Devki Devi Foundation (Revised)

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	40.00	CARE AA; Stable	Upgraded from CARE AA-; Stable
Long-term bank facilities@	7.08 (Reduced from 63.26)	CARE AA+ (CE); Stable	Upgraded from CARE AA (CE); Positive

Details of instruments/facilities in Annexure-1.
@The rating for long-term bank facilities (III) is based on credit enhancement in the form of unconditional and irrevocable corporate guarantee of Max Healthcare Institute Limited (MHIL).

Unsupported rating	**CARE AA [Upgraded from CARE AA-]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for credit enhanced debt

CARE Ratings Limited (CARE Ratings) has revised the long-term rating assigned to bank facilities of Devki Devi Foundation (DDF) from 'CARE AA (CE); Positive to CARE AA+ (CE); Stable'. The rating is based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Max Healthcare Institute Limited (MHIL).

Rationale and key rating drivers of DDF (Standalone and Unsupported)

CARE Ratings has revised the long-term rating assigned to bank facilities of DDF from 'CARE AA'. The upgrade in long-term rating factors in improvement in MHIL's credit profile and DDF has strong operational and financial linkages with this being in similar business and sharing a common brand name. Revision also duly factors in improvement in operational and financial performance of DDF backed by healthy average revenue per occupied bed (ARPOB) growth of 12.49% to ₹96,400 with steady occupancy level of 72% in FY24 and healthy capital structure. Ratings continue to draw comfort from DDF's strategic importance to MHIL and demonstrated track record of support in form of unsecured loans and security deposits, which is expected to continue going forward. DDF has a long-term medical service agreement (MSA) with MHIL valid till 2064, under which, DDF is allowed to use the brand name of 'Max Hospital' and MHIL provides medical services to the 320-bedded hospital that DDF manages and operates. CARE Ratings also notes that there is cash flow fungibility between PHFs (Partner Healthcare Facilities), MHIL and its subsidiaries, which further strengthens MHIL's profitability and cash flows on consolidated level.

Ratings also continue to derive strength from MHIL's established position in the healthcare sector across key market region including Delhi-NCR, Mumbai, and Lucknow among others, diversification across specialities, experienced team of doctors, and the significant brand equity of 'Max Healthcare'.

However, rating strengths continue to remain constrained by exposure towards regulated nature of healthcare industry and competition intensity in the region in which it operates.

Rationale and key rating drivers of MHIL (Corporate Guarantor)

CARE Ratings has upgraded the long-term rating assigned to bank facilities of Max Healthcare Institute Limited (MHIL) from 'CARE AA; Positive to CARE AA+; Stable' while reaffirming the short-term rating at 'CARE A1+'. Revision in rating factors in sustained improvement in operational and financial performance of MHIL (flagship entity) and improvement in all its subsidiaries, silos and PHFs. Improvement in financial risk profile was driven by healthy cash generation at max network level considering growth in each entity. On a consolidated basis, network revenue grew by 16% in FY24 (refers to April 01 to March 31) and ~19% in Q1FY25 (refers to April 01 to June 30) driven by higher inpatient volumes, changes in specialty mix towards higher value specialties leading to better ARPOB (reported at ₹75,800 in FY24 against ₹67,400 in FY23). MHIL has industry leading occupancy levels, which stood at 74.5% in fiscal 2024 against 76.4% in FY23 driven by improvement in in-patient volumes. Improvement in revenues and consequent benefits of operating leverage, resulted in healthy operating margin, which stood at 26.87% for MHC network FY24 against 27.05% in FY23 (MHIL consolidated stood at 28.23% in FY24 against 27.19% in FY23).

In the first quarter of FY25, consolidated revenue improved by 20% year-on-year driven by improvement in inpatient volumes owing to bed expansion, improvement in ARPOB, sustenance of occupancy levels on y-o-y basis.

The rating upgrade further factored in strong capital structure, healthy debt protection metrics and liquidity of MHIL and its PHF's. Net leverage at Q1FY25-end with net adjusted debt (including CG backed debt and leases) to profit before interest, lease rentals, depreciation, and taxation (PBILDT) stood at 0.53x despite two acquisitions done by MHIL in Lucknow with 550 beds and Nagpur with 200 beds for aggregate value of ₹1,405 crore funded through internal accruals and partially with long-term debt of ₹600 crore. CARE Ratings notes that MHIL also announced stake acquisition in Jaypee Healthcare Limited at enterprise value of ₹1,660 crore, which would lead to debt addition of ₹1,000 crore to network level being backed by MHIL's corporate guarantee.

