

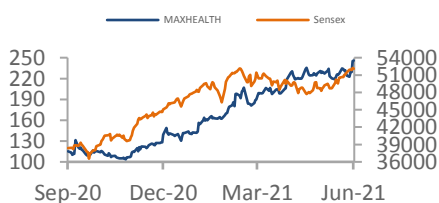
Sector	Health care
Recommendation	BUY
Upside	24%

Stock Data	
Sensex	51942
52 Week h/l (₹)	254 / 102
Market cap (₹Cr)	23,579
BSE code	543220
NSE code	MAXHEALTH
FV (₹)	10
Div. yield (%)	0.00

Shareholding Pattern			
	Sep-20	Dec-20	Mar-21
Promoters	75.25	75.25	70.46
DII+FII	17.44	17.64	22.84
Others	7.31	7.11	6.70

Source: www.bseindia.com

Share Price Trend



Prices as on 09/06/2021

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Profile

Max Healthcare Institute Limited ("Max Healthcare") is one of India's largest healthcare organizations. The company operates 16 healthcare facilities (3,400 beds) across the NCR Delhi, Haryana, Punjab, Uttarakhand and Maharashtra. Almost 85% of their bed capacity is in Metro/Tier 1 cities. Apart from hospitals, Max Healthcare also operates a homecare business and pathology business under brand names Max@Home and Max Labs respectively. Max@Home offers health and wellness services at home while Max Lab provides Pathology Services outside their hospital network.

Investment Rationale

Higher average revenue per operating bed (ARPOB) as compared to peers

Max Healthcare is focused on large metros namely Mumbai and Delhi. Large metros have always been attractive for healthcare services given the high density of population and a huge demand-supply gap. This is complemented with the inherent demographic advantages such as high per capita income, high insurance penetration, propensity to pay for high-end quaternary care facilities and availability of senior clinical talent. This metro-centric presence of Max hospitals with high proportion (~85%) of the total beds located in metro cities of Delhi NCR and Mumbai, positions the company for industry leading ARPOBs.

Capacity expansion to drive growth

Max Healthcare plans to invest in brownfield expansion across key hospitals in metros while there are few hospitals where they are planning extension within current premises. Brownfield capacity expansion have lower capital employed per bed as well as quicker breakeven. Max Healthcare has the potential to reach bed capacity of 5,456 beds from current 3,371 beds through brownfield expansion and extension of current premises. Max Healthcare is also actively looking at inorganic expansion given strong balance sheet position.

Rising Health Insurance penetration will improve utilization for hospitals

Health Insurance penetration in India is very low as compared to other developing and developed nations. Private health insurance also remains hugely under-penetrated. Majority of Indians still depend on savings to fund their healthcare expenditure, which provides huge opportunity to increase penetration of health insurance. Covid-19 has provided huge tailwind to insurance sector. We believe with increasing middle-class population and government's focus on health insurance through Pradhan Mantri Jan Arogya Yojana, demand and penetration is set to improve.

Max Healthcare derived 25.5% of revenue from TPA & corporates in FY20, which has improved to 32.1% in FY21. We believe with improving health insurance penetration, the company can improve its utilization.

QIP to help strengthen balance sheet and provide growth capital

Max Healthcare completed an equity fund raise of Rs1,200cr through a Qualified Institutional Placement (QIP) on March 10, 2021, at Rs195.40 each.

QIP proceeds were partly utilized for repayment of debt and the balance shall be utilized towards meeting the capital expenditure and working capital requirements of the company. As a result, during the year, net debt of the company reduced by Rs1,558cr and stands at Rs544cr as on March 31, 2021 driven by QIP of Rs1,200cr and cash generated by operations.

Risks

Price Regulation: Regulating prices for critical treatments remains a major risk on revenues and margins.

High competition: Private hospitals are facing high competition from existing and new hospitals. Improvement in services from government hospitals might also lead to increased competition.

Heavy capex: New hospitals require high capex, any delay in commissioning or ramping-up will impact margins, cash flows and overall growth.

Outlook & Valuation

Max Healthcare delivered robust performance in Q4FY21 led by improved surgery mix, strict cost control measures, ramp-up in non-covid bed utilization and improvement in ARPOB. We believe there is further scope for improvement in ARPOB with improving payer mix and return of international patients. Concerns regarding high debt have also been addressed post recent QIP, which will even provide growth capital. **We like Max Healthcare on back of its higher concentration in metros, pandemic related opportunities, improving margins through better payer mix and occupancy. Thus, we initiate a Buy with TP of Rs297 based on SOTP valuation.**

Financial Summary

Consolidated (INR in cr)	FY20	FY21	FY22 E	FY23 E
Revenue	4023	3629	4557.5	5275.5
YoY growth (%)	11.8%	-9.8%	25.6%	15.8%
EBITDA	590	636	998	1234
EBITDA margin (%)	14.7%	17.5%	21.9%	23.4%
PAT	129	-95	528	726
EPS	1.4	-1	5.5	7.5
ROCE (%)	12.2	7.5	12.3	15.1
ROE (%)	3.7%	-1.7%	8.5%	10.4%
P/E (x)	-	-	43.9	31.9
P/B (x)	2.9	2.7	2.5	2.3
EV/EBITDA (x)	43.2	37.6	23.3	18.2
Net Debt/Equity (x)	0.60	0.10	-0.03	-0.13

[Click here](#) to watch the video.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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