initiatives led to cost savings recognised of the first series (Rs1.4bn in FY20, Rs0.8bn in FY21); the second series had Rs0.7bn recognised in FY21 while the balance Rs0.4bn is expected over FY22E. Overall, the implementation of the cost initiatives should lead to cost structure getting leaner going forward.

Exhibit 23: Sales Trend (Rs mn)

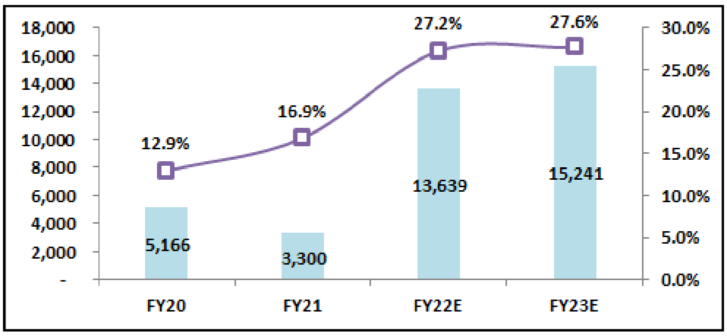


Source: Annual Reports, Progressive Research

Significant growth is expected across the Ebitda in the same period led by: higher contribution from international patients as travel restrictions ease (international business was 4.8% in 9MFY22); steady shift in payor mix towards non-institutional patients, ramp-up in the non-Covid business, which would drive higher ARPOBs (Covid business was ~15% of FY21 revenue and has lower ARPOBs).

With the growth in revenues and better operating margins, the company is expected to clock robust PAT growth going forward.

Exhibit 24: Ebitda (Rs mn) v/s Ebitda Margins (%)

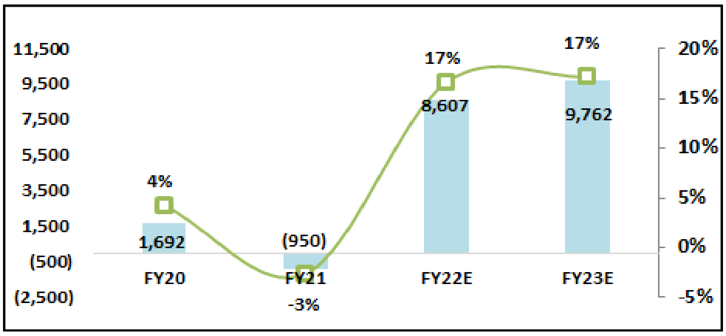


Source: Annual Reports, Progressive Research

Financials (contd.):

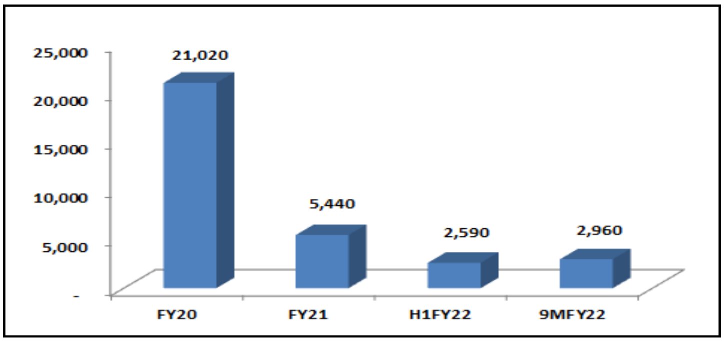
(b) Leading in Key Metrics: The turnaround seen in operation of the hospitals has been post-merger. As of 9MFY22; Ebitda per bed stood at Rs5.3mn, ARPOBs at Rs57.7k and ROCE of 35.5% which is the highest in Indian hospitals. *The higher ARPOB is driven by metro-centric assets for MHIL which leads to higher surgical case mix and a more affordable addressable market.* The company's net debt (ex-liabilities) has reduced from Rs21bn (FY20) to Rs2.9bn (9MFY22) and the company is expected to become net cash by or before end of FY22.

Exhibit 25: PAT (Rs mn) v/s PAT Margins (%)



Source: Annual Reports, Progressive Research

Exhibit 26: Gradual Reduction in Debt Position (Rs mn)



Source: Company, Progressive Research

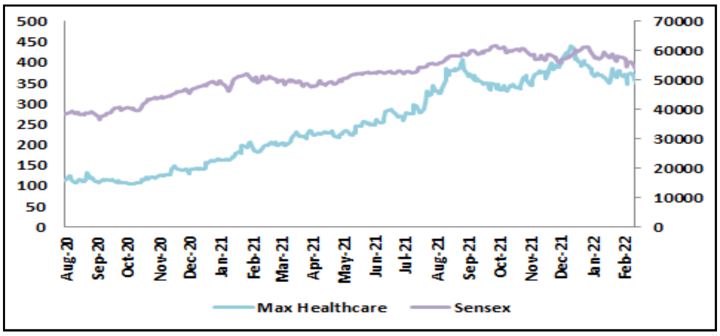
Risk and Concerns:

- Changes in regulations pertaining to price controls
- Geographical concentration in North India
- With regard to 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) could pose a risk to the growth going forward
- For the Asset light adjacencies, slowdown in the planned expansions would hinder the targeted growth for MHIL

Outlook and Recommendations:

MHIL is one of India's leading hospital chains with leading operating metrics when compared to other players in the industry. The company has been gradually on the growth path after the merger of Radiant as well as the rejig at the Management level. The new Management had high debt and increased costs as the hindrances which were dealt well encouraging a spectacular turnaround in operations. There has been a comeback seen to pre-Covid levels with regard to occupancy as well other parameters of comparison. Improvement in demand and normalization of business should thereby drive MHIL's performance going forward. MHIL broadly meets all the key investment considerations be it a superior case mix, brand power, quality of care, cost efficiencies or presence in premium markets. The triggers going forward which would lead to steady growth and margin improvement include (a) continued traction on superior payor mix and improvement in the same by lowering the patient flow from institutions such as government, PSUs etc. (b) increase in international patients as international travel normalizes (c) increasing the bed capacity with the well chalked capex plan (d) Max Labs and homecare seeing strong traction (e) evaluating asset light models. The focus continues to be cost rationalisation, efficient utilisation of facilities, lighter balance sheet and expansion across the existing geographies. We are positive on MHIL for the edge it enjoys with regard to presence in premium markets and excellent business mix. We initiate a Buy on the stock for a target of Rs421 over a 12 months horizon.

Exhibit 27: Price v/s Sensex



Source: Ace Equity, Progressive Research

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