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Initiating coverage

## Pharmaceuticals

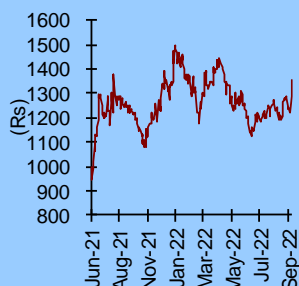
Target price Rs1,565

## Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	38.8	38.8	38.8
Institutional investors	29.3	29.9	31.1
MFs and others	16.1	16.1	17.8
FI/Banks	3.1	3.3	2.7
FII	10.1	10.5	10.6
Others	31.9	31.3	30.1

Source: NSE

## Price chart



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INDIA

Krishna Institute of Medical Sciences **BUY**Dominant regional player with execution prowess **Rs1,352**

Krishna Institute of Medical Sciences (KIMS) is one of the leading multi-disciplinary integrated private healthcare services provider in Andhra Pradesh and Telangana. It operates a chain of multispecialty hospitals with focus on tertiary and quaternary healthcare. Company has a strong acquisitive history with a proven track record of execution. With recent acquisitions in Nashik and Nagpur, and proposed expansion in Bangalore and Maharashtra, KIMS has found a new growth lever in addition to strong foothold in its home markets. We are positive on the company's long-term outlook considering: 1) strong brand recall in its home markets of Andhra Pradesh and Telangana; ii) expansion in adjacent geographies; iii) strong execution and prudent capital allocation; iv) healthy margins. We initiate coverage on the stock with a BUY rating and target price of Rs1,565/share.

- **Hospital industry on a strong growth path:** India's overall healthcare market is expected to grow at a CAGR of 15-17% between FY21 and FY25 driven by rising cases of non-communicable diseases, rising government expenditure towards healthcare (including *Ayushman Bharat Yojana*), growing awareness, increasing affordability and pent-up demand due to the pandemic. Inpatients account for ~70% of the overall market for hospitals in value terms while remaining is from outpatients.
- **Key player in southern India:** KIMS has nine multispecialty hospitals (excl. Sunshine) in its home markets of Andhra Pradesh and Telangana, and is recognised for its capabilities in speciality care. Company is currently the leading player in key micro markets of the two states. Moreover, through the acquisition of Sunshine Hospitals (three hospitals), We expect KIMS to further consolidate the market in Telangana. Company follows an affordable pricing strategy whereby its services are priced lower vs key competitors. KIMS intends to add ~700 beds over three years in its home markets, which would further provide incremental revenues in addition to the current base.
- **Expansion in adjacent geographies:** KIMS has identified Maharashtra, Bangalore, Chennai and central India as key regions to drive the next phase of its growth. It intends to enter these geographies through a series of partnerships with reputed doctors, to further scale the operations. KIMS has acquired majority stakes in Manavata Hospitals, Nashik (in partnership with Dr. Raj Nagarkar) and Kingsway Hospital, Nagpur. Company also intends to set up a 350-bed hospital in Bangalore and a 300-bed facility in central India, over the next 2-3 years to further expand its operations.
- **Outlook:** Overall, we expect revenue to grow at a CAGR of 26.7% over FY22-FY24E led by consolidation of Sunshine Hospitals and Kingsway Hospital, Nagpur. We expect EBITDA margin to decline to ~28% due to the proposed expansions. RoCE is likely to depress from current levels due to high capex requirement for the expansions and acquisitions, yet remain healthy at ~18%.
- **Initiate with BUY:** We initiate coverage on KIMS with a **BUY** rating and target price of Rs1,565/share, based on 17x FY24E EBITDA. Key downside risks: slowdown in growth in south India, and delay in capacity addition.

Market Cap	Rs108bn/ US\$1.4bn
Reuters/Bloomberg	KIMS IN
Shares Outstanding (mn)	80.0
52-week Range (Rs)	1498 / 1080
Free Float (%)	61.2
FII (%)	10.6
Daily Volume (US\$/'000)	1,931
Absolute Return 3m (%)	18.2
Absolute Return 12m (%)	8.1
Sensex Return 3m (%)	13.5
Sensex Return 12m (%)	2.0

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs bn)	13,299	16,508	23,595	26,502
Net Income (Rs bn)	2,012	3,327	3,505	3,973
EPS (Rs)	25.1	41.6	43.8	49.6
% Chg YoY	67.3	65.3	5.4	13.3
P/E (x)	53.7	32.5	30.8	27.2
CEPS (Rs)	33.8	50.7	58.4	68.2
EV/E (x)	28.8	21.2	17.0	14.5
Dividend Yield (%)	-	-	-	-
RoCE (%)	19.8	23.3	19.2	17.9
RoE (%)	27.5	29.6	22.4	20.5

Please refer to important disclosures at the end of this report

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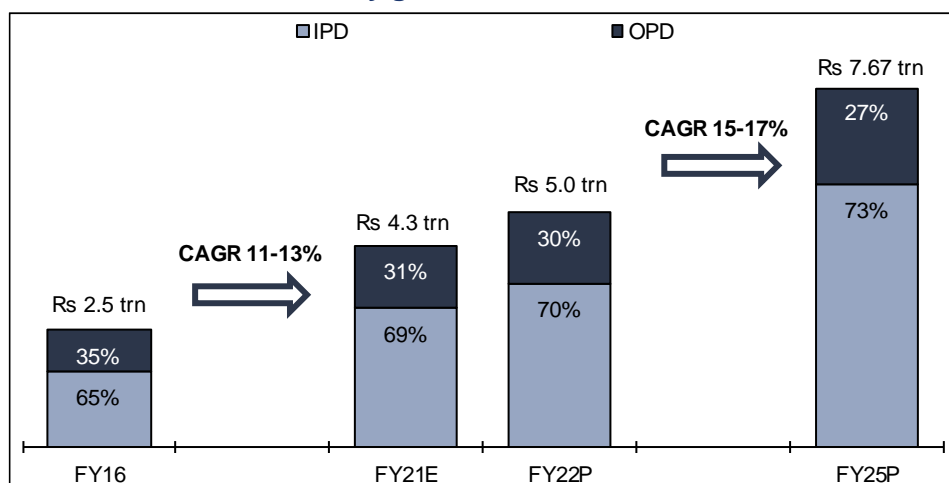

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## Hospital industry overview

Indian healthcare delivery industry is expected to post a healthy 15-17% CAGR between FY21 and FY25, driven by rising cases of non-communicable diseases, rising government expenditure towards healthcare (including *Ayushman Bharat Yojana*), growing awareness, increasing affordability and pent-up demand due to the pandemic. Within the overall healthcare delivery market, the inpatient department (IPD) is estimated to account for ~70% (in value terms) with the balance to be catered by the outpatient department (OPD). Though, in terms of volumes OPD outweighs IPD, it is the latter that contributes the bulk of the revenues.

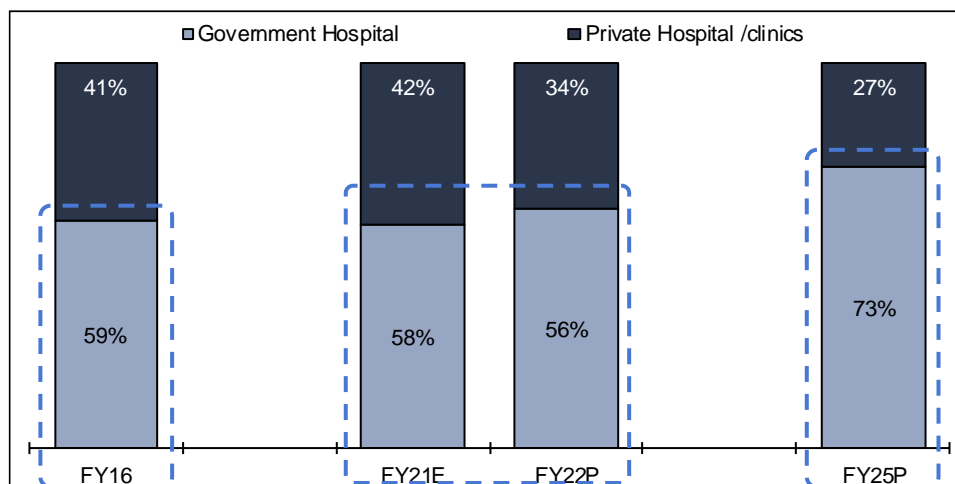
**Chart 1: Healthcare industry growth**



Source: Industry data, I-Sec research

Over the past four years, major hospital chains have added supply (~70% of their incremental supply during the period) in tier-2 and tier-3 locations, to create a referral network into their main center by tapping into the underserved albeit creamy tier-2 areas. Government is also expected to augment this via a scheme in the pipeline (*PM AtmaNirbhar Swasth Bharat*) for strengthening primary, secondary and tertiary healthcare infrastructure in the country.

