

# Max Healthcare

## A stellar show; growth catalysts abound

Max's Q1 EBITDA significantly beat expectation, growing by 37% QoQ to ~INR3bn (ex-COVID vaccine), led by higher occupancy and operating leverage. While COVID occupancy aided the hospital business, we are encouraged to see non-COVID occupancy of ~84% in the quarter. With regular business picking up (pent-up demand, international patients) and ARPOBs (payor mix) improving, we envisage a strong growth momentum for the next two years. Management is confident of sustaining an EBITDA margin of 24-25% in FY22. Reduction in net debt by INR0.8bn to INR4.6bn has further strengthened the balance sheet and net debt/EBITDA should remain at a comfortable ~0.2x in FY22e. We believe Max is entering a high-growth phase, with significant expansion and operating leverage driving EBITDA CAGRs of 54%/29% over the next two/five years (refer to our recent initiation: [Max Healthcare – a three play act: growth, quality, returns](#) for the detailed thesis). **Maintain BUY.**

- Hospital business posts robust recovery:** Adjusting for the COVID vaccine contribution (INR1.4bn), hospital revenue grew by 7% QoQ to INR11.2bn, led by higher occupancy (~81% vs. 70% in Q4). It is noteworthy to see strong occupancy levels of ~84% for the non-COVID beds (58% of beds) in the quarter. While the COVID-led occupancy may decline, we expect regular business to offset this, aided by pent-up demand and return of international patient business, which will drive ARPOBs higher.
- EBITDA margin at all-time high; further scope for improvement exists:** Despite the 9% QoQ decline in ARPOBs (COVID admissions, decline in OPD business), EBITDA margin improved by ~120bps to 25.3% (ex-vaccine). We see further scope for improvement due to: (a) optimisation of payor mix, (b) ramp-up in the non-COVID business, (c) margin improvement in the Nanavati hospital business from ~10% in Q1 to high teens by FY23, primarily led by VRS implementation, and (d) operating leverage benefits. We forecast 728bps of margin improvement to 25% over FY21-23e.
- Max Labs – strong trajectory, encouraging trends in non-COVID business:** Lab revenue doubled QoQ to INR359mn, primarily led by higher volume and better pricing. While the COVID revenue (56%) for this segment rose by 2.7x, we are encouraged by the healthy traction seen in the non-COVID business as well, which grew 24% QoQ. Max has expanded its reach to 14 cities and added 60 new collection centers, taking the count of active partners to 480. EBITDA margin doubled from ~10% in FY21 to 20.7% in Q1.
- Key call takeaways:** (a) Nanavati: EBITDA margin of 10% in Q1, ~INR2bn capital employed, currently at ~16% RoCEs, first round of VRS to impact by ~INR450mn in Q2; (b) expansion – to add 290 beds by 2023-end and ~1,000 beds (including 350 shell) by 2024-end; (c) Capex guidance - INR1.2bn in FY22e (INR0.5bn in Q1); (d) Max@Home - recorded ~18% QoQ revenue growth with ~12-13% EBITDA margin.

### Financial Summary

|                | 1Q<br>FY22 | 1Q<br>FY21 | YoY<br>(%) | 4Q<br>FY21 | QoQ<br>(%) | FY20   | FY21   | FY22E  | FY23E  |
|----------------|------------|------------|------------|------------|------------|--------|--------|--------|--------|
| Net Sales      | 13,222     | 5,718      | 131.2      | 10,890     | 21.4       | 40,230 | 36,290 | 52,059 | 60,649 |
| EBITDA         | 3,603      | -223       | NA         | 2,625      | 37.3       | 5,894  | 6,362  | 11,888 | 15,046 |
| EBITDA Margin  | 27.3       | -3.9       | 3,115      | 24.1       | 315        | 14.7   | 17.5   | 22.8   | 24.8   |
| Adj. PAT       | 2,097      | -3,750     | NA         | 1,090      | 92.4       | 1,682  | 454    | 6,904  | 9,805  |
| Adj. EPS (INR) | 2.2        | -4.1       | 632        | 1.1        | 104        | 3.1    | 0.5    | 7.1    | 10.2   |
| EV/ EBITDA (x) |            |            |            |            |            | 51.1   | 46.8   | 24.7   | 19.1   |
| RoCE (%)       |            |            |            |            |            | 11.0   | 9.4    | 21.5   | 23.5   |

