Max Healthcare Institute Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	371.01 (Reduced from 472.13)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Short term bank facilities	80.00 (Enhanced from 50.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings for the long-term bank facilities of Max Healthcare Institute Limited (MHIL) at CARE AA and has revised the outlook from "Stable" to "Positive". The short-term rating has also been reaffirmed at 'CARE A1+'.

The rating reaffirmation for the bank facilities of Max Healthcare Institute Limited (MHIL) takes into account its robust financial risk profile, as characterised by the growth in the total operating income (TOI) and enhanced profitability and coverage indicators in FY23 (refers to period from April 01 to March 31) and Q1FY24 (refers to period from April 01 to June 30). The revenue growth was backed by an improvement across the in-patient volumes as well as better surgical mix, and greater share of international patients leading to higher average revenue per occupied bed (ARPOB), indicating the company's strengthening market position and business profile. Financial risk profile is also expected to remain comfortable over the medium term on the back of strong capital structure and debt protection metrics, despite growth plans. The ratings continue to factor in the company's established position in the healthcare sector, the diversification across various specialities, the experienced team of doctors, the modern infrastructure, and the significant brand equity of 'Max Healthcare'. The ratings take into account the strong liquidity profile of the company, the significant undrawn lines of credit and the financial flexibility to avail additional limits.

The positive outlook factors MHIL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, MHIL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans.

CARE Ratings also notes that the positive demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services, is expected to benefit the company given its scalable model.

MHIL is undertaking a significant capex of doubling its bed capacity in the next four to five years, which will be largely funded by its internal accruals. The management has also guided that it is actively looking for inorganic acquisition opportunities to expand the company's footprints further, for which it may leverage its balance sheet. CARE Ratings will continue to monitor the developments and expansion plans of MHIL in this regard. The ability of MHIL to be able to complete the brownfield and greenfield capex plans, without any significant time and cost overruns, and draw the envisaged benefits from the same is a key monitorable.

The ratings are, however, constrained by the high concentration of MHIL in the Delhi-NCR region for revenue as well as profit generation and the regulatory risk along with the competition from other established players in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increased diversification across centres, geographies, or business segments leading to overall growth in topline without any impact on its profitability margins
- Sustenance of net debt/profit before interest, lease rentals, depreciation and taxation (PBILDT) below 1.5x.

Negative factors

- Decline in PBILTD profitability below 20% on a sustained basis
- Significant debt-funded capex such that the Net Debt to PBILDT increases above 2.5x on sustained basis

Analytical approach:

Consolidated.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CARE Ratings also analyse and factors the linkages and support with/to other partner healthcare facilities (PHFs) as there are strong operational and financial linkages among all entities/societies operating under the network as MHIL and its subsidiaries have given loans and loans and advances and issued unconditional and irrevocable corporate guarantee to these PHFs.

The entities being consolidated are as follows:

As on March 31, 2023,

Name of Entity	Percentage Ownership	Relation with MHIL
Max Healthcare Institute Limited (MHIL)	-	-
Alps Hospital Limited (AHL)	100%	Wholly-owned subsidiary
Crosslay Remedies Limited (CRL)	100%	Wholly-owned subsidiary
Hometrail Buildtech Private Limited (HBPL)	100%	Wholly-owned subsidiary
Max Hospitals & Allied Services Ltd@	100%	Wholly-owned subsidiary
Max Labs Limited	100%	Wholly-owned subsidiary
ET Planners Private Ltd	100% (through AHL)	Wholly-owned step-down subsidiary
Eqova Healthcare Private Ltd	26% - Shares 74% - Option Rights	Subsidiary
Max Healthcare FZ LLC (Dubai)	100%	Wholly-owned subsidiary
MHC Global Healthcare (Nigeria) Limited	100%	Wholly-owned subsidiary
Dr. B. L. Kapur Memorial Hospital* (Lahore Hospital Society)	Trust	Operation and management agreement
Dr. Balabhai Nanavati Hospital (BNH)*	Trust	Operation and management agreement

@Formerly known as Radiant Life Care Mumbai Private Limited

Factoring in support to below PHFs^:

Name of Entity	Relation with MHIL
Devki Devi Foundation	Trust - MSA
Balaji Medical and Diagnostics Research Centre	Trust - MSA
Gujarmal Modi Society	Trust - MSA
Vikrant Children's Foundation	Trust - MSA
Nirogi Charitable & Medical Research Trust	Trust - MSA

**MHIL (earlier Radiant) has an operation and management (O&M) agreement with BLK and Nanavati, wherein MHIL will operate, manage, and provide medical services. As per Ind AS, the financials of these are consolidated due to the presence of control. Such entities have been considered as deemed separate entities for the purpose of consolidation, also called 'silos' as per Ind AS 103 (Business Combinations).*
^Medical Service Agreement (MSA): MHIL has medical service agreement with five PHFs wherein these PHFs are managed by the trust governing body and executive trustee.