Net leverage is expected to stay below 1.5x going forward despite MHIL has continuous plans to grow organically/inorganically in the medium term. Ramp up from these newly acquired hospitals and newly commissioned beds at Dwarka facility and other beds additions are underway will contribute to the company's overall improvement in operational efficiencies going forward,

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

considering increased ARPOBs, occupancy rates and higher proportion of superior surgical mix. At a consolidated and network level, MHIL's revenue is expected to grow by 20-25% in FY25 supported by bed additions, sustenance of occupancy levels at overall level and improvement in ARPOB due to change in case mix. Operating profitability is expected to sustain at 27-28% despite lower profitability initially in newly acquired hospitals, although pre-operative expenses towards bed additions at existing hospitals and commencement of the hospital at Dwarka might partly constrain profitability.

Ratings continue to derive strength from the company's established position in the healthcare sector across key market regions including Delhi-NCR, Mumbai, and Lucknow among others, diversification across specialities, experienced team of doctors, and the significant brand equity of 'Max Healthcare'.

However, rating strengths remained partially constrained by the company's exposure to the regulated healthcare industry, concentration risk as 75% bed capacity of Max network is in metro cities and more specifically in Delhi-NCR. However, the company is taking efforts to de-risk this through establishing presence/acquisitions in other locations such as Lucknow, Nagpur, and Mohali among others. Ratings also remained constrained by the intense competition from other established hospital brands. CARE Ratings also take note of significant expansion plans to double up the capacity over next five years through organic and inorganic route which will be largely funded by its internal accruals. However, the impact of debt-based acquisitions on MHIL's credit profile will remain a key monitorable going forward.

Rating sensitivities: Factors likely to lead to rating actions (MHIL- Corporate Guarantor)

Positive factors

- Increasing diversification across centres, geographies, or business segments leading to overall growth in topline without impacting its profitability margins and sustaining net leverage levels.

Negative factors

- Declining PBILTD profitability below 20% on a sustained basis.
- Government regulations adversely impacting the group's operational efficiencies.
- Significant debt-funded capex such that the Net adjusted Debt (including CG backed debt, group exposure and leases) to PBILDT increases above 1.8x on sustained basis.

Rating sensitivities: Factors likely to lead to rating actions (DDF)

Positive factors

- Significantly improving credit profile of MHIL and increasing contribution by DDF to MHIL bed share, absolute revenue and profitability.

Negative factors

- Deteriorating credit profile of MHIL.
- Deteriorating operational performance of DDF leading to subdued profitability at entity and MHIL network level.
- Cancelling MSA agreement with MHIL or withdrawal of support given by MHIL to DDF.

Analytical approach:

Credit Enhancement rating: CARE Ratings, while arriving at ratings of credit enhanced instruments of DDF, has analysed MHIL consolidated credit profile owing to unconditional and irrevocable corporate guarantee provided by MHIL to DDF.
For analysing MHIL, consolidated financials have been considered while factoring linkages and support with/to other partner healthcare facilities (PHFs) as there is 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 and subsidiaries. Analysis also factors in the debt, for which, corporate guarantee will be issued by MHIL for Jaypee Healthcare Limited (JHL). List of entities consolidated given in Annexure-6.
Factoring in support to and cash flow fungibility with below PHFs:

S. No.	Name of entity	Relation with MHIL
1.	Gujarmal Modi Hospital & Research Centre	Trust- Master Service Agreement
2.	Devki Devi Foundation	Trust- Master Service Agreement
3.	Balaji Medical & Diagnostics Research Centre	Trust- Master Service Agreement
4.	Vikrant Children's Foundation & Research Centre	Trust- Master Service Agreement
5.	Nirogi Charitable & Medical Research Trust	Trust- Master Service Agreement

Standalone and unsupported for DDF: Standalone. The rating factors strong management, operational and financial linkages with MHIL.

Outlook: Stable

MHIL: 'Stable' Outlook reflects CARE Rating's expectation that Max group will continue to benefit from its brand equity, improving ARPOBs, steady occupancy levels and ramp up from new hospitals, which will reflect through sustained improvement in operational and financial parameters of the group. CARE Ratings also believes that the group will sustain its debt metrics at comfortable level going forward also, while pursuing organic and inorganic growth.

