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Issue Details

Issue Details	
Issue Size (Value in Rs. Million, Upper Band)	21,437
Fresh Issue (No. of Shares in Million)	2.42
Offer for Sale (No. of Shares in Million)	23.56
Bid/Issue opens on	16-Jun-21
Bid/Issue closes on	18-Jun-21
Face Value	Rs. 10
Price Band	815-825
Minimum Lot	18

Objects of the Issue

Fresh Issue: ₹2,000 Million

The company proposes to utilize the Net Proceeds towards funding the following:

- Repayment of borrowings.
- General corporate purposes.

Offer for Sale: ₹19,437 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Kotak Mahindra Capital Company Ltd.
Axis Capital Ltd.
Credit Suisse Securities (India) Pvt. Ltd.
IIFL Securities Ltd.
Registrar to the Offer
Link Intime India Pvt. Ltd.

Capital Structure (₹ Million)	Aggregate Value
Authorized share capital	950
Subscribed paid up capital (Pre-Offer)	776
Paid up capital (Post - Offer)	800

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	46.8	43.5
Public	53.2	56.5
Total	100	100

Financials

Particulars (Rs. In Million)	FY21	FY20	FY19
Revenue from Operations	13,299	11,226	9,180
Other Income	102	61	59
Total Income	13,401	11,287	9,239
Expenses	9,591	8,777	8,371
Finance Cost	325	399	457
Depreciation	695	706	565
Total Expenses	10,611	9,882	9,393
Exceptional Item	-	-	-
Profit before Tax	2,790	1,405	(154)
Tax	735	255	334
Profit after Tax	2,055	1,150	(488)
Non-controlling Interest	43	(41)	(10)
Profit of Owners of Company	2,012	1,191	(478)
EPS (Rs.)	26.42	15.87	(6.91)

Company Description

Krishna Institute of Medical Sciences Ltd is one of the largest corporate healthcare groups, in AP and Telangana in terms of number of patients treated and treatments offered. The company provides multi-disciplinary integrated healthcare services in Tier 1, 2 and 3 cities, operating nine multi-specialty hospitals under the "KIMS Hospitals" brand, with an aggregate bed capacity of 3,064 beds including over 2,500 operational beds, as of March 31, 2021. It offers healthcare services across over 25 specialties and super specialties, including cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother and child care.

The company has grown from a single hospital to a chain of multi-specialty hospitals through organic growth and strategic acquisitions under the leadership of Dr. Bhaskara Rao Bollineni, its founder and Managing Director, and Dr. Abhinay Bollineni, its Executive Director and CEO. The company's first hospital in its network was established in Nellore (AP) in 2000 and has a capacity of approximately 200 beds. Its flagship hospital at Secunderabad (Telangana) is one of the largest private hospitals in India at a single location (excluding medical colleges), with a capacity of 1,000 beds as of March 31, 2021. It has significantly expanded its hospital network in recent years through acquisitions of hospitals in Ongole (AP) in Fiscal Year 2017, Vizag (AP) and Anantapur (AP) in Fiscal Year 2019 and Kurnool (AP) in Fiscal Year 2020. Approximately one-third of 3,064 beds were launched in the last four years. The company has added over 940 beds, in aggregate, in its hospitals in Visakhapatnam (Vizag) (AP), Anantapur (AP), Rajamundry (AP) and Kurnool (AP) in Fiscal Years 2019 and 2021, and improved the overall bed occupancy rate in these hospitals from 71.83% to 78.60% in the same period. It strives to provide quality service to more patients, and the company believes it has scope for additional patients and improved occupancy rates. Its strategic focus on the southern India healthcare market where it has a strong understanding of regional nuances, customer culture and the mindset of medical professionals and where there is significant and growing need for quality and affordable healthcare services. Each of its hospitals also has integrated diagnostic services and pharmacies that cater to its patients.