Outlook: Positive

The positive outlook considers that MHIL's credit profile will continue to benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Detailed description of the key rating drivers:

Key strengths

Healthy financial risk profile, characterised by growth in income, profit, and strong capital structure: At a consolidated level, MHIL witnessed a growth of 16% in its TOI in FY23 to ₹4,563 crore as compared with ₹3,926 crore in FY22, which was driven by increasing health insurance penetration, better patient mix, increasing ARPOB, and growth in medical tourism. The Max Healthcare network (MHC Network, MHIL including all its subsidiaries, O&M entities and PHFs) recorded a TOI and profit-after-tax (PAT) of ₹5,904 crore and ₹837 crore, respectively, in FY23 as against ₹5,218 crore and a loss of ₹95 crore, respectively, in FY22. Further TOI at Network level in Q1FY24 stood at Rs 1629 crore registering a growth of 17% y-o-y.

The growth in operating PBILDT was faster than revenue growth driven by operating leverage. Ab solute operating profitability at a consolidated levels stood at Rs 1241 crore in FY23 as against Rs 931 crore in FY22 and at network level the same stood at Rs 1597 crore in FY23 as against Rs 1340 crore in FY22. In line with MHIL's strategy to improve the payor mix in FY23, the bed share of institutional patients was reduced to 29.2% versus 31.3% in the previous year FY22 by way of the disempanelment of a few institutional accounts at some of their network facilities.
The debt coverage indicators of the company also remained strong. The net adjusted debt (factoring in the guaranteed debt) to PBILDT improved significantly as on March 31, 2023 and stood negative due to net cash, from 0.92x as on March 31, 2022, on account of the reduced debt outstanding and healthy cash accruals. Total debt (including leases) at Network level as on March 31, 2023 stood at Rs 1,024 crore against which there is cash & liquidity available for Rs 1,555 crore at network level.
There is adequate capital available through internal accruals plus underleveraged balance sheet to further build the portfolio. The management is targeting acquisitions that will be accretive to earnings, and these can be further juiced up through synergies, economies of scale, and operating efficiencies that MHIL has. The management is actively looking out for key inorganic routes and any significant debt-funded capex or inorganic growth through acquisitions, etc, and its impact on the credit profile will be a key monitorable going forward.

Sound operational efficiencies boosting profitability margins: With its hospital portfolio having matured over the past few years, the group has demonstrated improvement in its operational parameters as indicated by the occupancy rate, ARPOB, the average length of stay (ALOS), the inpatient-outpatient registrations, etc. Its presence in premium markets, namely, Delhi-NCR and Mumbai, along with its superior case mix lead to a higher ARPOB for MHIL when compared with its industry peers. The occupancy rate increased to 76% in FY23 versus 75% in FY22. The average occupancy rate has remained around 72% during the last five years, indicating the brand equity of 'Max Hospitals' and acceptability of the same among patients.
MHIL's focus on cost-saving initiatives and long-term structural cost savings programme in the past two years has helped it to achieve operational efficiency and stable earnings. For MHIL, the ARPOB reported a significant uptick of over 15% in FY23 to ₹67,400 as against ₹58,500 in FY22, which was mainly due to better case mix due to higher elective surgeries, annual price revision and improved payor mix with higher share of international patients.
MHIL, along with its network of hospitals, is further expected to generate higher ARPOBs on account of the market share it has in North India in complex treatments like bone marrow transplant (BTM), oncology, etc. The improvement in profitability margins is expected to be sustained in the long term with a gradual restoration in medical tourism, the management's focus on optimisation of higher ARPOB generating payor mix, and the cluster approach to maintaining its brand in metro cities.

