

PICK OF THE MONTH

March 2023



Max Healthcare Institute Limited

Recommendation	Time Period	CMP	Target	Potential Upside
BUY	12 Months	INR 465	INR 560	20%

Max Healthcare Institute Limited (MHIL) was incorporated in 2001 and is primarily engaged in providing healthcare services through primary care clinics, multi-speciality hospitals and super-speciality hospitals. MHIL operates in the Indian healthcare delivery industry which has been growing at a CAGR of about 12%-14% over FY16-20 and is estimated to reach about ₹7.3 lakh crore by FY24. Post-Covid 19 pandemic lockdowns, the industry made a sharp recovery in top line due to the release of deferred non-COVID surgeries, higher average revenue per bed (ARPOB), and increased bed capacity of hospital chains.

MHIL primarily operates in prominent markets in North and West India like Delhi, Uttar Pradesh, Maharashtra, Punjab, Uttarakhand and Haryana. The company focuses on premium market areas like metro cities Delhi and Mumbai, which provides the company its highest ARPOB. In the last reported Q3FY23 ARPOB for the quarter rose to approximately Rs. 66,800, reflecting a growth of 10% year-on-year. The rise in its ARPOB is due to its advantages of operating in Metro cities which have higher per capita income, high insurance penetration, and propensity to pay for high-end quaternary care facilities. Also, metro cities give access to upcountry and international patients due to air, road and rail transportation options. Revenue from international patients grew by 62% year-on-year and reflected 110% of pre-COVID average. This accounts for around 9% of the revenues in Q3FY23.

In order to increase its revenue growth, the company is enhancing its bed capacities in the premium market locations. The company is planning to expand its bed capacities by 2,800 in the next five years. In order to do so the company has already made CAPEX of Rs. 102 crores in Q3FY23 to build 1,379 beds across different locations.

The company is also expanding its operations in low capital intensive high margin growth business segments Max Lab and Max@Home which are using digital technologies to reach more clients. Digital revenue grew to Rs. 272 crores in Q3FY23 and accounted for 17% of overall revenue. Max Healthcare has an industry-leading pre-tax RoCE of 30% in the first half of FY22, compared with Apollo Hospitals' 21% and Fortis Healthcare's 10%.

MHIL's revenue growth in the coming quarters is expected to be driven by increased footfalls, higher ARPOB, surge in medical tourism and health insurance penetration. The company's strategic CAPEX allocation towards capacity expansion at premium locations and high growth margin digital businesses is expected to generate higher ROCE in the coming quarters. In the last reported Q3FY23 MHIL reported Network gross revenue of INR. 1,559 crore compared to Rs. 1,385 crores which grew 13% year-on-year. The company also reduced its operating costs as it reduced its overheads quarter on quarter and power, fuel and lab investigations. As a result, the company generated the highest-ever Network Operating EBITDA of Rs. 419 crore compared to Rs. 364 crores in Q3 last year, reflecting a growth of 15% year-on-year. The Network Operating EBITDA margin improved by 50 bps to 28.3% compared with Q3 in last year. Annualized EBITDA per bed, rose to Rs. 66.9 lakhs, clocking a growth of 12% year-on-year which is its highest ever growth. Cash from Operations was INR 332 crores in Q3 FY23 and net cash as on Dec 31, 2022 stood at INR 372 crores against a debt of INR 296 crores which reflects strong liquidity for the company.

Max is also one of the front-runners for acquiring Care hospital at a price of ~INR 5800-6000 crs, FY23 Revenue Seen at \$340M. The 2,400-bed hospital chain is owned by TPG Growth platform Evercare. We expect the company's revenues and EPS to improve in FY24 by 14.05% and 8.71% respectively riding upon enhancing bed capacities in prime locations, digital business growth and operating cost reduction. We recommend a buy on the stock with a price target of INR 560 in 12 months implying a p/e of 46x FY24E earnings.

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