**Chart 2: Share of treatments in value terms**

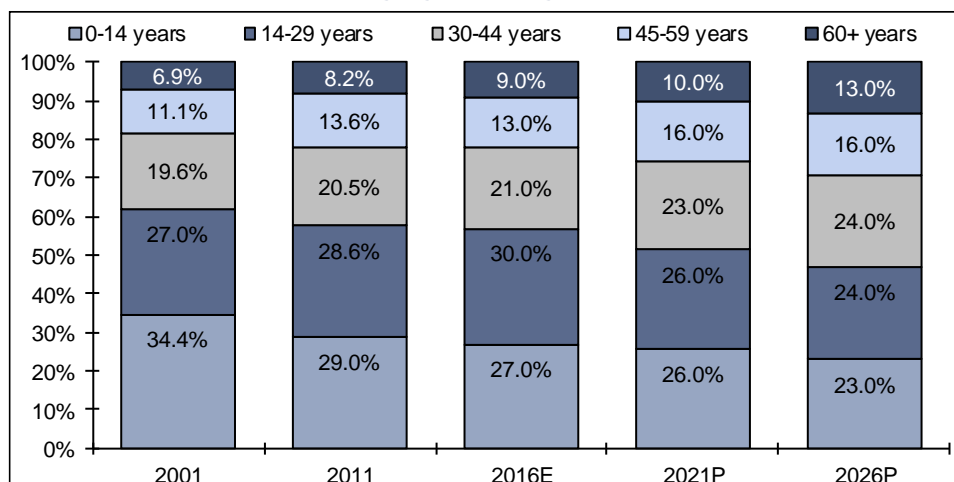


Source: Industry data, I-Sec research

## Key growth drivers for the hospital industry

With improving life expectancy, the demographic profile of the country is also undergoing change. As of CY11, nearly 8% of the Indian population was of 60 years or more, and this is expected to surge to 12.5% by CY26. According to the *Report on Status of Elderly in Select States of India, 2011*, published by the United Nations Population Fund in Nov'12, chronic ailments (such as arthritis, hypertension, diabetes, asthma, and heart diseases) were commonplace among the elderly, with approximately 66% of the geriatric population reporting at least one of these conditions.

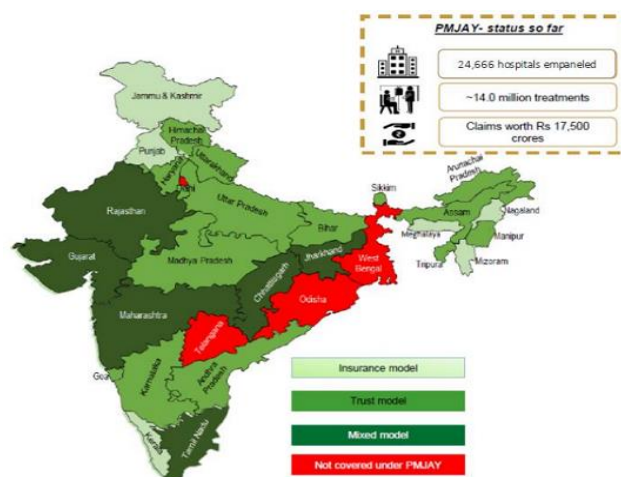
**Chart 3: Population in 60+ age group to grow faster**



Source: Company data, I-Sec research

*Ayushman Bharat* will further provide volume momentum to the sector, with the scheme providing healthcare assurance of Rs0.5mn per family (on floater basis) to nearly 107.4mn families (the actual coverage would be greater due to states extending the scheme to even some sections of the uncovered populace). As of Sep'22, a total of 18.9 crore beneficiaries have been enrolled under the scheme and provided with Ayushman cards.

**Chart 4: Share of treatments in value terms**



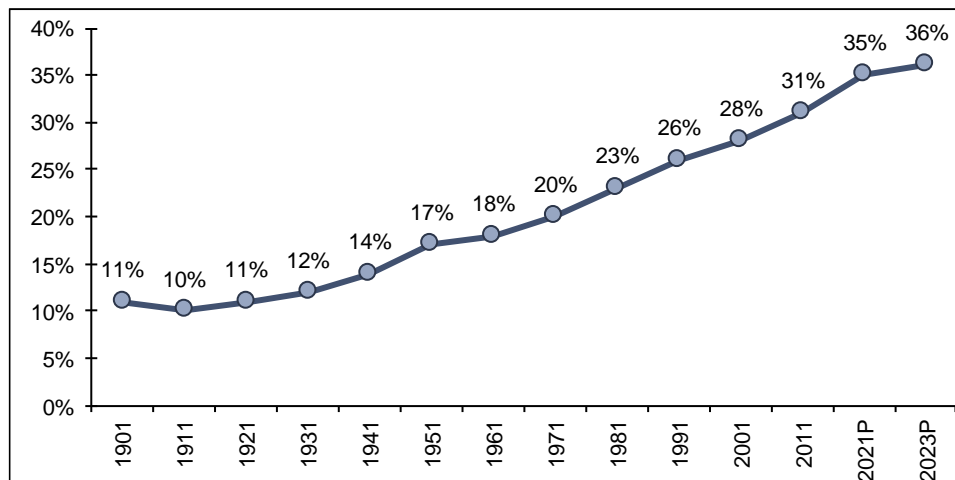
Note: PMJAY stands for Pradhan Mantri Jan Arogya Yojana

Source: PMJAY-AB updates, CRISIL Research

Source: Industry data

Majority of healthcare enterprises in India are more concentrated in urban areas. With increasing urbanisation (due to rural to urban migration), awareness among the general populace regarding presence and availability of healthcare services (for both preventive and curative care) is expected to increase.

**Chart 5: Urbanisation trend is on the rise**



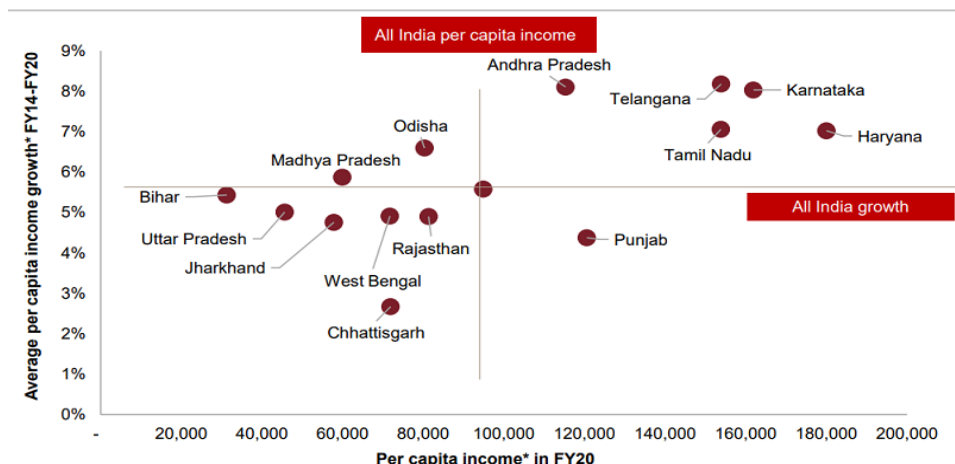
Source: Industry data, I-Sec research

## Key drivers for Andhra Pradesh and Telangana hospital industry

### The two states lead average per-capita income growth in India between FY14 and FY20

As of FY20, Haryana, Karnataka and Telangana were the top three rankers (among the non-special states considered in this analysis) in terms of per-capita NSDP at constant prices (NSDP = net state domestic product). However, in terms of CAGR between FY14 and FY20, Telangana (8.2%), Andhra Pradesh (8.1%) and Karnataka (8.0%) were the highest-ranking states among the other 14 with a CAGR of ~8%.

