Max Healthcare Institute Limited

November 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	472.13 (Enhanced from 419.23)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**522.13** **(₹ Five hundred twenty-two crore and thirteen lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the long-term 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 FY22 (refers to the period from April 01 to March 31), which continued in H1FY23 (refers to the period from April 01 to Sep 30). The revenue growth was backed by an improvement across the in-patient and out-patient volumes as well as the average revenue per occupied bed (ARPOB), indicating the company's strengthening market position. The margin expansion was supported by improvement in the company's ARPOB, occupancy and healthy ramp-up in surgical procedures post the pandemic, in addition to various cost-reduction and efficiency measures undertaken by the company. CARE Ratings Limited (CARE Ratings) expects the performance to sustain on the back of the company's strong market position across key metro cities and due to the cost-containment measures adopted by the management over the past two years. Further, CARE notes that 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.

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. 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 ability of MHIL to be able to complete the capex 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. Its management has guided that a mix of brownfield, greenfield, and inorganic acquisition opportunities will be undertaken by MHIL to expand further, but the net debt/profit before interest, lease rentals, depreciation and taxation (PBILDT) will not exceed 2x to 2.5x. CARE Ratings will continue to monitor the developments and expansion plans of MHIL in this regard.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increased diversification across centres, geographies, or business segments, leading to overall growth in the top-line without any impact on its profitability margins.
- Improvement in the total debt (TD)/PBILDT below 1x on a sustained basis, going forward.

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

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in profitability below 18% on a sustained basis.
- Significant debt-funded capex or acquisition plans such that the TD/PBILDT increases above 2.5x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Sound operational efficiencies and long-term structural cost-savings 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 75% in FY22 versus 65% in FY21. 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. Post the sharp fall in occupancy rate at the start of the first wave of COVID-19 at the end of March 2020, the occupancy steadily rose back to its peak levels in Q3FY21 and has remained consistently at 70%+ levels month-on-month, excepting a few months where it fell due to the Omicron wave. During H1FY23, the occupancy stood at 76%.

MHIL's focus on cost-saving initiatives and long-term structural cost savings programme helped it to achieve operational efficiency and stable earnings. For MHIL consolidated (excluding three trusts), the ARPOB reported a significant uptick of over 15% in FY22 to ₹58,500, which was mainly due to people opting for a higher number of elective surgeries as COVID-19 cases receded. The drop in COVID occupancy enabled a ramp-up in higher ARPOB, as a result of which the ARPOB increased to around ₹63,500 in Q4 from ₹51,500 in Q1. Furthermore, domestic medical tourism also showed signs of recovery and international patient footfalls normalised to around 90% of pre-COVID levels in March 2022, post-resumption of regular flights. However, FY22 revenue from international medical tourism is still low, at around 59% of FY20 levels, mainly due to travel restrictions in the initial part of the fiscal.

MHIL reported an improvement in its PBILDT margin, which stood at 23.71% for FY22 as compared with 17.05% in FY21 on account of operating leverage on a quarterly basis. The company managed to report a PBILDT margin in the range of 25% in Q1FY22 and Q1FY23 and the PBILDT margin for H1FY23 stood at 27%.

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.

Healthy financial risk profile, characterised by growth in income, profit, and strong capital structure: At a consolidated level, MHIL witnessed a growth of 56% in its TOI in FY22 to ₹3,925.67 crore as compared with ₹2,522.55 crore in FY21, which was driven by increasing health insurance penetration, better patient mix, increasing ARPOB, and growth in medical tourism. The MHC network (inclusive of partner healthcare facilities) recorded a TOI and profit-after-tax (PAT) of ₹5,218 crore and ₹837 crore, respectively, in FY22 as against ₹3,629 crore and a loss of ₹95 crore, respectively, in FY21.

The operating PBILDT registered a growth of 116% y-o-y at a consolidated level. The strong revenue growth was driven by the increasing health insurance penetration, better patient mix, increasing ARPOB, and growth in medical tourism. The earnings before interest, taxes, depreciation, and amortisation (EBITDA) growth was faster than revenue growth, driven by operating leverage. Similar trends were noted for MHC network as a whole as well. In line with MHIL's strategy to improve the payor mix in FY22, the bed share of institutional patients was reduced to 31% versus 34% in the previous year FY21 by way of the dis-empanelment of a few institutional accounts at some of their network facilities. This process could have been accelerated if it was not for the intervening periods of low occupancy during COVID to non-COVID switchovers.