Source: Company, HSIE Research, projections excluding vaccine opportunity

**BUY**

|                         |         |
|-------------------------|---------|
| CMP (as on 11 Aug 2021) | INR 301 |
| Target Price            | INR 350 |
| NIFTY                   | 16,282  |

| KEY CHANGES  | OLD     | NEW     |
|--------------|---------|---------|
| Rating       | BUY     | BUY     |
| Price Target | INR 330 | INR 350 |
|              | FY22E   | FY23E   |
| EBITDA %     | +8%     | +7%     |

### KEY STOCK DATA

|                              |             |
|------------------------------|-------------|
| Bloomberg code               | MAXHEALT IN |
| No. of Shares (mn)           | 966         |
| MCap (INR bn) / (\$ mn)      | 290/3,902   |
| 6m avg traded value (INR mn) | 545         |
| 52 Week high / low           | INR 310/97  |

### STOCK PERFORMANCE (%)

|              | 3M   | 6M   | 12M |
|--------------|------|------|-----|
| Absolute (%) | 28.4 | 52.0 | -   |
| Relative (%) | 17.5 | 46.2 | -   |

### SHAREHOLDING PATTERN (%)

|                 | Jun-21 | Mar-21 |
|-----------------|--------|--------|
| Promoters       | 70.46  | 70.46  |
| FIs & Local MFs | 7.95   | 4.88   |
| FPIs            | 14.05  | 17.96  |
| Public & Others | 7.54   | 6.70   |
| Pledged Shares  | 0.34   | 0.34   |

Source : BSE

**Bansi Desai, CFA**

bansi.desai@hdfcsec.com  
+91-22-6171-7341

**Karan Vora**

karan.vora@hdfcsec.com  
+91-22-6171-7359

## Quarterly Performance

Revenue up by 21% QoQ despite 2<sup>nd</sup> wave of COVID on account of higher occupancy and vaccine sales boost (INR1.4bn)

EBITDA margin expanded to 27.3% (+315bps QoQ) and 25.3% (+120bps ex vaccine) on account of higher overall occupancy and full impact of structural cost control measures adopted in the previous years

Key business segments - Hospitals: +20% QoQ (higher occupancy, vaccine sales boost)

Max@Home: +18% QoQ (COVID tailwinds)

Max Lab: +97% QoQ (COVID business: 56% of revenue, +268% QoQ; non-COVID business: 44% of revenue, +24% QoQ)

Key geographic performances:

- All-round growth across regions  
- NCR (+12% QoQ) and other northern regions (Uttarakhand & Punjab, +12% QoQ) outperformed the metro regions (Delhi and Mumbai, +4% QoQ)

We expect healthy double digit growth across hospitals over FY21-23e on the back of improved occupancy and higher ARPOBs

### Proforma Financials' Snapshot

| (INR mn)                 | 1QFY22 | 1QFY21 | YoY % | 4QFY21 | QoQ % |
|--------------------------|--------|--------|-------|--------|-------|
| Net Sales                | 13,222 | 5,718  | 131.2 | 10,890 | 21.4  |
| EBITDA                   | 3,603  | -223   | NA    | 2,625  | 37.3  |
| EBITDA margins (%)       | 27.3   | -3.9   | 3,115 | 24.1   | 315   |
| EBITDA (ex-vaccine)      | 3,001  | -223   | NA    | 2,625  | 14.3  |
| Margins (ex-vaccine) (%) | 25.3   | -3.9   | 2,920 | 24.1   | 120   |
| PAT                      | 2,058  | -3,750 | NA    | 1,090  | 88.9  |