**Chart 6: Gross state domestic product (GSDP) growth across states in FY20**

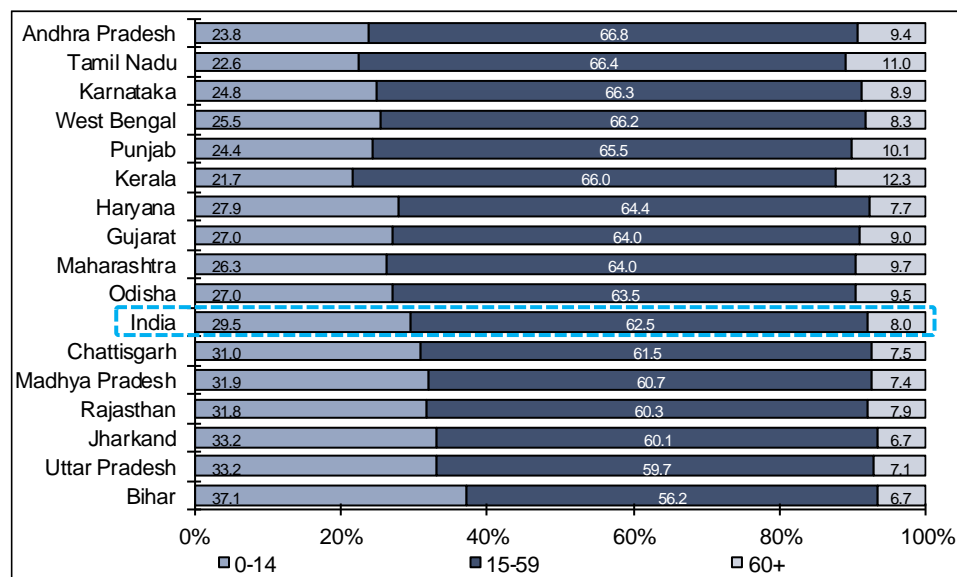


Source: Industry data, I-Sec research

## Andhra Pradesh has high % of population aged 15-59 years

As per Census 2011, India's age-wise national average statistics indicate that 29.5% of the population fall in the 0-14-year group, 62.5% in the 15-59-year bracket and 8% are 60+. In Andhra Pradesh, ~67% of the population is aged 15-59 years and 9.4% is above 60 years, which collectively is nearly 5.7% higher than the national average. This increases the state's vulnerability toward non-communicable diseases (NCDs), thus calling for greater focus on healthcare.

**Chart 7: India age demographics**



Source: Company data, I-Sec research

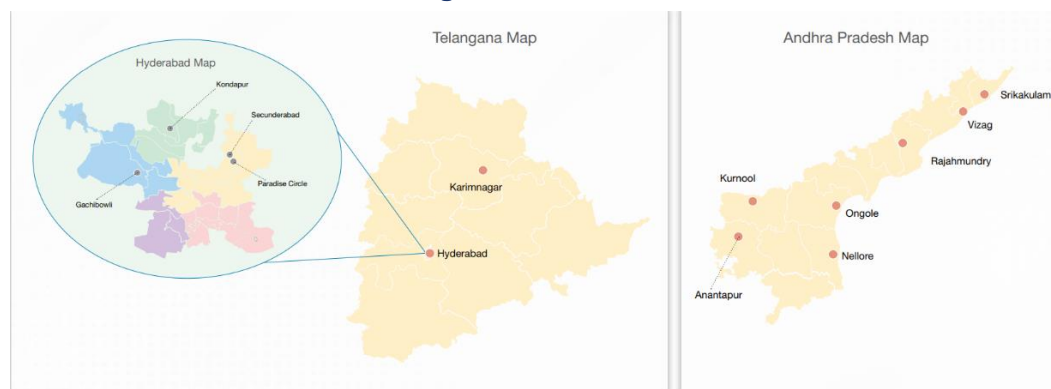
## Andhra Pradesh and Telangana among the states with higher (>50%) NCD burden in India

The contribution of most of the major non-communicable disease (NCD) groups to the total disease burden has increased all over India since 1990. These NCDs include cardiovascular diseases, diabetes, chronic respiratory diseases, mental health and neurological disorders, cancers, musculoskeletal disorders, and chronic kidney disease. In CY16, three of the five leading individual causes of disease burden in India were non-communicable, with ischemic heart disease and chronic obstructive pulmonary disease being the top two causes, and stroke the fifth-leading cause. Andhra Pradesh and Telangana were among the states with higher NCD burden in India with 59.7% and 59.2% respectively (calculated as proportion of total disease burden from NCDs in CY16).

## Strong regional presence in Andhra Pradesh and Telangana

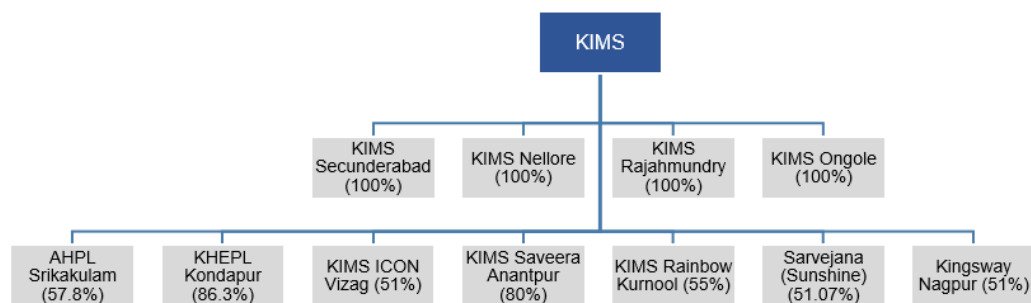
Krishna Institute of Medical Sciences (KIMS) is among the largest corporate healthcare groups in Andhra Pradesh and Telangana. Its network consists of 12 multispecialty hospitals in the two states with ~3,666 bed capacity. Since the opening of the first hospital in Nellore in CY00, the company has grown to operate 12 multispecialty with ~3,090 operational beds (including Sunshine) as of FY22, which is 1.9x more beds than the second-largest provider in the two states

**Chart 8: KIMS locations in Telangana and Andhra Pradesh**



Source: Company data, I-Sec research

**Chart 9: KIMS hospital structure**



Source: Company data, I-Sec research



## Inorganic acquisitions and expansions – Key avenue for growth

In the past, Krishna Institute of Medical Sciences (KIMS) expanded its hospital network primarily by means of inorganic acquisitions. In the past five years, it has acquired stakes in six hospitals. For purposes of expansion, KIMS prefers to go through the greenfield route, with complete ownership on the land. With only one hospital on traditional lease, the company has managed to minimise its lease expenses. The capex per bed was Rs6.4mn for hospitals in tier-1 cities and Rs2.2mn for hospitals in tiers-2&3 cities, compared to the industry average of Rs5mn-8mn in tier-1 cities and Rs1mn-5mn in tiers-2&3 locations.

**Table 1: Acquisition timeline**

Hospital	Year of commencement	Operational beds	Land ownership
KIMS Srikakulam	2011	150	Owned
KIMS Kondapur	2014	150	Leased
KIMS Ongole	2016	250	Owned
KIMS Vizag	2018	314	Service agreement
KIMS Anantapur	2018	215	Owned
KIMS Kurnool	2019	200	Owned
Sunshine Hospitals	2022	602	Leased
Kingsway Hospitals, Nagpur	2022	334	Owned
KIMS Manavata ,Nashik	NA	NA	Owned

Source: Company data, I-Sec research

**Table 2: Proposed bed expansion plans**

Units	Current beds	Incremental beds	New departments	Approx. capex (Rs mn)	Approx. timeline*
Kondapur	200	500	All specialties	3000	36-42 months
Vizag	434	50	Cancer Centre	150-200	36 months
Anantapur	250	150	Cancer Centre / Mother & Child	500-600	36-48 months
Ongole	350	-	Cancer Centre	150-200	36-42 months
Bangalore	-	350-400	All specialties	3,000-3,300	36 months
Western/Central India	-	250-300	All specialties	3,000	24-36 months
Nashik	-	325	All specialties	2,000-2,500	24-36 months
Chennai	-	350-400	All specialties	4,000	On Hold

Source: Company data, I-Sec research

Note: \*- assuming start as April'21

## Recently acquired assets in Andhra Pradesh to show improvement in metrics

Between FY17 and FY22, KIMS completed four significant hospital acquisitions in Andhra Pradesh, namely KIMS Ongole, KIMS Vizag, KIMS Anantapur and KIMS Kurnool to further consolidate the healthcare market in Andhra Pradesh. With these acquisitions, the company has incrementally added 1,234 beds. New clinical specialties of oncology, vascular surgeries and mother & child are planned in Ongole, Vizag and Anantapur, which would lead to further addition of beds and better occupancy in these units. Over FY19-FY22, the acquired assets saw significant improvement in ARPOB (Rs8,705 in FY19 and Rs12,388 in FY22) and occupancy rates (from ~32% in FY19 to ~61% in FY22). We believe these hospitals will continue to see improvement in these metrics.