The cost structure for MHIL has significantly improved over the past two years, with the management continuously taking cost-optimisation measures with a few being driven also due to COVID. This is driven by structural cost optimisation: Power and fuel, lab investigations, corporate overheads, eliminating waste and discretionary spends, etc, and COVID-led savings: Travel and conveyance, advertising, etc.

The debt coverage indicators of the company also remained strong. The net adjusted debt (factoring in the guaranteed debt) to PBILDT improved to 0.93x as on March 31, 2022, from 2.16x as on March 31, 2021, on account of the reduced debt outstanding and healthy cash accruals.

The routine capex spent during the year was higher due to the catch up for FY21 replacements. The investment of ₹671 crore in inorganic growth initiatives and brownfield expansions was totally funded by internal accruals. Overall, the net debt at the MHC network level and even at the MHIL consolidated has reduced. MHIL has a strong focus on building capacity post-integration of Dr BL Kapur Memorial Hospital, Delhi (BLK) and Dr Balabhai Nanavati Hospital, Mumbai (Nanavati) having done four expansions and acquisitions in FY22. As per the management, they have adequate capital available through internal accruals plus under-leveraged 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 as well and has guided a net debt/PBILDT of 2-2.5x at the network level.

Any debt-funded capex or inorganic growth through acquisitions, etc, and its impact on the debt profile will be a key monitorable going forward.

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 3,400 beds, of which 3,271 were operational in Q4FY22, which operated at around 68% occupancy. The FY22 occupancy turned out to be 75%.

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 20% (PY: 23%) of its total FY22 revenue from the institutional/public sector undertaking (PSU) segment, which is a low-margin business, while the international segment was at 5.54% (PY: 3.91%) 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 2,200+ doctors, 5,800+ nurses, and 1,000+ consultant physicians on board, to service its patients, as on March 31, 2022.

The group has recently increased its focus on the pathology business, wherein, it owns 28 hospital-based labs, which have NABL certification. These offer 1,900+ tests through a network of more than 300 partner-run collection centres and 25 company-owned centres as on March 31, 2022.

Resourceful promoter group and experienced management team: Abhay Soi is the Promoter, Chairman and Managing Director of MHIL. Before the acquisition and merger with MHIL, he was the promoter, chairman and managing director of Radiant Life Care Private Limited (RLCPL). He forayed into the healthcare space in 2010 and is credited for successfully revamping RLCPL's healthcare facilities, ie, BLK and Nanavati. Both of these hospitals have now come under the MHIL umbrella post-merger. Soi has experience in financial restructuring business and exposure of various industries like mining, financial services, textiles, specialty chemicals, etc. KKR had invested around ₹2,000 crore in erstwhile Radiant for the acquisition of MHIL. KKR & Co Inc (formerly known as Kohlberg Kravis Roberts & Co and KKR & Co LP), which is an American global investment company that manages multiple alternative asset classes, including energy, infrastructure, real estate, credit, etc, and its strategic partners, through Kayak Investments Holding Pte Ltd, initially held a 48.64% in MHIL as on March 31, 2021, which it has been selling gradually in FY22 through various block deals. It made complete exit from MHIL on August 17, 2022, by selling the remaining balance stake of 27.54% shareholding in MHIL through a block deal.

Industry outlook

The Indian healthcare delivery industry has been growing at a CAGR of about 12-14% over FY16-20 and is estimated to reach about ₹7.3 lakh crore by FY24E. Post abatement of COVID, the industry has witnessed a sharp recovery in top-line, driven by higher occupancy, the release of deferred non-COVID surgeries, higher ARPOBs, and increased bed capacity of hospital chains.

Moving forward, prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry, and increasing public and private healthcare spends are expected to aid the Indian healthcare industry. Looking from the macro perspective, India still lags other developed and emerging economies in healthcare infrastructure, for instance, India only has 12 beds per 10,000 people as against the global median of 29 beds. In addition to the availability of this huge domestic opportunity, India has significant opportunity of growth from medical tourism as well. Treatments mostly sought after in India are high-end treatments pertaining to complex ailments like heart surgery, knee implant, cosmetic surgery and dental care, due to the low costs of treatments in India. This will augur well for a player like MHIL, which has the majority of its hospitals located in the cities of Delhi and Mumbai, which have good international connectivity.