Source: Company, HSIE Research

### Segmental Quarterly Performance

| (INR mn)                | 1QFY22 | 1QFY21 | YoY (bps) | 4QFY21 | QoQ (bps) |
|-------------------------|--------|--------|-----------|--------|-----------|
| Hospitals business      | 12,590 | 5,504  | 128.7     | 10,478 | 20.2      |
| MHIL & Radiant          | 9,412  | 2,349  | 300.7     | 7,606  | 23.7      |
| PHFs                    | 3,178  | 3,155  | 0.7       | 2,871  | 10.7      |
| Max@Home                | 271    | 108    | 150.0     | 230    | 17.7      |
| Max Lab                 | 359    | 105    | 240.6     | 182    | 97.1      |
| Proforma Revenues (Net) | 13,220 | 5,718  | 131.2     | 10,890 | 21.4      |

Source: Company, HSIE Research

### Geography-wise Quarterly Performance

| (INR mn)                  | 1QFY22 | 1QFY21 | % Chg | 4QFY21 | % Chg  |
|---------------------------|--------|--------|-------|--------|--------|
| Delhi                     | 7,630  | 3,670  | 107.9 | 7,370  | 3.5    |
| UP                        | 1,280  | 660    | 93.9  | 1,170  | 9.4    |
| Maharashtra               | 980    | 580    | 69.0  | 940    | 4.3    |
| Punjab                    | 1,010  | 540    | 87.0  | 930    | 8.6    |
| Uttarakhand               | 490    | 290    | 69.0  | 410    | 19.5   |
| Haryana                   | 420    | 180    | 133.3 | 350    | 20.0   |
| Vaccine and related       | 1,360  | 0      | NA    | 0      | NA     |
| Others                    | 50     | 0      | NA    | 8      | 557.9  |
| Hospital Revenues (Gross) | 13,220 | 5,920  | 123.3 | 11,178 | 18.3   |
| Less: Adjustments         | 630    | 416    | 51.5  | 700    | (10.0) |
| Hospital Revenues (Net)   | 12,590 | 5,504  | 128.7 | 10,478 | 20.2   |

Source: Company, HSIE Research

## Financial Projections

### Revenue summary

| INR mn                | FY19   | FY20   | FY21   | FY22e  | FY23e  | FY21-23e CAGR |
|-----------------------|--------|--------|--------|--------|--------|---------------|
| Hospitals             | 35,121 | 39,053 | 34,918 | 49,776 | 57,099 | 27.9%         |
| MHIL and subsidiaries | 16,126 | 17,842 | 17,349 | 23,509 | 26,630 | 23.9%         |
| PHFs                  | 12,134 | 13,012 | 11,925 | 16,628 | 18,206 | 23.6%         |
| Less: Inter-co. adj.  | -2,419 | -2,436 | -2,850 | -3,243 | -3,550 | 11.6%         |
| Radiant               | 9,280  | 10,636 | 8,493  | 12,882 | 15,814 | 36.5%         |
| Max@Home              | 626    | 768    | 696    | 1,044  | 1,410  | 42.3%         |
| MaxLab                | 243    | 409    | 676    | 1,239  | 2,140  | 77.9%         |
| Total Revenues        | 35,990 | 40,230 | 36,290 | 52,059 | 60,649 | 29.3%         |

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

EBITDA growth is expected to be driven by: (a) optimisation of payor mix; (b) turnaround of Nanavati hospital; (c) operating leverage