**Table 3: Acquired assets metrics**

	FY21	FY22	Q1FY23
Bed Capacity	1234	1234	1234
Operational Beds	975	975	975
Occupancy (on operational beds)	87.50%	85.30%	69%
IP volume	41,002	52,201	12,567
OP volume	2,89,324	3,83,667	96,889
ARPOB (Rs)	9,881	12,388	14,240
ALOS	6.8	5.2	4.4
Total Revenue (Rs mn)	2,781	3,392	787
EBITDA (Rs mn)	450	676	151
EBITDA (%)	16.2	19.9	19.2

Source: Company data, I-Sec research

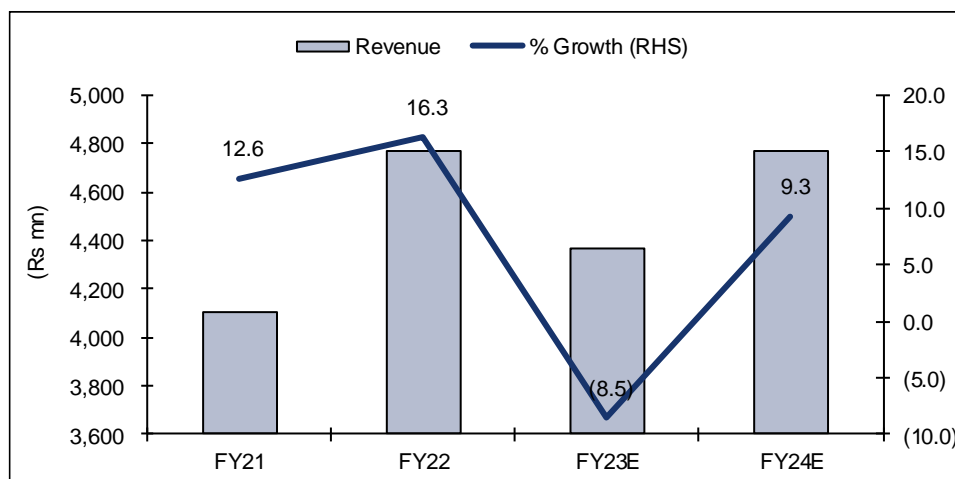
**Sunshine acquisition further consolidates the Hyderabad market**

KIMS entered into a definitive agreement to acquire a majority stake (~51%) in Sunshine Hospitals (Sunshine), which consists of three hospitals – in Secunderabad, Gachibowli and Karminagar. With this acquisition, we believe KIMS will be able to further strengthen its foothold in Hyderabad. Moreover, Sunshine is expected to provide significant capabilities for the orthopaedics segment. With a total bed strength of >600, it is the no.1 player in the joint replacement and spine department with over 4,000 knee transplants per year. However, the acquisition will be EBITDA-margin dilutive since it currently generates ~18% margins.

**Table 4: Sunshine metrics**

	Q1FY23	FY23E	FY24E
Bed Capacity	602	602	602
Operational Beds	500	500	500
Occupancy	40.0	42.0	45.0
ARPOB (Rs)	62,706	56,934	58,073
Total Revenue (Rs mn)	1,110	4,364	4,769
EBITDA (Rs mn)	194	776	954
EBITDA (%)	17.8	17.8	20.0

Source: Company data, I-Sec research

**Chart 10: Revenues from Sunshine hospitals**

Source: Company data, I-Sec research

## Expands in adjacent geographies

Apart from the core markets of Andhra Pradesh and Telangana, KIMS also intends to expand its network into adjacent markets, given its healthy brand recall. Company has identified Karnataka, Odisha, Tamil Nadu and central India as initial areas of focus. KIMS is currently constructing a 400-bed capacity multispeciality hospital in Bangalore. It sees the central and west regions as key regions for future growth.

**Table 5: Proposed expansions in adjacent geographies**

Units	Beds	Approx. Capex (Rs bn)	Approx. Timeline*
Bangalore	350-400	3-3.3	36 months
Chennai	350-400	4	On hold
Western/Central India	250-300	3	24-36 months
Nashik	325	2-2.5	24-36 months

Source: Company data, I-Sec research

Note: \*- assuming start as Apr'21

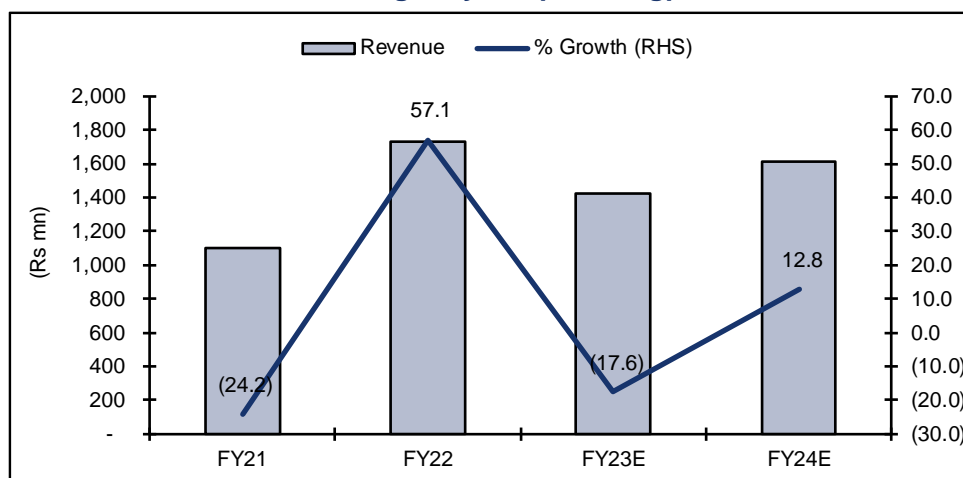
## Maharashtra cluster – Next growth driver

Based on Management, Maharashtra is expected to become the next focus for the company to drive growth. As a go-to-market strategy in the region, KIMS intends to scale up operations in the region by entering into a partnership model with reputed doctors and follow a cluster-based approach. Company has entered into a partnership with Dr. Raj Nagarkar to construct a 325-bed multispecialty hospital in Nashik. KIMS has also recently completed the acquisition of 51% stake in Kingsway Hospital, giving the company an entry into the Nagpur market and further increasing its footprint in Maharashtra. Kingsway is the largest private hospital (in terms of bed capacity) in Nagpur, with 334 beds currently. It was commissioned in CY19 and can expand to 500 beds with marginal capex. While the typical ARPOB in the region stands at ~Rs27,000 to ~Rs30,000, KIMS is expected to clock slightly lower ARPOB as it intends to lower its prices, compared to competitors. Company is also actively exploring opportunities in Mumbai/Thane to further expand its presence in the western region.

**Table 6: Key metrics for Kingsway Hospital, Nagpur**

Key Parameters	FY22-23 (YTD July)
Total no: of beds	334
Operational beds	250
Occupied beds	132
Occupancy % (on operational beds)	53
Revenue (Rs mn)	475.8
ARPOB (Rs)	22,439
ALOS	3.07
ARPP (in Rs)	69005
EBITDA (Rs mn)	24
EBITDA (%)	5.1

Source: Company data, I-Sec research

**Chart 11: Revenues from Kingsway Hospital, Nagpur**

Source: Company data, I-Sec research

**Chart 12: Focus areas for Maharashtra cluster**

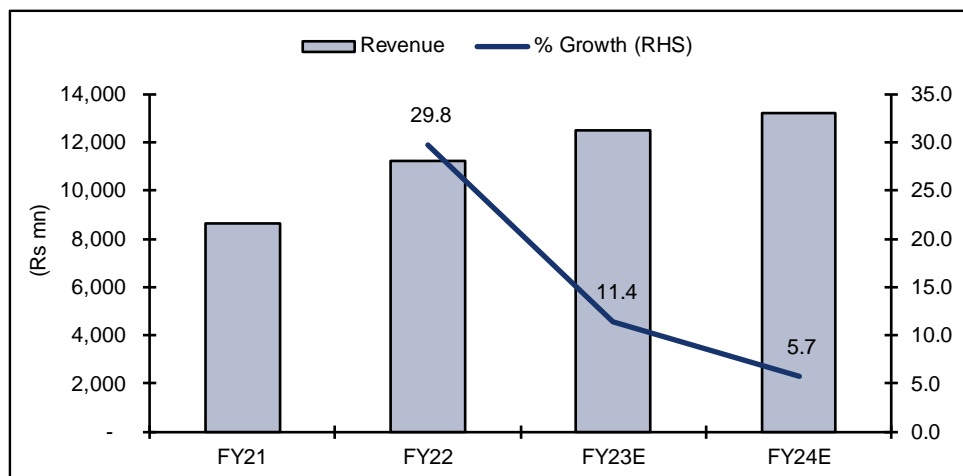
Source: Company data, I-Sec research

## Matured clusters drive profitability

KIMS has two mature clusters, namely Telangana and Andhra Pradesh (Nellore, Rajahmundry and Srikakulam).