DDF: CARE Ratings believe that DDF will continue to benefit in the near-to-medium term from its established presence in key operating market and healthy operating efficiencies. Comfortable debt metrics of the entity are likely to sustain in the medium term and will continue to get operational and financial support from MHIL.

Detailed description of key rating drivers (MHIL Corporate Guarantor):

Key Strengths

Sound operational efficiencies boosting profitability margins

With MHIL's hospital portfolio being matured in the last few years, the group has been demonstrating sustained improvement in its operational parameters as indicated by growing ARPOBs, sustained healthy occupancy rates, average length of stay (ALOS), and inpatient-outpatient registrations among others. MHIL demonstrated superior execution across its hospitals, Max Lab, and Max Home segments, supported by a growing number of patients and improved realisations. Its presence in premium markets, mainly, Delhi-NCR, Mumbai and now Lucknow and Nagpur, and its superior case mix leads to a higher ARPOB compared to its industry peers. Occupancy rates are also industry leading and stood steady ~74.5% in FY24 compared to 76.4% in FY23, while ARPOB reported a significant uptick of over 12% in FY24 to ₹75,800 (PY: ₹67,400), which was mainly driven by price revisions, increased traction from international medical tourism, improved share of oncology, high-end and increased robotic surgeries and increased OPD footfalls among others.
At a consolidated level, MHIL has been demonstrating healthy revenue growth in the last five years continued through FY24 with a strong revenue growth of 19.17% to ₹5,437 crore compared to ₹4,562.60 crore in FY23.
Max Healthcare network (MHC Network, MHIL including all its subsidiaries, MHFs and PHFs) recorded total operating income (TOI) and earnings before interest, taxation, depreciation, and amortisation (EBIDTA) of ₹6,849 crore and ₹1,840 crore in FY24 against ₹5,904 crore and ₹1,597 crore in FY23, respectively. TOI at the network level in Q1FY24 stood at ₹1,935 crore compared to ₹1629 crore in Q1FY24, registering growth of 18.78% y-o-y with PBILDT of ₹479 crore.

MHIL and its network of hospitals are further expected to generate higher ARPOBs and profitability margins considering the substantial market share it has in north India in complex treatments such as bone marrow transplant (BTM), and oncology among others ramp up from three new hospitals (Lucknow, Nagpur and Dwarka) and with the management's focus on optimisation of higher ARPOB generating payor mix, surgical mix and cluster approach to maintaining its brand in metro cities.

Strong financial risk profile with healthy capital structure and debt coverage indicators expected to sustain after considering significant capex as well

MHIL has a strong capital structure with the net worth base of ₹5,508 crore against total debt (including CG backed debt and leases) of ₹1,800 crore as on March 31, 2024 (PY: ₹1081 crore). In FY24, the company availed new term loan of ₹600 crore under Starlit Medical Centre Private Limited, which is repayable in 16 structured quarterly instalments starting from June 2025. Though debt coverage indicators also remained healthy with the net adjusted debt to PBILDT of 0.53x as on March 31, 2024, slightly moderated from negative 0.24x as on March 31, 2023, mainly owing to debt addition in Starlit for acquisition of Lucknow hospital. As on March 31, 2024, total debt (excluding leases) stood at ₹1,832 crore (including lease CG backed debt) (PY: ₹1025 crore) at the network level, against which, there is ample liquidity available for ₹1,144 crore. In 2025, MHIL has also announced stake acquisition in Jaypee Healthcare Limited at enterprise value of ₹1,660 crore, which would lead to debt addition of ₹1,000 crore to network level being backed by MHIL's corporate guarantee.

At MHC network, three 'PHFs' operate under a long-term master service agreement with MHIL. In FY24, MHIL up streamed ₹400 crore (PY: ₹289 crore) from these societies for its services and going forward, these societies are expected to support MHIL and other societies within MHC network for their capex requirements demonstrating strong cash flow fungibility at network level.
The group has a planned brownfield expansion capex for addition of close to 2,400 beds in next three years through FY27 at MHC network level with a total capital outlay of ₹4,600-4,700 crore (excluding JHL and maintenance capex) spanning over three years, these beds addition will happen largely in the newly acquired Lucknow hospital, under development PHFs Vikrant Saket and Nirogi Patparganj and other societies Balabhai Nanavati and Gujarmal Modi Society. MHIL's asset light venture in Dwarka also started operations in CY25, while another hospital is being developed in Mohali on asset light model, which is expected to be completed in the next 2-3 years.