### EBITDA break-up

| INR mn                 | FY19         | FY20         | FY21         | FY22e         | FY23e         | FY21-23e CAGR |
|------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>Hospitals</b>       | <b>3,475</b> | <b>5,717</b> | <b>6,160</b> | <b>11,512</b> | <b>14,349</b> | <b>52.6%</b>  |
| MHIL and subsidiaries  | 1,547        | 2,846        | 3,855        | 6,039         | 6,926         | 34.0%         |
| PHFs                   | 773          | 1,423        | 1,650        | 3,252         | 3,891         | 53.6%         |
| Less: Inter-co. adj.   | -25          | -1           | -130         | -220          | -254          | 39.7%         |
| Radiant                | 1,180        | 1,450        | 785          | 2,442         | 3,786         | 119.6%        |
| <b>Max@Home</b>        | <b>63</b>    | <b>115</b>   | <b>84</b>    | <b>157</b>    | <b>254</b>    | <b>74.3%</b>  |
| <b>MaxLab</b>          | <b>24</b>    | <b>61</b>    | <b>118</b>   | <b>297</b>    | <b>535</b>    | <b>112.6%</b> |
| <b>Proforma EBITDA</b> | <b>3,562</b> | <b>5,894</b> | <b>6,362</b> | <b>11,889</b> | <b>15,046</b> | <b>53.8%</b>  |

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

### EBITDA margin summary

| INR mn                         | FY19         | FY20         | FY21         | FY22e        | FY23e        | FY21-23e CAGR |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>Hospitals</b>               | <b>9.9%</b>  | <b>14.6%</b> | <b>17.6%</b> | <b>23.1%</b> | <b>25.1%</b> | <b>749bps</b> |
| MHIL and subsidiaries          | 9.6%         | 15.9%        | 22.2%        | 25.7%        | 26.0%        | 379bps        |
| PHFs                           | 6.4%         | 10.9%        | 13.8%        | 19.6%        | 21.4%        | 753bps        |
| Radiant                        | 12.7%        | 13.6%        | 9.2%         | 19.0%        | 23.9%        | 1470bps       |
| <b>Max@Home</b>                | <b>10.0%</b> | <b>15.0%</b> | <b>12.0%</b> | <b>15.0%</b> | <b>18.0%</b> | <b>600bps</b> |
| <b>MaxLab</b>                  | <b>10.0%</b> | <b>15.0%</b> | <b>17.5%</b> | <b>24.0%</b> | <b>25.0%</b> | <b>750bps</b> |
| <b>Proforma EBITDA margins</b> | <b>9.9%</b>  | <b>14.6%</b> | <b>17.5%</b> | <b>22.8%</b> | <b>24.8%</b> | <b>728bps</b> |

Source: Company, HSIE Research, MHIL – Max Healthcare Institute Ltd, PHFs – Partnered Healthcare Facilities

We expect hospital business EBITDA margin to improve by ~750bps over FY21-23e

## SOTP-based valuation

### SOTP valuation

|   | FY23e EBITDA  | Multiple    | INR mn          |
|---|---------------|-------------|-----------------|
| <u>Hospitals</u>                            |               |             |                 |
| MHIL  | 6,926         | 22.0        | 1,52,379        |
| PHFs  | 3,891         | 22.0        | 85,593          |
| Radiant                                     | 3,786         | 22.0        | 83,299          |
| <b>Pro-forma hospitals EBITDA</b>           | <b>14,603</b> | <b>22.0</b> | <b>3,21,271</b> |
| Max Home                                    | 254           | 25.0        | 6,343           |
| Max Lab                                     | 535           | 25.0        | 13,374          |
| <b>Fair value of Max's operating assets</b> | <b>15,392</b> | <b>22.2</b> | <b>3,40,988</b> |
| CWIP  |               |             | 2,019           |
| <b>Enterprise Value (EV)</b>                |               |             | <b>3,43,012</b> |
| Less: Net debt (FY22e)                      |               |             | 1,145           |
| Less: Lease liabilities (FY22e)             |               |             | 1,811           |
| <b>Implied Market Cap</b>                   |               |             | <b>3,40,056</b> |
| No. of equity shares                        |               |             | 966.0           |
| <b>Target price</b>                         |               |             | <b>350</b>      |