### Telangana mature cluster: Largest and most profitable

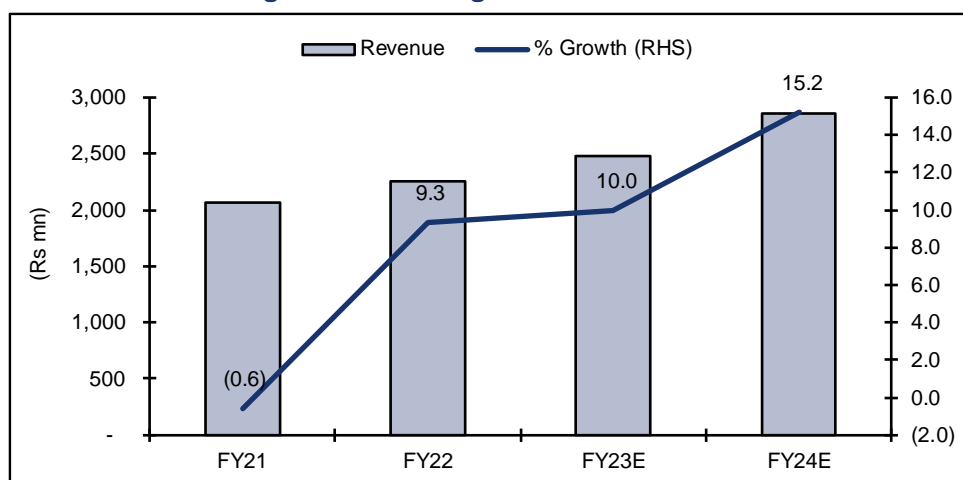
This cluster has two centres – KIMS Secunderabad and KIMS Kondapur – with a combined capacity of 1,200 beds. This cluster accounts for ~67% of overall sales and ~75% of EBITDA. Occupancy (on operational beds) stands at ~75% for FY22. This cluster delivers higher ARPOB, given higher pricing in tier-1 cities like Hyderabad. The company's ARPOB in this cluster witnessed a strong growth from Rs39,600 in FY21 to Rs46,745 in FY22, on account of high-end work done during covid-19 on the lung transplant and ECMO services. We expect ARPOB to decline by 4.2% over FY22-FY24E to ~Rs42,900 on the high base of FY22. Company intends to add 500 beds by FY25, taking the total capacity to 1,700 beds. We expect revenue growth of ~8.5% over FY22-FY24E with margins at ~33%.

**Chart 13: Revenue growth in Telangana mature assets**

Source: Company data, I-Sec research

### Andhra Pradesh mature cluster: Lower ARPOB with capacity constraints

This cluster has three centres – Nellore, Srikakulam and Rajamundhry – with a combined capacity of 630 beds. Occupancy (on operational beds) stands at ~79% for FY22. Lower ARPOB is due to higher contribution of Aarogyasri patients and presence in tier-2 cities. Company's ARPOB increased from Rs13,558 in FY19 to Rs15,194 in FY22 and we expect it to grow at 7.5% CAGR over FY22-FY24E to ~Rs17,500. Company is currently facing capacity constraints and expects to add more beds in two of its centres to cater to the demand. We expect revenue to grow at a CAGR of 12.6% over FY22-FY24E with margins at ~26%.

**Chart 14: Revenue growth in Telangana mature assets**

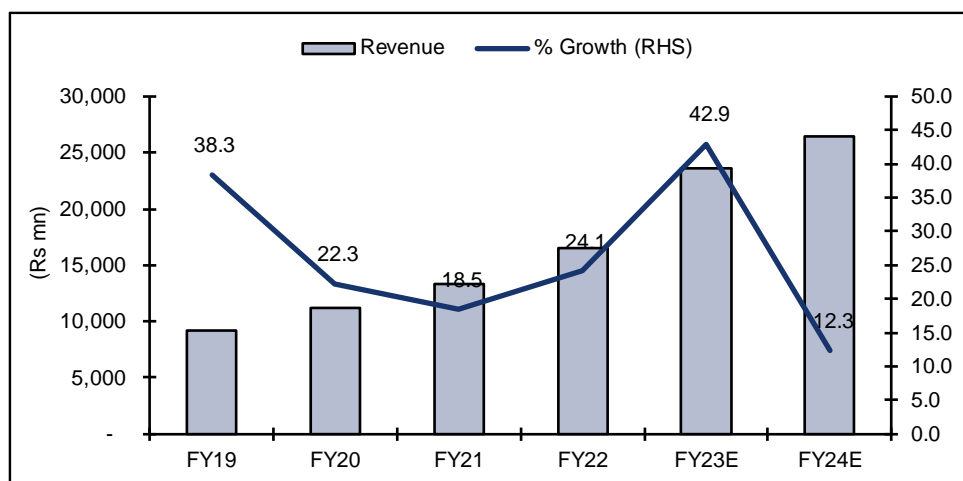
Source: Company data, I-Sec research

## Financial analysis

### We expect revenue to grow at 26.7% CAGR over FY22-FY24E

Krishna Institute of Medical Sciences' (KIMS) revenue grew 23.8% to Rs16.5bn over FY17-FY22 driven by acquisitions and improving metrics. We expect the trend to continue over FY22-FY24E resulting in a CAGR of 26.7% over the same period, including the consolidation of Sunshine Hospitals and Kingsway Hospital. Excluding these acquisitions, we expect revenue from the existing hospitals to grow at a CAGR of 10.4% over FY22-FY24E.

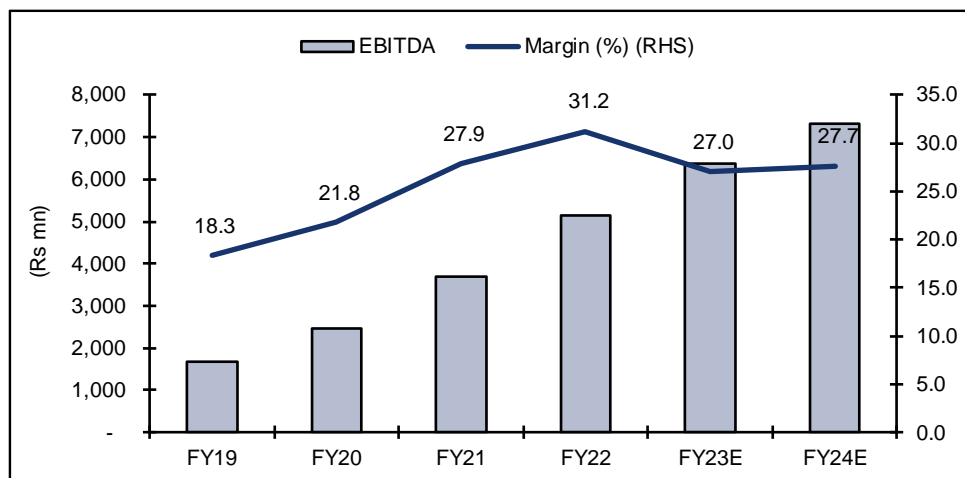
**Chart 15: Revenue trend**



Source: Company data, I-Sec research

### Expect EBITDA margin to settle at ~28%

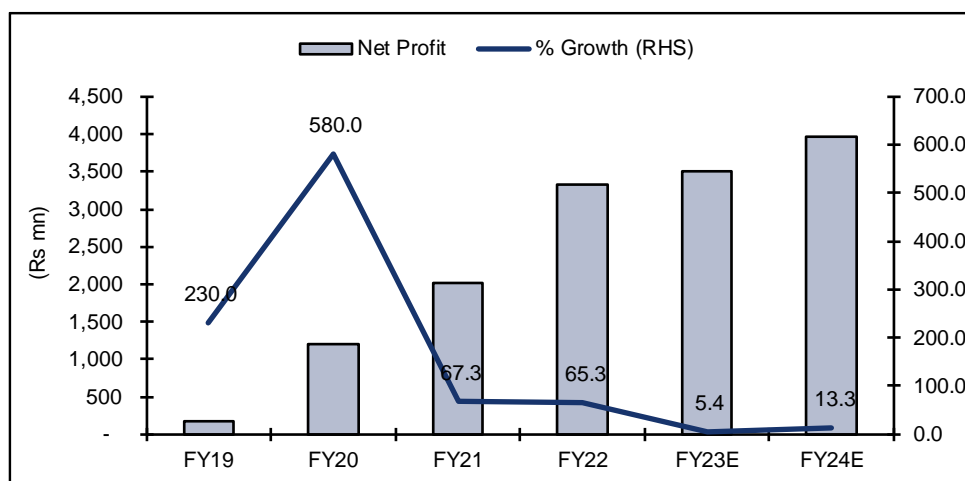
Company's EBITDA margin has seen a sharp improvement from 20.4% to 31.2% over FY17-FY22 driven by improvement in occupancies and ARPOB in the acquired assets in Andhra Pradesh. This resulted in EBITDA CAGR of 34.8% to Rs5.2bn over FY17-FY22. However, normalization of costs and amalgamation of EBITDA dilutive assets would likely result in margin contraction to ~28% by FY24E. This would imply a growth of 19.2% in absolute terms for EBITDA over FY22-FY24E.