To summarise, India is a large and hugely under-penetrated market having attractive dynamics and strong growth prospects, driven by demographic shifts, changing consumption patterns, increasing affordability, favourable regulatory environment, and medical tourism. The private sector players are well positioned to leverage the opportunity, given the low contribution of government spending. Improved cash accruals and cautious pattern of capex funding with adequate support in the form of equity infusion are expected to benefit the credit risk profiles of the entities operating in the healthcare industry, thus keeping the outlook of the industry stable.

Key rating 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 ₹844 crore in FY22 and is expected to earn similar accruals in FY23, and going forward, against which the total scheduled debt repayment for FY23 stands at around ₹18 crore and in FY24 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 ₹1,000 crore as on September 30, 2022, 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 2,840 additional beds planned with a capex outlay of ₹3,500 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.

Analytical approach: Consolidated

Factoring in the support to be extended to its three partner healthcare facilities (PHFs), namely, Devki Devi Foundation, Balaji Medical and Diagnostics Research Centre, and Gujarmal Modi Society, operating under the MHC network by way of loans and advances and issue of unconditional and irrevocable corporate guarantee of MHIL.

The entities being consolidated are as follows:

Name of Entity	% 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 and Allied Services Ltd (MHASL)[@]	100%	Wholly-owned subsidiary
Max Labs Limited	100%	Wholly-owned subsidiary
ET Planners Private Limited	100% (through AHL)	Wholly-owned step-down subsidiary
Eqova Healthcare Private Limited	26% - Shares 74% - Option Rights	Subsidiary
Max Healthcare FZ LLC	100%	Wholly-owned subsidiary
Lahore Hospital Society (LHS)[*]	Trust	Operation and management agreement
Dr Balabhai Nanavati Hospital (BNH)[*]	Trust	Operation and management agreement

[@]Formerly known as Radiant Life Care Mumbai Private Limited.

[*]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 BLK and Nanavati are consolidated due to the presence of control (Auditor Deloitte Haskins & Sells LLP). Such entities have been considered as deemed separate entities for the purpose of consolidation, also called 'silos' as per Ind AS 103 (Business Combinations).

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hospital
Policy on Withdrawal of Ratings

About the company – MHIL

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 3,400 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)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	2,522.55	3,925.67	2,260.70
PBILDT	430.12	930.65	640.61
PAT	-137.55	605.05	630.81*
Overall gearing (times)	0.43	0.30	NA
Interest coverage (times)	2.40	9.23	14.49

A: Audited, UA: Unaudited, NA: Not available.
*Higher PAT on account of reversal of deferred tax liability.

MHC Network (MHIL Consolidated and three partner healthcare facilities)

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	3,629	5,218	2,875
PBILDT	603	1,340	758
PAT	-95	837	740*

A: Audited, UA: Unaudited.
*Higher PAT on account of reversal of deferred tax liability.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	30/11/2031	319.63	CARE AA; Stable
Fund-based - LT-Working Capital Limits	-	152.50	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	50.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term Loan	LT	319.63	CARE AA; Stable	1)CARE AA; Stable (05-Sep-22) 2)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)	1)CARE A (CWD) (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)
2.	Fund-based - LT-Working Capital Limits	LT	152.50	CARE AA; Stable	1)CARE AA; Stable (05-Sep-22) 2)CARE AA; Stable (23-Aug-22)	1)CARE AA-; Stable (07-Jul-21)	1)CARE A (CWD) (04-Nov-20)	1)CARE A (CWD) (09-Oct-19)
3.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A1+	1)CARE A1+ (05-Sep-22) 2)CARE A1+ (23-Aug-22)	1)CARE A1+ (07-Jul-21)	1)CARE A1 (CWD) (04-Nov-20)	1)CARE A1 (CWD) (09-Oct-19)

LT: Long term, ST: Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of 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

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.

Annexure-5: Bank lender details for this company

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

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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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