Source: HSIE Research

## Revise TP to INR350/sh, maintain BUY

We raise our EBITDA estimates for FY22/23e by 7-8% to factor in strong Q1 beat and robust performance in non-COVID business and revise TP to INR350/sh. Our TP is based on SOTP valuation of (a) hospitals - 22x FY23e EV/ EBITDA; (b) Max@Home operations - 25x FY23e EV/EBITDA; (c) Max Lab operations - 25x FY23e EV/EBITDA. **Risks:** Delay in capacity addition, cost base stabilising at higher level post COVID, delay in payor mix improvement, and unfavourable change in agreement with partnered healthcare facilities (trusts).

## Proforma Financials

### Proforma Financial Summary (including PHFs)

| Year to March (INR mn)   | FY18          | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>           | <b>33,913</b> | <b>35,990</b> | <b>40,230</b> | <b>36,290</b> | <b>52,059</b> | <b>60,649</b> |
| YoY growth               |               | 6%            | 12%           | -10%          | 43%           | 17%           |
| Gross Profits            |               | 27,692        | 31,029        | 26,557        | 39,581        | 46,328        |
| Gross Margin (%)         |               | 76.9%         | 77.1%         | 73.2%         | 76.0%         | 76.4%         |
| <b>EBITDA</b>            | <b>3,120</b>  | <b>3,480</b>  | <b>5,894</b>  | <b>6,362</b>  | <b>11,888</b> | <b>15,046</b> |
| <b>EBITDA Margin (%)</b> | <b>9.2%</b>   | <b>9.7%</b>   | <b>14.7%</b>  | <b>17.5%</b>  | <b>22.8%</b>  | <b>24.8%</b>  |
| EBIT                     |               | 2,079         | 4,153         | 3,870         | 9,926         | 12,783        |
| EBIT Margin (%)          |               | 5.8%          | 10.3%         | 10.7%         | 19.1%         | 21.1%         |
| Tax rate (%)             |               | 138.0%        | -1.7%         | 21.6%         | 19.0%         | 16.9%         |
| Adj. PAT                 |               | -79           | 1,682         | 454           | 6,904         | 9,805         |
| PAT Margin (%)           |               | -0.2%         | 4.2%          | 1.3%          | 13.3%         | 16.2%         |
| Capital Employed         |               | 29,006        | 31,604        | 34,040        | 39,936        | 47,175        |
| Net Debt                 |               | 27,348        | 29,178        | 7,390         | 2,956         | -3,522        |
| EV                       |               | 2,99,249      | 3,01,080      | 2,97,755      | 2,93,320      | 2,86,843      |
| Mcap                     |               | 2,71,902      | 2,71,902      | 2,90,365      | 2,90,365      | 2,90,365      |
| Book value               |               | 27.2          | 63.0          | 59.4          | 65.4          | 73.9          |
| Adj. EPS                 |               | -0.1          | 3.1           | 0.5           | 7.1           | 10.2          |
| <b>Adj. RoCE</b>         |               | <b>5.7</b>    | <b>11.0</b>   | <b>9.4</b>    | <b>21.5</b>   | <b>23.5</b>   |
| EV/Revenues (x)          |               | 8.3           | 7.5           | 8.2           | 5.6           | 4.7           |
| <b>EV/ EBITDA</b>        |               | <b>86.0</b>   | <b>51.1</b>   | <b>46.8</b>   | <b>24.7</b>   | <b>19.1</b>   |
| Net Debt/EBITDA (x)      |               | 7.9           | 5.0           | 1.2           | 0.2           | -0.2          |
| Net Debt/Equity (x)      |               | 1.9           | 0.9           | 0.3           | 0.1           | -0.1          |
| P/E (x)                  |               |               | 96.0          | 639.8         | 42.1          | 29.6          |
| P/BV (x)                 |               | 11.0          | 4.8           | 5.1           | 4.6           | 4.1           |