However, CARE Ratings draws comfort from adequate capital availability through generation of strong accruals, cash lying at network level plus underleveraged balance sheet to further build the portfolio as the management actively looks out for key inorganic routes, including recently acquired JHL and significant debt-funded capex or inorganic growth through more such acquisitions and net debt to PBILDT is expected to remain below 1.5x. Significant debt-funded acquisitions on MHIL's credit profile will remain a key monitorable going forward.

Established market position from strong brand equity in premium market regions such as Delhi-NCR and Mumbai
MHIL has a strong brand equity in North India as it operates 20 hospitals and medical centres (PY: 17) as on June 30, 2024. Of this, 13 facilities (hospitals and medical centres) were in Delhi and NCR and the others in Mohali, Punjab (2), Bathinda, Punjab (1), Dehradun, Uttarakhand (1), Lucknow, UP (1), Nagpur (1) and Mumbai (1). Delhi/NCR contributes over 60% the company's revenue and due to being largely operational in metro cities, it is able to earn industry-leading ARPOBs. MHIL is building up more bed capacity and expanding geographical footprint through recently acquired three entities with significant growth potential in revenue and margins with increasing surgical business.
All 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 helps MHIL expand its international business further.

Diversification across specialities and improving channel mix
MHIL derives its revenues from several specialities, including cardiology, oncology, neurology, and orthopaedic among others, not depending on a single speciality. Among specialties, oncology, cardiac, neurology, Gynac, Paediatric, ENT, and Opthal among others have demonstrated healthy growth in the last year. In FY24, MHIL performed 13,150 oncology surgeries, 46,500 cardiac surgeries and 10,450 cardiac surgeries among other complex procedures, which are expected to surpass in FY25. These surgeries enabled MHIL to achieve higher profitability, as these are high cost and high margin procedures. MHIL also has a well-diversified channel mix, which includes cash, third-party administrators (TPAs) and corporates, institutions, referrals, and international business. MHIL derived 18.06% (PY: 17.27%) of its total FY24 revenue from the institutional/public sector undertaking (PSU) segment, which is a low-margin business, while the international segment was 9.14% (PY: 8.54%). The company plans to optimise its payor mix further by reducing contribution from the PSU segment and focusing more on international business going forward. The group (including three trusts) has ~1,800+ doctors, 6,500+ nurses, and 1,100+ consultant physicians on board, to service its patients, as on March 31, 2024. The group also has capital light adjacencies through Max Home and Max Labs, which provides homecare services and non-captive pathology and have NABL certification. These offers 2,000+ tests through a network of over 525+ partner-run collection centres (PY: 430) and 24 company-owned centres (PY: 22) across 41 cities as on March 31, 2024. Max Home contributed revenue of ₹172 crore in FY24.

Key weaknesses

Exposure to regulatory and concentration risks
MHIL operates in a regulated industry that witnessed continuous regulatory intervention in the last couple of years. Regulations such as capping stent prices and knee implants and stricter compliance norms have adversely impacted the company's margin in the past. Such future regulations may have an adverse impact on the group's profitability, and will remain an important monitorable. The directive by Supreme court for fixation of standardised prices, which came in February 2024 for hospitals is not likely to have sustained adverse impact on operations of MHIL, however, remains a key monitorable in case action is taken.
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. MHIL network has a higher proportion of beds in metro cities compared to other top players, which helped clock higher ARPOBs than its peers.
The group's concentration in metros such as Delhi-NCR and Mumbai is also a significant credit risk, which makes it vulnerable to adverse political, regulatory, or environmental event, which impacts socio-economic situation of a particular geography. However, recent efforts have been taken by to expand geographically presence in other states. MHIL acquired Starlit and Alexis, in Lucknow and Nagpur with 550 and 200, beds respectively. MHIL expects to refurbish present infrastructure of Lucknow hospital and further add 140 beds by end of CY25.