**Chart 16: EBITDA and margins**

Source: Company data, I-Sec research

**Profit performance**

KIMS' net profit grew at 59.2% CAGR to Rs3.3bn over FY17-FY22 driven by strong improvement in operating performance. We expect the trend to follow with a CAGR of 9.3% to Rs4.0bn over FY22-FY24E, with higher depreciation expenses on account of the acquisitive activities and incremental bed additions.

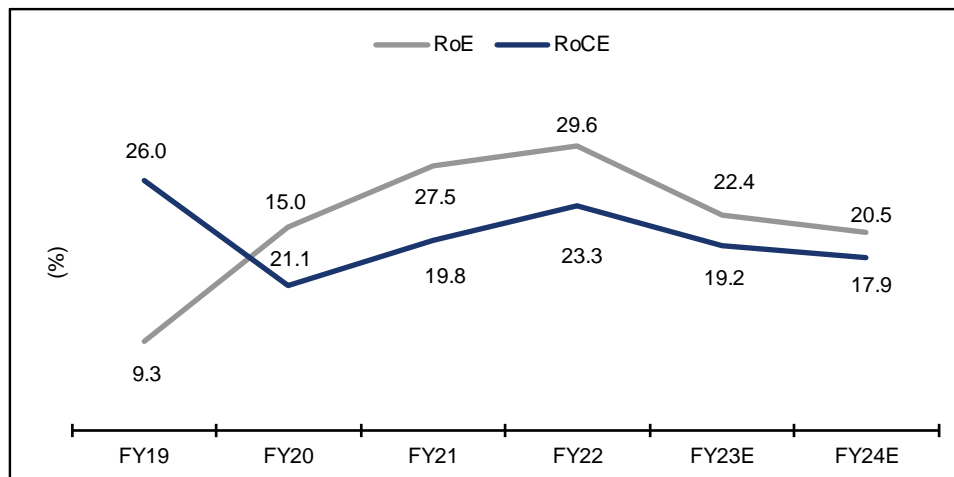
**Chart 17: Profit trend**

Source: Company data, I-Sec research

## Return ratios

Company's return ratios have improved in tandem with revenue growth, which helped raise profitability.

**Chart 18: Return ratios**

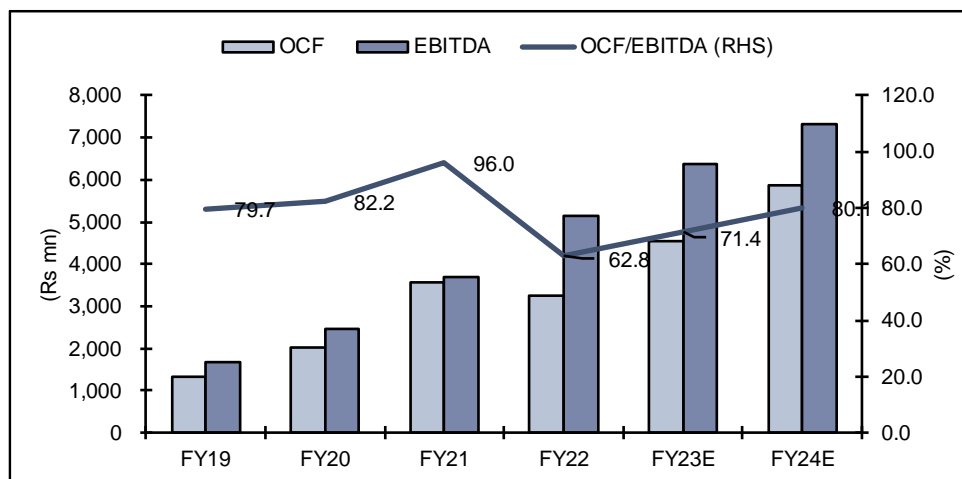


Source: Company data, I-Sec research  
RoE: Return on Equity, RoCE: Return on capital employed

## Operating cashflow

Company has been continually generating healthy operating cashflow. OCF/EBITDA also remains high indicative of strong cash generation.

**Chart 19: Operating cashflow**



Source: Company data, I-Sec research



## Key concerns

### Competitive risks

Higher competition in the areas where Krishna Institute of Medical Sciences (KIMS) has a dominant position may impact occupancy levels and pricing power for the company, hence may impact our growth estimates.

### High gestation period

Hospitals are generally a high-gestation period business, which requires sustained investments for growth. Any delay in turnaround of new hospitals/beds, or a move toward another high capex phase, would delay growth achievement and may impact margins and return ratios in the interim.

### Slow uptake in Maharashtra

With Maharashtra being identified as a key growth driver for the company, slow uptake in Kingsway Hospital, Nagpur, and delay in commencement of Nashik operations may affect the company's growth and strategy in the region.

### Concentration risk

KIMS currently derives all of its revenues (excluding the recent Kingsway acquisition) from Telangana and Andhra Pradesh. In the event of a regional slowdown, political unrest, disruption or sustained economic downturn could adversely affect its business.

## Valuations

We estimate the company's EBITDA to grow at a CAGR of 19.2% over FY22-FY24E driven by revenue CAGR of 26.7%. This would be led by addition of revenue from the recent acquisitions and incremental bed additions on the existing facilities which are margin dilutive. This expansion would also suppress RoCE to ~18% in FY24E from ~23% in FY22. We like the stock, given its dominant position in Telangana and Andhra Pradesh, geographical expansion, strong margin profile and prudent capital allocation by management.

**Table 7: KIMS comparison with peers**

Parameter	Apollo Hosp.	Fortis Health.	Aster DM	HCG	Max Health.*	Narayana Hrud.*	KIMS
<b>FY22 Operational Metrics</b>							
Capacity beds (nos)	8,538	~9,000	5,065	1,979	3,412	6,584	3,064
Operational beds (nos)	7,875	3,931	3,822	1,702	2,275	6,011	2,590
Occupancy (%)	63.0	63.0	63.0	58.3	58.0	55.0	58.5
ARPOB (Rs)	48,324	49,315	66,000	36,697	59,000	32,329	25,323
ALOS (days)	4.0	3.7	3.1	2.3	4.6	4.8	4.8
<b>Financial Highlights</b>							
<b>FY22</b>							
Hospital Revenue (Rs mn)	63,656	42,640	59,160	13,357	39,315	37,013	16,508
Contribution to total sales (%)	43	75	58	96	100	100	100
Hospital EBITDA (Rs mn)	14,553	6,720	10,010	2,380	9,426	6,535	5,217
EBITDA Margin (%)	22.9	15.8	16.9	17.8	24.0	17.7	31.6
Hosp Rev/Operational bed (x)	8.1	10.8	15.5	7.8	17.3	6.2	6.4
Hosp EBITDA/Operational bed (x)	1.8	1.7	2.6	1.4	4.1	1.1	2.0
<b>CAGR (FY17-22)</b>							
Revenue (%)	15.1	4.6	11.6	14.8	19.9	14.7	23.8
EBITDA (%)	24.6	24.8	34.9	17.8	42.6	23.3	34.8
<b>CAGR (FY22-24)</b>							
Revenue (%)	12.8	12.6	10.0	11.9	27.8	12.3	26.2
EBITDA (%)	12.1	10.5	19.3	20.4	35.2	19.2	18.8
<b>Company level</b>							
<b>Return ratios (FY24E)</b>							
ROA (%)	9.5	5.6	7.5	3.9	11.0	11.7	15.6
ROE (%)	18.9	9.7	19.6	9.3	15.4	23.1	20.5
<b>Valuations (FY24E)</b>							
EV/EBITDA	24.8	17.7	7.5	12.0	24.9	29.2	14.5
P/E	47.9	34.1	12.2	41.5	37.6	16.0	27.2