Source: Company, HSIE Research

## Financials

### Consolidated Income Statement

| Year to March (INR mn)        | FY16          | FY17          | FY18          | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b>               | <b>14,023</b> | <b>15,941</b> | <b>17,116</b> | <b>16,714</b> | <b>18,617</b> | <b>25,047</b> | <b>38,260</b> | <b>45,552</b> |
| Growth (%)                    | 26.6          | 13.7          | 7.4           | -2.3          | 11.4          | 34.5          | 52.8          | 19.1          |
| Operative Expenses            | 3,987         | 4,231         | 4,259         | 3,645         | 3,918         | 5,944         | 9,106         | 10,830        |
| Gross Profit                  | 10,036        | 11,710        | 12,857        | 13,070        | 14,699        | 19,103        | 29,154        | 34,722        |
| Gross Margins                 | 71.6          | 73.5          | 75.1          | 78.2          | 79.0          | 76.3          | 76.2          | 76.2          |
| Employee cost                 | 6,324         | 7,066         | 7,961         | 8,275         | 8,756         | 11,217        | 14,928        | 17,017        |
| Other expenses                | 2,994         | 3,383         | 3,938         | 3,439         | 3,280         | 3,847         | 5,782         | 6,737         |
| <b>EBITDA</b>                 | <b>717</b>    | <b>1,262</b>  | <b>957</b>    | <b>1,356</b>  | <b>2,663</b>  | <b>4,039</b>  | <b>8,444</b>  | <b>10,968</b> |
| Growth (%)                    | 45%           | 76%           | -24%          | 42%           | 96%           | 52%           | 109%          | 30%           |
| Margins (%)                   | 5.1           | 7.9           | 5.6           | 8.1           | 14.3          | 16.1          | 22.1          | 24.1          |
| Depreciation                  | 912           | 955           | 944           | 1,026         | 1,197         | 1,741         | 2,245         | 2,320         |
| Other income                  | 206           | 355           | 455           | 485           | 550           | 759           | 1,073         | 1,200         |
| Interest                      | 678           | 997           | 994           | 1,013         | 1,527         | 1,795         | 1,086         | 1,011         |
| <b>PBT</b>                    | <b>-666</b>   | <b>-336</b>   | <b>-526</b>   | <b>-198</b>   | <b>489</b>    | <b>-1,075</b> | <b>6,185</b>  | <b>8,838</b>  |
| Tax                           | 37            | -111          | 22            | 85            | -63           | 459           | 1,650         | 2,041         |
| Effective tax rate (%)        | -5.5          | 33.0          | -4.3          | -42.9         | -12.8         | 36.3          | 26.7          | 23.1          |
| <b>Recurring PAT</b>          | <b>-749</b>   | <b>-221</b>   | <b>-534</b>   | <b>-255</b>   | <b>552</b>    | <b>-128</b>   | <b>4,536</b>  | <b>6,796</b>  |
| Extraordinary items           | 0             | 0             | 0             | 0             | 0             | 2,337         | 0             | 0             |
| MI/share of Profit/loss in JV | 46            | -4            | -14           | -28           | 0             | 0             | 0             | 0             |
| <b>Reported PAT</b>           | <b>-703</b>   | <b>-225</b>   | <b>-548</b>   | <b>-283</b>   | <b>552</b>    | <b>-1,533</b> | <b>4,536</b>  | <b>6,796</b>  |