Dr. Bhaskara Rao Bollineni is a renowned cardiothoracic surgeon in India. He has over 27 years of experience in cardiothoracic surgery and has worked in several other leading medical institutions in the country. He started KIMS Nellore in the year 2000 with the vision to create a hospital system for his home state of AP that is capable of attracting top medical talent and providing high-quality care at affordable prices. Under his leadership, and that of Dr. Abhinay Bollineni, who joined KIMS in 2014, the company has expanded into nine cities across AP and Telangana through a combination of greenfield, brownfield and acquisition-led expansion. Dr. Abhinay assumed its CEO position in 2019 and played a leadership role in expanding the KIMS' network over the last 5 years, including in the launch of KIMS Kondapur and the acquisitions of its hospitals in Ongole (AP), Vizag (AP), Anantapur (AP) and Kurnool (AP). Today, the current network consists of hospitals strategically located to serve the healthcare needs of AP and Telangana across urban Tier 1 cities such as Secunderabad (Telangana) and Hyderabad (Telangana) and more rural Tier 2-3 areas such as Vizag (AP), Nellore (AP), Rajahmundry (AP), Srikakulam (AP), Ongole (AP), Anantapur (AP) and Kurnool (AP). The company believes its hospitals are also situated well to capture patient in-flow across AP and Telangana and from the neighboring states of Karnataka, Odisha, Tamil Nadu and parts of central India. *(Continued in Page 2)*

Valuation

At the upper end of the IPO price band, Krishna Institute of Medical Sciences Ltd. is offered at 32.2x its FY21 earnings, with a market cap of ₹66,014 million.

Given the company's dominant position in the region of Andhra Pradesh and Telangana, diversified revenue across specialties, growth prospects, strong balance sheet along with high RoNW of 23.30% in FY21; we give this IPO a "Subscribe" rating.

The company also believes that affordability and quality of healthcare services provided by it and its track record of building long-term relationships with medical professionals including its doctors, has enabled its growth and helped it build its 'KIMS Hospitals' brand.

The company operates and manages all of its hospitals, which provides it with greater control over its facilities and helps it to better deliver high quality and affordable healthcare services. In Fiscal Year 2021, its nine hospitals recorded ARPOB of ₹ 20,609, a bed occupancy rate of 78.60%, and an ALOS of 5.53 days, on an aggregate basis. In Fiscal Year 2021, ARPOB for its hospitals situated in Tier 1 cities was ₹ 39,571 and ARPOB for its hospitals situated in Tier 2-3 cities was ₹ 11,187.

The company believes that quality care can be achieved by recruiting excellent medical professionals and clinical teams and retaining them over a long term. It has taken significant efforts to create a culture that nurtures its medical talent and encouraged its doctors to become stakeholders in the KIMS hospitals where they work. It believes this culture of empowerment and ownership has led to good talent retention and allowed patients to create long-term relationships with its doctors. Since inception in 2000, it has retained over 80% of its doctors.

The company has approached its network expansion with financial prudence and has been disciplined with taking on financial leverage for capital investments. All of its significant capital investments are carefully deliberated and approved by its experienced Board. Its ability to keep the capex / bed at these levels has been important to its model of providing quality and affordable healthcare services. In Fiscal Year 2020, its capital expenditure per bed was ₹ 6.35 million for hospitals in Tier 1 cities and ₹ 2.21 million for hospitals in Tier 2-3 cities, compared to the industry average of ₹ 5-8 million in Tier 1 cities and ₹ 1-5 million in Tier 2-3 cities. It expects to remain disciplined with expansion. In Fiscal Year 2021, its capital expenditure per bed was ₹ 6.91 million for hospitals in Tier 1 cities and ₹ 2.21 million for hospitals in Tier 2-3 cities.