Intense competition from other established players
With rising preference towards brands, higher quality and organised diagnostics and self-awareness among masses with increasing insurance penetration, there is a high competition in the healthcare sector from other established brands such as Fortis, Apollo, and Medanta among others. However, comfort is drawn from the sizeable presence of Max as a brand and footprint with established position of its hospitals. Going forward, MHIL's prospects will depend upon its ability to improve its profitability, continued scale-up of operations, ramp-up of new and acquired units and to manage competitive pressures in the sector by further diversifying into other geographies or expand through asset-light adjacencies such as 'Max Labs', and Muthoot Dwarka among others.

Liquidity: Strong

MHIL's liquidity position stands strong given its healthy gross cash accruals (GCAs) of ₹1,339 crore in FY24 and expected to be over ₹1800 crore in the medium term against moderate debt repayment obligations (including lease liabilities) of ₹50 crore in FY24, ₹215 crore in FY25 and ₹419 crore in FY26 (including estimated repayment of JHL debt). Cash accruals generated by PHFs is close to ₹320 crore in FY24, against which, debt repayments are nominal ~₹3-5 crore yearly. Debt repaid at MHIL consol level in Q1FY25 is close to ₹19.78 crores. Liquidity is further aided by free cash and cash equivalents of ₹1,157 crore as on June 30, 2024, in MHIL consol and ₹1,346 crore in MHC network with sanctioned working capital limit of ₹345.63 crore, against which, utilisation is nominal of ₹103.74 crore, leaving sufficient buffer for exigencies. Cash accruals of MHC network in the coming years will be partially applied towards capex commitments in the next three years through FY27 involving total outlay of close to ₹6,000 crore (including PHFs, potential capex on JHL and maintenance capex) for further addition of 2,400 beds in 2-3 years through brownfield expansion.

Environment, social, and governance (ESG) risks: MHIL's ESG profile 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 measures to enhance energy efficiency across our facilities, including implementation of LED lighting, HVAC temperature control systems, day-night sensors, and optimal utilisation of natural daylight.

Social:

- The company organises regular screening programmes for cervical, breast, and oral cancers within and outside its premises to promote early detection and prevention. Outreach programmes are also organised to provide free examinations to those with limited healthcare access.
- Enables high-quality healthcare services to deprived and tribal communities, and to pilgrims in need. It supports to charitable hospitals and contributed towards extension of Swami Vivekanand Charitable hospital at Dharmawala, Dehradun, ensuring the local community has access to necessary healthcare services.
- It is also involved in the 'Nikshay 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.

Governance:

- A comprehensive set of policies have been implemented to guide employees, stakeholders, and subsidiaries in their conduct. These policies cover a wide range of critical areas, including ethical practices, anti-corruption measures, prevention of insider trading, workplace safety, and more. As on March 31, 2024, the company's board had eight Directors comprising one Executive Director, two Non-Executive Directors and five Independent Directors including one Independent Woman Director.

Detailed description of key rating drivers (DDF)

Key strengths

Strategic importance and strong operational linkages of DDF with MHIL

DDF operates one matured hospital property, 'Max Super Speciality Hospital, Saket – East Block' in New Delhi, which is a 320-bed facility and contributed ~12% and 7% to MHIL's network level revenue and profit before interest, lease rentals, depreciation, and taxation (PBILDT) in FY24 (FY23: 13% and 7%, respectively).

Under the long-term master service agreement (MSA) valid till 2064, DDF continues to derive benefit from MHIL's experienced team of doctors with expertise in specialities and established brand positioning of Max Healthcare. DDF is strategically important for MHIL to maintain its market presence in key market region Delhi-NCR. DDF reported higher ARPOB of ₹96,400 (PY: ₹85,700) on gross revenue basis and occupancy of 72% in FY24 (PY: 74%). Operationally, DDF is well integrated with MHIL, with raw material procurement, and finance functions among others being centrally managed. MHIL intends to extend the kind of support DDF may require in the future for its expansion and operational purposes. CARE Ratings believes DDF would remain strategically and operationally integral to MHIL's growth plans.

Strong financial risk profile due to sound operational efficiencies, healthy capital structure and debt coverage indicators

At a consolidated level, MHIL has been demonstrating healthy revenue growth in the last five years continued through FY24 with a strong revenue growth of 19.17% to ₹5,437 crore compared to ₹4,562.60 crore in FY23 due to steady occupancy rates at ~74.5% in FY24 compared to 76.4% in FY23 and healthy ARPOB growth of over 12% in FY24 to ₹75,800 (PY: ₹67,400), which was mainly driven by price revisions, increased traction from medical tourism, improved share of oncology and increased OPD footfalls among others.