Established and leading market position, driven by strong brand equity: MHIL started its operations in 2001 and has established itself as a leading market player in the Northern India region. MHIL operates 17 facilities in India (including five trusts). Among the 17 facilities together, MHIL has over 3,550 beds, of which 3,256 were operational in FY23, which operated at around 76% occupancy.
All the hospitals are National Accreditation Board for Hospitals and Healthcare Providers (NABH) and ISO-accredited and have also received the Joint Commission International (JCI) accreditation for three of its hospitals, which will help MHIL expand its international business further. Given its established presence, the company is poised to benefit from the buoyant outlook for the domestic healthcare industry.

Diversification across various specialities and improving channel mix: MHIL derives its revenues from several specialities, including cardiology, oncology, neurology, orthopaedic, etc, thus not depending upon any single speciality. Among the various specialties, oncology, cardiac, and neurology have demonstrated healthy growth during the past year.
MHIL also has a well-diversified channel mix, which includes cash, third-party administrators (TPAs) and corporates, institutions, referrals, and international business. MHIL derived 17% (PY: 20%) of its total FY23 revenue from the institutional/public sector undertaking (PSU) segment, which is a low-margin business, while the international segment was at 8.54% (PY: 5.54%) despite the COVID-related travel restrictions. The company plans to optimise its payor mix further by reducing the contribution from the PSU segment and focusing more on international business going forward.
The operations of the company are well supported by a team of experienced doctors, nurses, and paramedic staff. The doctors on board are well qualified and have relevant experience. The group (including three trusts) has around 1,800+ doctors, 6,400+ nurses, and 1,000+ consultant physicians on board, to service its patients, as on March 31, 2023.
The group has recently increased its focus on the pathology business, wherein, it owns 28 hospital-based labs, which have NABL certification. These offer 2,000+ tests through a network of over 430 partner-run collection centres and 22 company-owned centres as on March 31, 2023.

Key weaknesses

Exposure to regulatory and concentration risks: MHIL operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. Regulations such as the capping of stent prices and knee implants and stricter compliance norms have adversely impacted the margin of the company in the past. Any such future regulations may have an adverse impact on the group's profitability, and thus, will remain an important monitorable. MHIL believes in the cluster approach and has a significant number of beds in metros, as these metros witness a significant footfall of medical tourist, inherent advantages available in metros such as high per capita income, high insurance penetration and propensity to pay for high-end quaternary care facilities, availability of senior and statured clinical talent, leading to metros becoming regional hubs and higher health awareness. The MHIL network has a higher proportion of beds in metro cities as compared to other top players, which has helped the company clock higher ARPOBs than its peers. The group's concentration in metros like Delhi-NCR and Mumbai is also a significant credit risk, which makes it vulnerable to any adverse political, regulatory, or environmental event, which impacts the socio-economic situation of a particular geography.

Intense competition from other established players: Given the new wave of opportunities created by the COVID-19 pandemic, the rising self-awareness among masses and the increasing insurance penetration, there is high competition in the healthcare sector. However, comfort is drawn from the sizeable presence and established position of Max Hospitals. Going forward, MHIL's prospects will depend upon its ability to improve its profitability, continued scale-up of operations, and to manage the competitive pressures in the sector by diversifying into other geographies or build up on its asset-light adjacencies such as 'Max Labs'.

Liquidity: Strong

MHIL's liquidity profile stands strong, given its healthy cash accruals as against its moderate debt repayment. MHIL reported gross cash accruals (GCA) of around ₹1,091 crore in FY23 at consolidated level and ₹1,588 crore in FY23 at MHC Network leveland is expected to earn similar accruals in FY24, and going forward, against which the total scheduled debt repayment for FY24 stands at around ₹119 crore and in FY25 at ₹45 crore. Furthermore, the liquidity is supported by minimal utilisation of sanctioned working capital facility. MHIL, on a consolidated basis (including the partner healthcare facilities), also has a cash and bank balance of ₹1,659 crore as on June 30, 2023, as compared with ₹756 crore as on June 30, 2022.
MHIL has a capital allocation plan of close to doubling its bed capacity with almost 2,740 additional beds planned with a capex outlay of ₹4,439 crore over the next four to five years, in a phased manner. While the company has planned brownfield expansions other than routine capex in the near-to-medium term, it is projected to generate sufficient cash accruals, providing adequate headroom for the additional debt being raised. However, any significant debt-funded inorganic expansion that impacts the debt protection metrics will remain a key rating monitorable.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

The ESG profile of MHIL supports its already strong credit risk profile. The hospital sector has a low impact on the environment owing to its comparatively lesser water consumption and lower emission due to low energy intensive nature of operations of hospitals. Social impact is moderate because of its large workforce across hospitals and value chain partners. MHIL has continuously focused on mitigating its environmental and social risks.