Source: Company, HSIE Research

### Consolidated Balance Sheet

| Year to March (INR mn)          | FY16          | FY17          | FY18          | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity capital                  | 5,334         | 5,372         | 5,372         | 5,372         | 5,372         | 9,660         | 9,660         | 9,660         |
| Reserves and surplus            | 5,948         | 5,818         | 4,968         | 4,260         | 4,502         | 46,727        | 51,676        | 58,913        |
| <b>Shareholder's funds</b>      | <b>11,282</b> | <b>11,190</b> | <b>10,340</b> | <b>9,632</b>  | <b>9,874</b>  | <b>56,387</b> | <b>61,336</b> | <b>68,573</b> |
| <b>Minority Interest</b>        | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| Total debt                      | 8,257         | 9,061         | 10,235        | 10,423        | 21,306        | 14,974        | 13,974        | 12,974        |
| <b>Total Liabilities</b>        | <b>27,975</b> | <b>29,110</b> | <b>30,167</b> | <b>23,772</b> | <b>34,845</b> | <b>80,148</b> | <b>84,216</b> | <b>90,577</b> |
| Net fixed assets                | 9,680         | 9,618         | 9,609         | 9,385         | 10,097        | 15,227        | 15,241        | 15,180        |
| Capital work-in-progress        | 117           | 461           | 383           | 870           | 57            | 269           | 2,019         | 3,769         |
| <b>Total non-current assets</b> | <b>27,546</b> | <b>28,107</b> | <b>28,892</b> | <b>29,183</b> | <b>30,561</b> | <b>74,200</b> | <b>75,065</b> | <b>75,861</b> |
| Investments                     | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| Inventories                     | 232           | 231           | 283           | 260           | 434           | 538           | 1,048         | 1,248         |
| Debtors                         | 2,086         | 2,348         | 2,579         | 3,626         | 4,112         | 3,659         | 5,241         | 6,240         |
| Cash & bank balance             | 112           | 153           | 91            | 76            | 2,748         | 6,266         | 8,854         | 14,331        |
| Loans and Advances              | 120           | 255           | 269           | 267           | 94            | 273           | 284           | 296           |
| Other current assets            | 355           | 508           | 1,100         | 243           | 297           | 509           | 517           | 527           |
| <b>Total current assets</b>     | <b>2,905</b>  | <b>3,494</b>  | <b>4,322</b>  | <b>4,473</b>  | <b>7,683</b>  | <b>11,245</b> | <b>15,945</b> | <b>22,642</b> |
| Creditors                       | 2,171         | 2,137         | 2,665         | 2,916         | 2,935         | 4,357         | 5,827         | 6,930         |
| Provisions                      | 100           | 135           | 144           | 161           | 203           | 394           | 394           | 394           |
| <b>Net current assets</b>       | <b>429</b>    | <b>1,004</b>  | <b>1,275</b>  | <b>-5,411</b> | <b>4,284</b>  | <b>5,949</b>  | <b>9,151</b>  | <b>14,716</b> |
| <b>Total net assets</b>         | <b>27,975</b> | <b>29,110</b> | <b>30,167</b> | <b>23,772</b> | <b>34,845</b> | <b>80,148</b> | <b>84,216</b> | <b>90,577</b> |