At network level, including all its subsidiaries and PHFs, MHIL recorded TOI and EBIDTA of ₹6,849 crore and ₹1,840 crore in FY24against ₹5,904 crore and ₹1,597 crore in FY23, respectively. At a network level in Q1FY24, TOI stood at ₹1,935 crore compared to ₹1629 crore in Q1FY24 registering a growth of 18.78% y-o-y with PBILDT of ₹479 crore.

MHIL, and its network of hospitals, are further expected to generate higher ARPOBs and profitability margins considering the substantial market share it has in North India in complex treatments such as bone marrow transplant (BTM), and oncology among others ramp up from three new hospitals (Lucknow, Nagpur and Dwarka) and with the management's focus on optimisation of higher ARPOB generating payor mix, surgical mix and cluster approach to maintaining its brand in metro cities.

MHIL has a robust capital structure and strong debt coverage indicators with net debt to PBILDT sustaining at 0.53x as on March 31, 2024. Net debt to PBILDT is expected to remain below 1.5x at MHIL level, while the management has aggressive plans to pursue organic and in-organic growth in the medium term.

At a standalone level, DDF reported a revenue growth of 9% to ₹806.53 crore with PBILDT margin of 15.14% in FY24 (PY: 16.02%). The capital structure is strong as on March 31, 2024, the total outstanding debt of ₹54.60 crore significantly reduced from ₹143.58 crore as on March 31, 2023, overall gearing stood at 0.26x against 1.35x in the previous year, while total debt to PBILDT improved to 0.45x as on March 31, 2024, compared to 1.21x as on March 31, 2023.

Established market position driven by strong brand equity in premium markets such as Delhi-NCR and Mumbai
MHIL including its subsidiaries and societies commands a leading market position particularly in the north India region, as it operates 20 hospitals and medical centres (PY: 17) as on March 31, 2024. Of this, 13 facilities (hospitals and medical centres) were in Delhi & NCR and the others in Mohali, Punjab (2), Bathinda, Punjab (1), Dehradun, Uttarakhand (1), Lucknow, UP (1), Nagpur (1) and Mumbai (1). Delhi alone contributes over 60% of the group. DDF's association with Max as a brand will help the company to command higher ARPOB and increased footfalls, which shall lead to better occupancy levels driving revenue and margin growth forward.

Diversification across specialities and improving channel mix
MHIL, including all its network hospitals, derive revenues from several specialities, including cardiology, oncology, neurology, and orthopaedic among others, not depending upon single speciality. Among specialties, oncology, cardiac, neurology, Gynac, Paediatric, ENT, and Opthal among others demonstrated healthy growth in the last year. In FY24, MHIL performed 13,150 oncology surgeries, 46,500 cardiac surgeries and 10,450 cardiac surgeries among other complex procedures, which are expected to surpass in FY25. These surgeries enabled MHIL and all its subsidiaries and PHF's to achieve higher profitability as these are high cost and high margin procedures. MHIL also has a well-diversified channel mix, which includes cash, third-party administrators (TPAs) and corporates, institutions, referrals, and international business. DDF also has diversified revenue streams across specialities including cardiology, oncology, neurology, and orthopaedics among others, not depending on a single specialty. MHIL derived 18.06% (PY: 17.27%) of its total FY24 revenue from the institutional/public sector undertaking (PSU) segment, which is a low-margin business, while the international segment was 9.14% (PY: 8.54%). The company plans to optimise its payor mix further by reducing the contribution from PSU segment and focusing more on international business going forward. The group (including three trusts) has ~1,800+ doctors, 6,500+ nurses, and 1,100+ consultant physicians on board, to service its patients, as on March 31, 2024. The group also has capital light adjacencies through Max Home and Max Labs, which provides homecare services and non-captive pathology and have NABL certification.

