Max Healthcare Institute Limited (Revised)

August 23, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	369.23	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short-term bank facilities	0.76	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**369.99 (₹ Three hundred sixty-nine crore and ninety-nine lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities of Max Healthcare Institute Ltd (MHIL) takes into account significant improvement in the financial risk profile in FY22 (refers to the period from April 01 to March 31) and Q1FY23 (refers to the period from April 01 to June 30) characterised by growth in total operating income (TOI) and enhanced profitability and coverage indicators. The revenue growth was backed by improvement across in-patient and out-patient volumes as well as average revenue per occupied bed (ARPOB) indicating the company's strengthening market position. The operating profit margin of the company improved to 23.71% in FY22 from 17.05% in FY21. 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 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 last two years.

The rating continues to factor in the company's established position in the healthcare sector, diversification across various specialties, experienced team of doctors, modern infrastructure, and the significant brand equity of 'Max Healthcare'. CARE Ratings also factors in the complete exit of the private equity investor KKR (through Kayak Investments Holding Pte. Ltd) through a block deal and change in shareholding post the said transaction. The rating takes into account the strong liquidity profile of the company with cash and bank balance of over ₹700 crore as on June 30, 2022, and significant undrawn lines of credit and 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 4 to 5 years which shall be largely funded from 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 rating is, however, constrained by the high concentration of the MHIL in the Delhi-NCR region for revenue as well as profit generation, regulatory risk along with competition from other established players in the industry. Its management has guided that a mix of brownfield, greenfield and inorganic acquisition opportunities would be undertaken by MHIL to expand further but net debt/PBILDT (profit before interest, tax and depreciation) would not exceed 2x to 2.5x. CARE Ratings will continue to monitor the developments and expansion plans of MHIL in such regards. Also, any future wave of COVID and its impact on the company would remain a key monitorable.

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 topline without any impact on its profitability margins.
- Improvement in total debt/PBILDT below 1x on a sustained basis.

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 total debt/PBILDT increases above 2.5x on sustained basis.

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

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 occupancy rate, ARPOB, average length of stay (ALOS), inpatient-outpatient registrations, etc. Its presence in premium markets (namely Delhi NCR and Mumbai) along with superior case mix leads 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 sharp fall in occupancy rate at the start of 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 few months where it fell due to Omicron wave.

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 significant uptick of over 15% in FY22 to ₹58,500, which was mainly due to people opting for higher number of elective surgeries as COVID-19 cases receded. Drop in COVID occupancy enabled 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 to 17.05% in FY21 on account of operating leverage on a quarterly basis, the company managed to report PBILDT margins in the range of 25% in Q1FY22 and Q1FY23.

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 gradual restoration in medical tourism, management's focus on optimisation of higher ARPOB generating payor mix and cluster approach to maintain its brand in the metros.

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 to ₹2,522.55 crore in FY21 which was driven by increasing health insurance penetration, better patient mix, increasing ARPOB and growth in medical tourism. MHC network (inclusive of partner healthcare facilities) recorded TOI and profit after tax (PAT) of ₹5,218 crore and ₹837 crore, respectively, in FY22 as against ₹3,629 crore and loss of ₹95 crore, respectively, in FY21.

The operating PBILDT registered a growth of 116% year-on-year at a consolidated level. Strong revenue growth was driven by increasing health insurance penetration, better patient mix, increasing ARPOB and growth in medical tourism. 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 has been reduced to 31% versus 34% in the previous year FY21 by way of dis-empanelment of 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 management continuously taking cost-optimisation measures with 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. 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 catch up for FY21 replacements. The investment of ₹671 crore in the inorganic growth initiatives and brownfield expansions was totally funded by internal accruals. Overall, net debt at MHC Network level and even MHIL Consolidated has reduced. MHIL has a strong focus on building capacity post integration of BLK and Nanavati having done four expansions/acquisitions in FY22. The management guided that they have adequate capital available through internal accruals plus under-leveraged balance sheet to further build the portfolio. They are targeting acquisitions which 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 have guided a net debt/PBILDT of 2x to 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 out 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 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 of domestic healthcare industry.

Diversification across various specialties and improving channel mix: MHIL derives its revenues from several specialties including cardiology, oncology, neurology, orthopaedic, etc., thus not depending upon any single specialty. Among the various specialties, oncology, cardiac and neurology have demonstrated healthy growth during the last year.
The MHIL also has a well-diversified channel mix which includes cash, TPA and corporates, institutions, referrals, and international business. MHIL derived 20% (PY: 23%) of its total FY22 revenue from the Institutional/PSU segment which is a low-margin business while international segment was at 5.54% (PY: 3.91%) despite COVID-related travel restrictions. The company plans to optimise its payor mix further by reducing the contribution from PSU segment and focus 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 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 healthcare space in 2010 and is credited for successfully revamping RLCPL's healthcare facilities i.e., Dr BL Kapur Memorial Hospital, Delhi (BLK) and Dr Balabhai Nanavati Hospital, Mumbai (Nanavati). Both of these hospitals have now come under the MHIL umbrella post-merger. He 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. L.P.), 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 held initially 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 as on August 17, 2022 by selling the remaining balance stake of 27.54% shareholding in MHIL through a block deal.

Industry outlook: 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 topline driven by higher occupancy, 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 shall augur well for a player like MHIL that has majority of its hospitals located in 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

Exposed to regulatory and concentration risk: MHIL operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. Regulations such as capping of stent prices and knee implants and stricter compliance norms have adversely impacted the margin of the company in past. Any such future regulation might have an adverse impact on the group's profitability and thus would remain an important monitorable.

MHIL believes in 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/ statured clinical talent leading to metros becoming regional hubs and higher health awareness. MHIL Network has 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 COVID-19 pandemic, rising self-awareness among masses and 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 would 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 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 very minimal utilisation of sanctioned working capital facility. MHIL on a consolidated basis also has cash and bank balance of ₹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 next 4 to 5 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 which impacts the debt protection metrics will remain a key rating monitorable.

Analytical approach: Consolidated and 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 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
Saket City Hospitals Limited (SCHL)	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 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 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

Criteria on assigning 'outlook' and 'credit watch'
CARE's policy on default recognition
CARE's methodology for short-term instruments
Liquidity analysis of non-financial sector entities
CARE's methodology for financial ratios (non-financial sector)
Notching by Factoring Linkages in Ratings
Rating Methodology – Hospital Sector
Rating Methodology: Consolidation

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/leased hospitals, three partner healthcare facilities (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.

MHIL Consolidated

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	2,522.55	3,925.67	1,066.27
PBILDT	430.12	930.65	264.36
PAT	-137.55	605.05	172.83
Overall gearing (times)	0.43	0.30	NA
Interest coverage (times)	2.40	9.23	11.82

A: Audited, UA: Unaudited, NA: Not available

MHC Network (MHIL Consolidated and three partner healthcare facilities)

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	3,629	5,218	1,390
PBILDT	603	1,340	359
PAT	-95	837	229

A: Audited, UA: Unaudited

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 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	Nov-31	274.23	CARE AA; Stable
Fund-based – LT - Working capital limits	-	-	-	95.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.76	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	274.23	CARE AA; Stable	-	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	95.00	CARE AA; Stable	-	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	0.76	CARE A1+	-	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 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 bank facilities please click here

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About us:
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