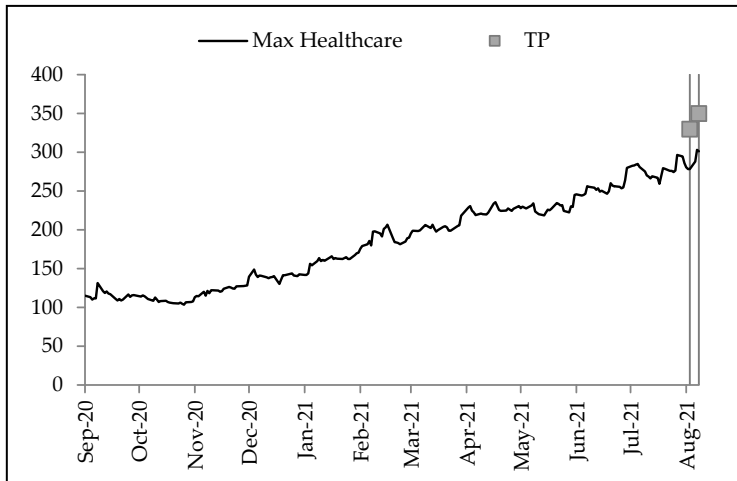
Source: Company, HSIE Research

### Consolidated Cash Flow

| Year to March (INR mn)           | FY16           | FY17          | FY18          | FY19        | FY20          | FY21         | FY22E         | FY23E         |
|----------------------------------|----------------|---------------|---------------|-------------|---------------|--------------|---------------|---------------|
| <b>Net Profit Before Tax</b>     | <b>-190</b>    | <b>-125</b>   | <b>-265</b>   | <b>83</b>   | <b>891</b>    | <b>-687</b>  | <b>6,599</b>  | <b>9,278</b>  |
| Depreciation                     | 912            | 1,076         | 974           | 1,026       | 1,197         | 1,741        | 2,245         | 2,320         |
| Cash flow before WC              | 1,238          | 1,818         | 1,303         | 1,652       | 3,095         | 4,361        | 8,857         | 11,409        |
| WC changes                       | 2,720          | 89            | -255          | -481        | -469          | -3,763       | -607          | -80           |
| Taxes paid                       | 3,267          | -346          | -226          | -281        | -127          | 580          | -1,650        | -2,041        |
| <b>Cash flow from operations</b> | <b>7,225</b>   | <b>1,561</b>  | <b>822</b>    | <b>889</b>  | <b>2,498</b>  | <b>1,179</b> | <b>6,600</b>  | <b>9,288</b>  |
| Organic Capex                    | -16,028        | -1,150        | -655          | -1,157      | -887          | -1,168       | -3,000        | -3,000        |
| Inorganic Capex                  | 0              | 0             | 0             | -5          | 0             | 0            | 0             | 0             |
| <b>Cash flow from investing</b>  | <b>-13,401</b> | <b>-1,038</b> | <b>-1,004</b> | <b>-165</b> | <b>-1,267</b> | <b>-730</b>  | <b>-1,927</b> | <b>-1,800</b> |
| Equity Capital Issues            | 2,835          | 0             | 0             | 0           | 0             | 11,792       | 0             | 0             |
| Borrowings (net)                 | 3,844          | 714           | 1,064         | 222         | 2,912         | -8,168       | -1,000        | -1,000        |
| Interest paid                    | -645           | -954          | -944          | -962        | -1,471        | -1,710       | -1,086        | -1,011        |
| Dividends paid                   | 0              | 0             | 0             | 0           | 0             | 0            | 0             | 0             |
| <b>Cash flow from financing</b>  | <b>6,033</b>   | <b>-482</b>   | <b>120</b>    | <b>-740</b> | <b>1,441</b>  | <b>1,913</b> | <b>-2,086</b> | <b>-2,011</b> |
| <b>Net change in cash</b>        | <b>-143</b>    | <b>41</b>     | <b>-61</b>    | <b>-15</b>  | <b>2,672</b>  | <b>2,362</b> | <b>2,588</b>  | <b>5,478</b>  |
| Beginning cash                   | 254            | 112           | 153           | 91          | 76            | 1,110        | 6,266         | 8,854         |
| <b>Closing cash</b>              | <b>112</b>     | <b>153</b>    | <b>91</b>     | <b>76</b>   | <b>2,748</b>  | <b>6,266</b> | <b>8,854</b>  | <b>14,331</b> |
| <b>Free cash flow</b>            | <b>-8,803</b>  | <b>411</b>    | <b>167</b>    | <b>-273</b> | <b>1,611</b>  | <b>11</b>    | <b>3,600</b>  | <b>6,288</b>  |

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



| Date      | CMP | Reco. | Target |
|-----------|-----|-------|--------|
| 9-Aug-21  | 278 | BUY   | 330    |
| 12-Aug-21 | 301 | BUY   | 350    |

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential



**Disclosure:**

We, **Bansi Desai, CFA** and **Karan Vora, CA**, authors and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)