Key weaknesses

Exposure to regulatory risk and concentration risk
MHIL and network entities operate in a regulated industry that witnessed continuous regulatory intervention in the last couple of years. Regulations such as the capping of stent prices and knee implants and stricter compliance norms have adversely impacted the company's margin in the past. Such future regulations may have an adverse impact on the group's profitability, and will remain an important monitorable. Further, the directive by Supreme court for fixation of standardised prices, which came in February 2024 for hospitals is not likely to have sustained adverse impact on operations of MHIL, however remains a key monitorable in case action is taken.
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. MHIL network has a higher proportion of beds in metro cities compared to other top players, which helped clock higher ARPOBs than its peers.
The group's concentration in metros such as Delhi-NCR and Mumbai is also a significant credit risk, making it vulnerable to adverse political, regulatory, or environmental event, which impacts the socio-economic situation of a particular geography. However, recent efforts have been taken by the company to expand the geographically presence in other states as well, and in this direction, MHIL has acquired Starlit and Alexis, which are in Lucknow and Nagpur with 550 and 200 beds, respectively. MHIL expects to refurbish the present infrastructure of Lucknow hospital and further add 140 beds by the end of 2025.
DDF operates a single hospital in New Delhi region and therefore cash flows remain exposed to adverse events or challenges related to that location, which may have an impact on its overall financial position.

Intense competition from other established players
With rising preference towards brands, higher quality and organised diagnostics and self-awareness among masses with increasing insurance penetration, there is a high competition in the healthcare sector from other established brands such as Fortis, Apollo, and Medanta among others. However, comfort is drawn from the sizeable presence of Max as a brand and footprint with established position of its hospitals. Going forward, MHIL's and its network entities prospects will depend on its ability to improve its profitability, continued scale-up of operations, ramp-up of new and acquired units and to manage the competitive pressures in the sector by further diversifying into other geographies or expand through asset-light adjacencies such as 'Max Labs', and Muthoot Dwarka among others.

Liquidity: Strong

DDF's liquidity profile is strong marked by free cash and bank balance of ₹68.4 crore as on June 30, 2024, and gross cash accrual of ₹123 crore as on March 31, 2024, against nominal debt repayments of ₹3.98 crore and ₹4.45 crore in FY25 and FY26 respectively. Liquidity is supported by negligible utilisation of sanctioned working capital facility of ₹20 crore (o/s ₹1.30 crore as on June 30, 2024) leaving adequate buffer for future exigencies. In absence of debt funded capex plans in the near future will lead to further improvement in liquidity position.

DDF's liquidity profile is supported with MHIL's strong liquidity position given its healthy GCA of ₹1,339 crore in FY24 and expected to be over ₹1,800 crore in the medium term against moderate debt repayment obligations (including lease liabilities) of ₹50 crore in FY24, ₹215 crore in FY25, and ₹419 crore in FY26 (including estimated repayment of JHL debt). Cash accruals generated by PHFs is close to ₹320 crore in FY24, against which, debt repayments are nominal ~₹3-5 crore yearly. Debt repaid at MHIL (consol) level in Q1FY25 is close to ₹19.78 crore. Liquidity is further aided by free cash and cash equivalents of ₹1,157 crore as on June 30, 2024, in MHIL (consol) and ₹1,346 crore in MHC network with sanctioned working capital limit of ₹345.63 crore, against which, utilisation is nominal of ₹103.74 crore, leaving sufficient buffer for exigencies. Cash accruals of MHC network in coming years will be partially applied towards capex commitments in the next three years through FY27 involving total outlay of close to ₹6,000 crore (including PHFs, potential capex on JHL, and maintenance capex) for further addition of 2,400 beds over 2-3 years through brownfield expansion.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital
Financial Ratios – Non financial Sector
Factoring Linkages Parent Sub JV Group
Consolidation
Rating Credit Enhanced Debt

Adequacy of credit enhancement structure:

Guarantee provided by MHIL is unconditional, irrevocable and legally enforceable and binding on guarantor covering the entire tenor of the bank facility.

About Credit Enhancement Provider

MHIL incorporated in 2001 and is primarily engaged in providing healthcare services. Max hospital network consists of 20 multispecialty hospitals / medical centres, super-specialty hospitals and primary care clinics as on June 30, 2024, (PY: 17 hospitals) including three partner healthcare facilities (PHFs), Max Saket East (Devki Devi Society), Max Smart Saket (Gujarmal Modi Society) and Max Patparganj (Balaji Society), two hospitals being operated on an O&M basis, viz, BL Kapur (Lahore Hospital Society) and Nanavati and Dwarka Hospital which is an asset light venture. Of this, 13 facilities (hospitals and medical centres) were in Delhi and NCR and the others in Mohali, Punjab (2), Bathinda, Punjab (1), Dehradun, Uttarakhand (1), Lucknow, UP (1), Nagpur (1) and Mumbai (1). MHIL network has approx. 4,300 operational beds capacity as on June 30, 2024 (including Muthoot Dwarka) predominantly operating in Delhi-NCR and Mumbai regions.