Environmental: The company follows sustainable water management practices and follow the Reduce, Reuse, and Recycle (3R) principle and aims to curtail freshwater consumption by 45% by 2025. Established membrane bioreactor (MBR) based sewage treatment plants (STPs) at Max Vaishali, Max Shalimar Bagh and Max Mohali. Ultrafiltration (UF) and other advanced tertiary treatment techniques have been implemented within Sewage Treatment Plants (STPs) to render water suitable for non-potable reuse. Integrated various measures to enhance energy efficiency across our facilities, including the implementation of LED lighting, HVAC temperature control systems, day-night sensors, and the optimal utilisation of natural daylight.

Social: The company organises regular screening programmes for cervical, breast, and oral cancers both within and outside its premises to promote early detection and prevention. Outreach programmes are also organised of provide free examinations to those with limited healthcare access. It enables high-quality healthcare services to deprived and tribal communities, as well as to pilgrims in need. It supports to charitable hospitals ensuring the local community has access to necessary healthcare services. It is also involved in the Ni-kshay Mitra scheme of the Government of India, and has extended nutritional support to 2,300 individuals undergoing treatment for TB in the public healthcare system. Max Healthcare executed over 6,000 diverse community engagement activities in FY23.

Governance: The governance profile is marked by 72% of the board comprising independent directors and a strong investor grievance redressal cell.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hospital
Manufacturing Companies

[Policy on Withdrawal of Ratings]
[Factoring Linkages Parent Sub JV Group]

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare Services	Hospital

MHIL was incorporated in 2001, and operates a chain of multispecialty, tertiary, and primary healthcare facilities. Post-merger, MHIL has 17 facilities under its umbrella with over 3,550 bed capacity.
Max's hospital network consists of 14 owned and leased hospitals, three PHFs, viz, Max Saket East (Devki Devi Society), Max Smart Saket (Gujarmal Modi Society) and Max Patparganj (Balaji Society), and two Radiant hospitals being operated on an O&M basis, viz, BL Kapur (Lahore Hospital Society) and Nanavati. It has a dominant presence in the North India region. The company operates predominantly in the Delhi-NCR and Mumbai regions, with around 85% of its beds located in metro/Tier-I cities. Further, pursuant to the shareholders' approval in the extra ordinary general meeting dated June 20, 2022, SCHL was voluntarily liquidated and the entire business of SCHL was distributed to MHIL on a going concern basis with effect from close of business hour August 31, 2022.

MHIL Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	3,926	4563	1285
PBILDT	931	1241	337
PAT	605	1104	63.41
Overall gearing (times)	0.30	0.18	NA
Interest coverage (times)	9.23	14.79	17.40

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

MHC Network (MHIL Consolidated and partner healthcare facilities)

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	5,218	5,904	1,629
PBILDT	1,340	1,597	417
PAT	834	1,328	291

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook

Fund-based - LT-Term Loan		-	-	30/11/2031	241.01	CARE AA; Positive
Fund-based - LT-Working Capital Limits		-	-	-	130.00	CARE AA; Positive
Non-fund-based - ST-BG/LC		-	-	-	80.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	241.01	CARE AA; Positive	-	1)CARE AA; Stable (22-Nov-22) 2)CARE AA; Stable (05-Sep-22) 3)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)	1)CARE A (CW with Developing Implications) (04-Nov-20)
2	Fund-based - LT-Working Capital Limits	LT	130.00	CARE AA; Positive	-	1)CARE AA; Stable (22-Nov-22) 2)CARE AA; Stable (05-Sep-22) 3)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)	1)CARE A (CW with Developing Implications) (04-Nov-20)
3	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (22-Nov-22) 2)CARE A1+	1)CARE A1+ (07-Jul-21)	1)CARE A1 (CW with Developing Implications) (04-Nov-20)

						(05-Sep-22) 3)CARE A1+ (23-Aug-22)		

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital

and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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