Source: Company data, I-Sec research

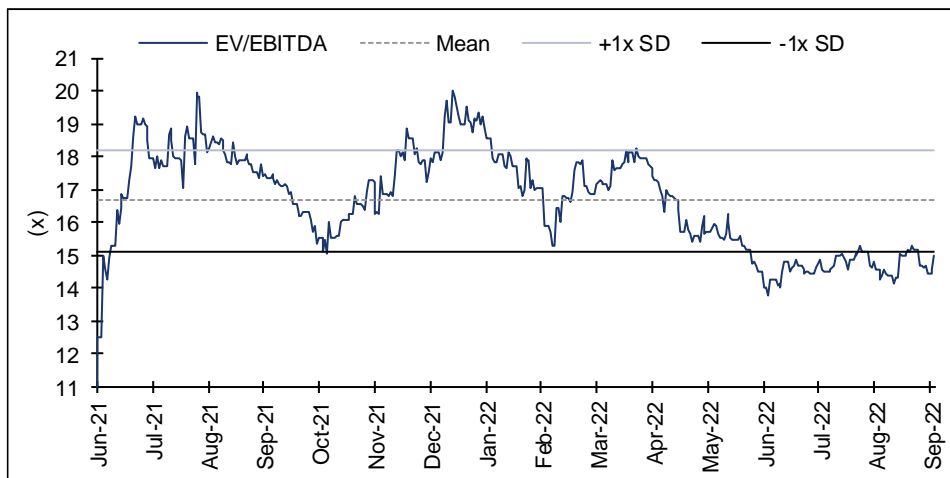
Note: \* - Max Health. & Narayana Hrud. estimates are based on bloomberg consensus

KIMS targets its expansion judiciously to capture the demand where supply is limited especially in tier 2/3 cities. Additionally, their approach towards affordable service results in the one of the lowest ARPOB amongst its peers. Yet it boasts industry leading profitability and return ratios driven by efficiency.

We like the stock, given its dominant position in Andhra Pradesh and Telangana, judicious geographical expansion, strong margin profile and prudent capital allocation by the management. The stock currently trades at valuations of 30.8x FY23E and 27.2x FY24E earnings and EV/EBITDA multiple of 17x FY23E and 14.5x FY24E.

We initiate coverage on the stock with a **BUY** rating and a target price of Rs1,565/share, based on a multiple of 17x FY24E EBITDA (broadly in line with peers) considering its high concentration in its core geography and capturing the risk of fast paced expansion in newer regions.

**Chart 20: 1-year forward EV/EBITDA**



Source: I-Sec research, Bloomberg

## Company background & key management personnel

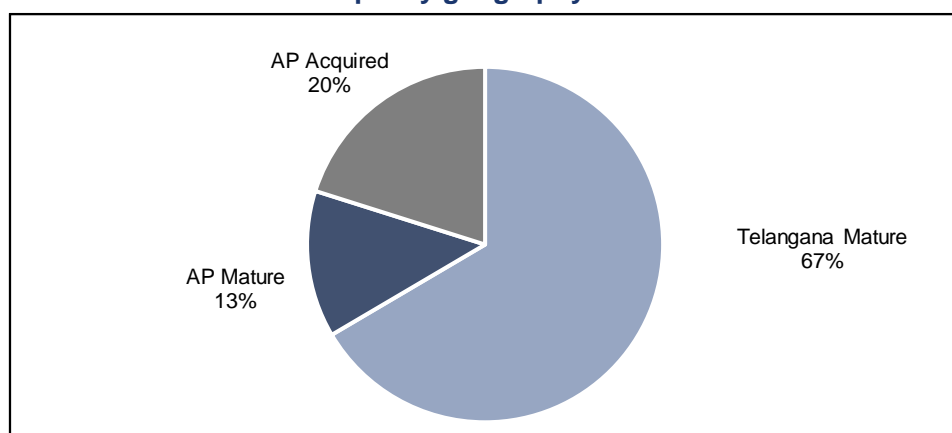
Krishna Institute of Medical Sciences (KIMS) was established by Dr. Bhaskara Rao Bollineni, a renowned cardiothoracic surgeon with over 27 years of experience. He started KIMS Nellore in the year 2000 with the vision to create a hospital system for his home state of Andhra Pradesh, which would be capable of attracting top medical talent and providing high-quality care at affordable prices. Today, the KIMS network consists of hospitals strategically located to serve the healthcare needs of Andhra Pradesh and Telangana across tier-1 cities such as Secunderabad and Hyderabad and rural tier-2&3 areas such as Vizag, Nellore, Rajahmundry, Srikakulam, Ongole, Anantapur and Kurnool. Recently, KIMS acquired majority stake in Sunshine Hospitals (Hyderabad) and Kingsway Hospitals (Nagpur). It has also identified Maharashtra, Bangalore and Chennai as clusters for its next expansion. KIMS has a diversified revenue base across specialties of cardiac sciences, orthopedics, neurosciences, renal sciences and from mother & child segment.

**Table 8: Timeline of events**

Fiscal year	Events
2000	KIMS Nellore established by BRMH. The business division of BRMH, including the hospital, was transferred to the company pursuant to a Scheme in 2012
2004	KIMS Secunderabad established by the company
2010	Investment by Milestone Private Equity Fund in the company
2011	Acquisition of 57.83% equity shareholding of Arunodaya Hospitals Private Limited
2014	KIMS Kondapur established by KIMS Hospital Enterprises Private Limited, a subsidiary company
2015	Investment by India Advantage Fund and Emerging India Fund in the company
2016	Acquisition of KIMS Ongole by way of slump sale agreement
2019	Acquisition of 51% of the equity shareholding of Iconkrishi Institute of Medical Sciences Private Limited
2019	Acquisition of 80% of the equity shareholding of Saveera Institute of Medical Sciences Private Limited
2019	Investment by General Atlantic in the company
2020	Acquisition of 55% of the equity shareholding of KIMS Hospital Kurnool Private Limited
2022	Acquisition of 51% of the equity shareholding of Sunshine Hospitals
2022	Acquisition of 51% of the shareholding in KIMS Manavata Hospitals, Nashik
2022	Acquisition of 51% of the shareholding in Kingsway Hospital , Nagpur

Source: Company data

**Chart 21: Revenue breakup – by geography**



Source: Company data

Note: AP refers to Andhra Pradesh

**Table 9: Key management personnel**

<b>Name</b>	<b>Designation</b>	<b>Background</b>
Dr. Bhaskara Rao Bollineni	Promotor and Managing Director	He holds a bachelor's degree in medicine and surgery from Andhra University and a master's degree in general surgery from Madras Medical College, Chennai. He has also been admitted as a Diplomate of the National Board of Examinations, New Delhi, for the practice of cardio-thoracic surgery. He has over 27 years of experience in cardiothoracic surgery and has in the past held various positions with Apollo Hospitals, Austin Hospital, University of Melbourne and Mahavir Hospital and Research Centre.
Dr. Abhinay Bollineni	CEO	He holds a bachelor's degree in medicine from the Deccan Medical College. He participated in the International <i>Visitor Leadership Program on Oncology: Research, Prevention and Treatment</i> held by the US Department of State. Under this program, he undertook training in diagnosis, treatment methods, alternative therapies, support groups and follow-up care for cancer patients and their families. Additionally, he played a key role in establishing KIMS Kondapur in 2014.
Vikas Maheshwari	CFO	He has been associated with the company since 1 <sup>st</sup> May'17. He has completed his bachelor's degree in commerce from Lucknow University and has been admitted as an associate of the Institute of Chartered Accountants of India. He has over 24 years of experience in accounting, finance and treasury. He has previously been associated with Endurance Technologies Private Limited, Aurobindo Pharma Limited, Gati Limited, ABP Private Limited, and Limtex Tea & Industries Limited.