Brief Financials-MHIL Consol (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	4,562.60	5,437.14	1,542.95
PBILDT	1,240.46	1,534.95	387.41
PAT	1,103.51	1,057.64	236.27
Overall gearing (times)	0.20	0.29	0.21
Interest coverage (times)	14.80	21.44	16.22

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials-MHC Network (₹ crore) *	March 31, 2023 (UA)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	5,904	6,849	1,935
PBILDT	1,597	1,840	479
PAT	1,588	1,278	295

*Including three PHFs (Devki Devi Foundation, Gujarmal Modi Hospital & Research Centre and Balaji Medical & Diagnostics Research Centre)
UA: Unaudited; Note: these are latest available financial results

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

Registered under Society Registration Act XXI of 1860, DDF started its healthcare facilities in 2005 by launching its tertiary care hospital with specialisation in cardiology. It operates a 320-beds hospital in Saket (East Block), New Delhi. MHIL has a medical service agreement signed with DDF under which MHIL has the right to provide medical services in this hospital for specialties and DDF is allowed to use brand name of Max Hospital.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	741.03	806.53	223
PBILDT	118.68	122.10	41
PAT	91.69	101.79	31
Overall gearing (times)	1.12	0.26	Not available
Interest coverage (times)	4.06	4.95	

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	31/03/2027	7.08	CARE AA+ (CE); Stable
Non-fund-based - LT-BG/LC		-	-	-	20.00	CARE AA; Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE AA

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	7.08	CARE AA+ (CE); Stable	-	1)CARE AA (CE); Positive (09-Oct-23)	1)CARE AA (CE); Stable (23-Aug-22)	1)CARE AA- (CE); Stable (19-Aug-21) 2)CARE AA- (CE); Stable (07-Jul-21)
2	Fund-based - LT-Cash Credit	LT	20.00	CARE AA; Stable	-	1)CARE AA-; Stable (09-Oct-23)	1)CARE AA-; Stable (23-Aug-22)	1)CARE AA- (CE); Stable (19-Aug-21) 2)CARE AA- (CE); Stable (07-Jul-21)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE AA	-	1)CARE AA- (09-Oct-23)	1)CARE AA- (23-Aug-22)	1)CARE A- (19-Aug-21) 2)CARE A- (07-Jul-21)
4	Non-fund-based - LT-BG/LC	LT	20.00	CARE AA; Stable	-	1)CARE AA-; Stable (09-Oct-23)	-	-

LT: Long term

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
NA	
B. Non-financial covenants	
Any material changes in the management set up to be done with lender's prior approval	

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-BG/LC	Simple
4	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated (MHIL)

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Hometrail Buildtech Private Limited	Full	Subsidiary of MHIL
2.	Crosslay Remedies Limited	Full	Subsidiary of MHIL
3.	Alps Hospital Limited	Full	Subsidiary of MHIL
4.	Max Hospitals and Allied Services Limited	Full	Subsidiary of MHIL
5.	Max Lab Limited	Full	Subsidiary of MHIL
6.	Eqova Healthcare Private Limited	Full	Subsidiary of MHIL
7.	Max Healthcare FZ - LLC, Dubai	Full	Subsidiary of MHIL
8.	ET Planners Private Limited	Full	Step down subsidiary of MHIL
9.	MHC Global Healthcare (Nigeria) Limited	Full	Subsidiary of MHIL
10.	Alexis Multi-Speciality Hospital Pvt Ltd	Full	Subsidiary of MHIL
11.	Starlit Medical Centre Private Limited	Full	Step down subsidiary of MHIL
12.	Dr. B.L. Kapur Memorial Hospital (Lahore Hospital Society)	Full	Trust- Operation and management agreement
13.	Dr. Balabhai Nanavati	Full	Trust- Operation and management agreement
14.	Muthoot Max Hospital Dwarka	Proportionate	Trust- Operation and management agreement

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sabyasachi Majumdar Senior Director **CARE Ratings Limited** Phone: 91-120-4452006 E-mail: sabyasachi.majumdar@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Bhawna Rustagi Assistant Director **CARE Ratings Limited** Phone: 91-011-45333200 E-mail: bhawna.rustagi@careedge.in

About us:

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