Source: Company data

## Financial summary (Consolidated)

**Table 10: Profit and Loss statement**

*(Rs mn, year ending Mar 31, unless otherwise specified)*

	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Telangana Mature	8,639	11,214	12,496	13,213
AP Mature	2,060	2,252	2,477	2,853
AP Acquired	2,781	3,392	3,545	4,056
New Hospitals			5,078	6,380
Intercompany eliminations	(181)	(350)	-	-
<b>Net Sales</b>	<b>13,299</b>	<b>16,508</b>	<b>23,595</b>	<b>26,502</b>
<b>Less:</b>				
COGS	2,889	3,552	5,274	5,883
Employee cost	2,202	2,619	4,165	4,638
Others	4,499	5,180	7,786	8,653
<b>Total Operating Expenses</b>	<b>9,591</b>	<b>11,350</b>	<b>17,224</b>	<b>19,174</b>
<b>EBITDA</b>	<b>3,709</b>	<b>5,158</b>	<b>6,371</b>	<b>7,328</b>
Depreciation	695	727	1,170	1,485
Other income	102	203	213	223
<b>EBIT</b>	<b>3,115</b>	<b>4,634</b>	<b>5,413</b>	<b>6,066</b>
Less: Financial expenses	325	160	231	208
Extraordinary Items	-	-	-	-
<b>Recurring Pre-tax Income</b>	<b>2,790</b>	<b>4,473</b>	<b>5,183</b>	<b>5,858</b>
Less: Taxation	735	1,131	1,306	1,476
Less: Minority Interest / Subsidiary loss	43	111	371	409
Add: Share of profit/(loss) from asso.	-	95	-	-
<b>Reported Income</b>	<b>2,012</b>	<b>3,327</b>	<b>3,505</b>	<b>3,973</b>
<b>Adjusted Net Income</b>	<b>2,012</b>	<b>3,327</b>	<b>3,505</b>	<b>3,973</b>

Source: Company data, I-Sec research

**Table 11: Balance sheet***(Rs mn, year ending Mar 31, unless otherwise specified)*

	FY21	FY22	FY23E	FY24E
<b>ASSETS</b>				
<b>Current Assets, Loan &amp; Advances</b>				
Current investments	-	-	-	-
Inventories	241	364	553	615
Sundry debtors	1,098	1,286	1,839	2,065
Cash and bank balances	2,844	1,901	2,721	4,383
Loans and advances	-	-	-	-
Other current assets	624	953	997	1,015
<b>Total Current Assets</b>	<b>4,808</b>	<b>4,504</b>	<b>6,109</b>	<b>8,078</b>
<b>Current Liabilities &amp; Provisions</b>				
Current Liabilities	1,567	1,466	2,094	2,316
Provisions and other liabilities	332	382	148	166
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,899</b>	<b>1,848</b>	<b>2,242</b>	<b>2,482</b>
<b>Net Current Assets</b>	<b>2,909</b>	<b>2,656</b>	<b>3,867</b>	<b>5,596</b>
<b>Other Non-current assets</b>	<b>121</b>	<b>953</b>	<b>1,362</b>	<b>1,529</b>
<b>Investments</b>	<b>-</b>	<b>3,325</b>	<b>-</b>	<b>-</b>
<b>Fixed Assets</b>				
Tangible Assets	8,216	8,887	11,217	13,232
Intangible assets	247	318	318	318
Goodwill	848	848	4,173	4,173
<b>Total fixed assets</b>	<b>9,311</b>	<b>10,052</b>	<b>15,707</b>	<b>17,722</b>
<b>CWIP</b>	<b>92</b>	<b>208</b>	<b>208</b>	<b>208</b>
Miscellaneous Expenses not written off				
<b>Total Assets</b>	<b>12,433</b>	<b>17,193</b>	<b>21,143</b>	<b>25,055</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders Fund</b>				
Equity share capital	776	800	800	800
Reserves and surplus	7,861	13,073	16,578	20,551
<b>Total Shareholders Fund</b>	<b>8,637</b>	<b>13,873</b>	<b>17,378</b>	<b>21,351</b>
<b>Borrowings</b>				
Long term	2,279	2,263	2,263	1,763
Short term	884	302	302	302
<b>Total Borrowings</b>	<b>3,164</b>	<b>2,565</b>	<b>2,565</b>	<b>2,065</b>
<b>Deferred Tax Liability</b>	<b>329</b>	<b>347</b>	<b>347</b>	<b>347</b>
<b>Minority interest</b>	<b>125</b>	<b>233</b>	<b>605</b>	<b>1,013</b>
<b>Other long term liabilities</b>	<b>179</b>	<b>174</b>	<b>248</b>	<b>278</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>12,433</b>	<b>17,193</b>	<b>21,143</b>	<b>25,055</b>

Source: Company data, I-Sec research



**Table 12: Cashflow statement***(Rs mn, year ending Mar 31, unless otherwise specified)*

	FY21	FY22	FY23E	FY24E
<b>Cash Flow from Operating Activities</b>				
PBT	2,790	4,569	5,183	5,858
Add: Depreciation	695	727	1,170	1,485
Add: Interest expense	325	160	231	208
Less: Taxes	(377)	(1,270)	(1,306)	(1,476)
<b>Operating Cash Flow Before Working Capital change (a)</b>	<b>3,433</b>	<b>4,186</b>	<b>5,277</b>	<b>6,075</b>
<b>Changes in Working Capital</b>				
(Increase) / Decrease Trade & Other receivables	177	(233)	(552)	(226)
(Increase) / Decrease Inventories	63	123	(189)	(63)
Increase / (Decrease) Trade Payables	239	101	628	222
Others	(353)	(937)	(614)	(137)
<b>Working Capital Inflow / (Outflow) (b)</b>	<b>127</b>	<b>(945)</b>	<b>(726)</b>	<b>(204)</b>
<b>Net Cash flow from Operating Activities (a) + (b)</b>	<b>3,560</b>	<b>3,240</b>	<b>4,551</b>	<b>5,871</b>
<b>Cash Flow from Capital commitments (c)</b>	<b>(1,289)</b>	<b>(4,941)</b>	<b>(3,500)</b>	<b>(3,500)</b>
<b>Free Cash flow after capital commitments (a) + (b) + (c)</b>	<b>2,271</b>	<b>(1,701)</b>	<b>1,051</b>	<b>2,371</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of Investments	(2,296)	692	-	-
Other items	42	134	-	-
<b>Net Cash flow from Investing Activities (d)</b>	<b>(2,253)</b>	<b>826</b>	<b>-</b>	<b>-</b>
<b>Cash Flow from Financing Activities</b>				
Increase in Share capital	-	1,917	-	-
Proceeds from fresh borrowings	(334)	(1,190)	-	(500)
Other items	(325)	(160)	(231)	(208)
<b>Net Cash flow from Financing Activities (e)</b>	<b>(659)</b>	<b>566</b>	<b>(231)</b>	<b>(708)</b>
<b>Miscellaneous Items (f)</b>	<b>757</b>	<b>44</b>	<b>-</b>	<b>-</b>
<b>Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d) + (e) + (f)</b>	<b>116</b>	<b>(265)</b>	<b>820</b>	<b>1,663</b>
Opening Cash balance	405	521	256	1,076
Closing Cash balance	521	256	1,076	2,739
<b>Increase / (Decrease) in Cash and Bank balance</b>	<b>116</b>	<b>(265)</b>	<b>820</b>	<b>1,663</b>

Source: Company data, I-Sec research

**Table 13: Key ratios***(Year ending Mar 31)*

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	25.1	41.6	43.8	49.6
Cash EPS	33.8	50.7	58.4	68.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	107.9	173.4	217.2	266.8
<b>Growth (%)</b>				
Net Sales	18.5	24.1	42.9	12.3
EBITDA	51.4	39.1	23.5	15.0
PAT	67.3	65.3	5.4	13.3
Cash EPS	41.8	49.7	15.3	16.7
<b>Valuation Ratios (x)</b>				
P/E	53.7	32.5	30.8	27.2
P/CEPS	39.9	26.6	23.1	19.8
P/BV	12.5	7.8	6.2	5.1
EV / EBITDA	28.8	21.2	17.0	14.5
EV / Sales	8.0	6.6	4.6	4.0
<b>Operating Ratios</b>				
Raw Material / Sales (%)	21.7	21.5	22.4	22.2
Employee cost / Sales (%)	16.6	15.9	17.7	17.5
SG&A / Sales (%)	33.8	31.4	33.0	32.7
Effective Tax Rate (%)	26.4	25.3	25.2	25.2
Working Capital (days)	(5)	(6)	(0)	(1)
Inventory Turnover (days)	10	10	10	11
Receivables (days)	33	26	24	27
Payables (days)	49	42	34	39
Net D/E Ratio (x)	0.0	0.0	0.0	(0.0)
<b>Return/Profitability Ratios (%)</b>				
Net Income Margins	15.1	20.2	14.9	15.0
RoCE	19.8	23.3	19.2	17.9
RoE	27.5	29.6	22.4	20.5
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	27.9	31.2	27.0	27.7

Source: Company data, I-Sec research

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