The company's revenue is diversified across specialties and its doctors. In Fiscal Year 2021, its total income mix was 17.82% from cardiac sciences, 12.55% from neuro sciences, 9.30% from renal sciences, 4.64% from orthopaedics, 5.25% from gastric sciences, 5.71% from oncology, 6.11% from mother & child care, 1.86% from organ transplant, 35.28% from other specialties and 1.48% from other income. In the same year, its top 10 doctors contributed 21.80% of its total income and the top 25 doctors contributed 36.10% of its total income.

Certain of the company's hospitals, including its flagship hospital at Secunderabad (Telangana), have been accredited by the NABH, achieve NABH standards for emergency care and are "green operating theatre" by Bureau VERITAS. As on January 30, 2021, KIMS Secunderabad is the only hospital in AP and Telangana to have an emergency department complying with NABH standards. Its hospitals are equipped with high-quality medical equipment and employ practices and policies which help it provide quality healthcare services to its patients. KIMS Secunderabad was the second hospital in Hyderabad (Telangana) to install the 4-Arm HD da Vinci robotic surgical system, which facilitates complex surgeries that are virtually scarless. KIMS Vizag was one of the first hospitals in AP to have (i) an Endoscopic Ultrasound System with Radial & Linear Scopes; (ii) a 2T scope to perform high end endoscopy procedures such as ESG & therapeutic procedures; and (iii) a Power Spiral Endoscopy for performing end to end enteroscopy through motorized scope. It continues to invest in improving its technological capabilities, training its doctors and other healthcare professionals, increasing day-to-day operational efficiencies, and finding new ways to engage and retain patients.

The company also conducts medical education programs through its affiliations with state medical boards and universities, for various broad and super specialties at its hospitals in Telangana at Secunderabad and Kondapur, including for DNB and post-doctoral fellowship programs. As of March 31, 2021, there were 230 students enrolled in its DNB and post-doctoral fellowship programs. It also offers post-graduate, undergraduate and diploma programs that are affiliated with Kaloji Narayana Rao University of Health Sciences and the Telangana Para Medical Board.

The company experienced a negative CAGR of (3.96)% for its outpatient volume from 2019 to 2021 mainly due to COVID-19 related lockdown, quarantines and other travel related restrictions, which resulted in fewer people traveling to its hospitals to seek outpatient treatment. Its negative outpatient volume CAGR was offset by 2.31% growth of inpatient volume, which resulted in growth of total income, as a large proportion of its inpatients during the COVID-19 pandemic were critical and complex cases with longer stays as well as multiple procedures and treatments being administered throughout the patient's hospitalization.

Particulars	As of and for the year ended March 31,			2019-2021 CAGR
	2021	2020	2019	
Bed Capacity	3,064	3,004	2,804	5%
Bed occupancy rate (%)	79%	80%	72%	-
Inpatient Volume	1,16,592	1,40,676	1,11,382	2%
Outpatient Volume	28%	22%	19%	-
Total Income (₹ in millions)	13,401	11,287	9,239	20%
Profit/(loss) before tax expense (₹ in millions)	2,790	1,405	(154)	-
Adjusted Profit Before Tax Expense (₹ in millions)	2,790	1,405	837	83%
Profit/(loss) for the year (₹ in millions)	2,055	1,151	(488)	-
Adjusted EBITDA (₹ in millions)	3,810	2,511	1,740	48%
Adjusted EBITDA Margin	28%	22%	19%	-

Strengths:

- **Regional leadership driven clinical excellence and affordable healthcare:** The Company is one of the largest corporate healthcare groups in AP and Telangana in terms of number of patients treated and treatments offered. It had total income of ₹ 11,287.28 million and Adjusted EBITDA of ₹ 2,510.79 million for Fiscal Year 2020, which were the highest in AP and Telangana. For Fiscal Year 2021, Its total income was ₹ 13,401.02 million and its Adjusted EBITDA was ₹ 3,810.48 million. It has 3,064 beds across nine multi-specialty hospitals in AP and Telangana as of December 31, 2020, which is 2.2 times more beds than the second largest provider in AP and Telangana.
- **Ability to attract, train and retain high quality doctors, consultants and medical support staff:** The Company maintains its standard of high quality healthcare by consistently employing a diverse pool of talented doctors, nurses and paramedical professionals. Its multi-disciplinary approach, combined with its affordable cost for treatment, a high-volume tertiary care model, and its focus on teaching and research, has helped it attract and retain high quality doctors and other healthcare professionals. Many of its specialists, physicians and surgeons have been trained in premier medical institutions across the world and have received accolades and awards. For example, Dr. Raghuram was conferred Officer of the British Empire by Her Excellency Queen Elizabeth II in December 2020. Further, recently, the Indian Academy of Neurology has instituted the "Dr. Surath Mohan Das Award" from 2021 for the "Best paper in Autoimmune Disorders" to be awarded at the annual conference of Indian Academy of Neurology.
- **Track record of strong operational and financial performance:** The Company has grown from a single, approximately 200-bed hospital at Nellore (AP) in 2000 to a leading multi-disciplinary integrated private healthcare service provider with nine multi-specialty hospitals and over 3,000 beds today. It believes that it has consistently delivered strong operational and financial performance through strong patient volumes, cost efficiency and diversified revenue streams across medical specialties. It has achieved healthy profitability in both Tier 1 and Tier 2-3 markets by identifying markets with significant underserved healthcare demand and delivering quality healthcare services at affordable prices, which in turn drives patient volumes. Its hospitals in Tier 1 markets provide higher margin services such as organ transplants, oncology and neuro-critical care, resulting in higher ARPOB and EBITDA.
- **Well positioned to consolidate in India's large, unorganized yet rapidly growing and underserved affordable healthcare market:** The healthcare industry in India is poised for growth. The Indian healthcare delivery industry is expected to grow at a 17-18% CAGR (2020 - 2024E) and reach ₹ 7.07 trillion by 2024. In Fiscal Year 2020, 68% of hospital treatments, in terms of the treatment value, were carried out in private hospitals, and the number is expected to reach 72% in Fiscal Year 2024.
- **Experienced senior management team with strong institutional shareholder support:** The Company benefits from an experienced senior management team which has made significant contributions to its growth and has a long and proven track record in the healthcare services industry. It believe that a professionally managed team with a commitment to patient care and ethical standards enables it to operate its facilities efficiently while at the same time providing quality affordable healthcare to its patients.

Strategies:

- **Strengthen its existing hospitals and specialties:** The Company intends to strengthen its existing hospitals by further balancing its specialty mix and deepening its expertise in select specialties. It has identified cardiac sciences, neurosciences, gastric sciences, orthopaedics, renal sciences, interventional pulmonology, palliative care, immunology and palliative care as specialties that we intend to further strengthen and grow. In the area of organ transplantation, we recently expanded its clinical team in Secunderabad (Telangana) to provide heart and lung transplants in addition to other organ transplant services (liver and kidney, among others). We intend to offer organ transplantation services in more of its hospitals in the future. We also aim to strengthen its oncology services by adding radiation and surgical services and introducing oncology services at more of its hospitals. We plan to continue to focus on, and expand its ability to provide, complex and advanced quaternary healthcare in various specialties, and to launch mother & child care services in more of its hospitals.
- **Strategically grow its presence in adjacent markets:** The company plans to expand its hospital network into markets that are adjacent to its core markets of AP and Telangana, initially focusing on the following areas: Bangalore, Bhubaneswar, Chennai, Indore, Aurangabad, Nagpur & Raipur.
- **Implementation of initiatives to improve existing operational efficiencies:** The Company aims to improve its occupancy rates and the utilization of key equipment and operating theatres by expanding delivery of tertiary care services, growing its preventive healthcare and health screening programs and increasing community outreach programs. IT monitors its costs of pharmacy and consumables, human resources costs and other administrative costs very closely. It has a dedicated business intelligence team that works closely with key departments to monitor and optimize its operational costs. The same team also monitors turnaround time of key metrics such as patient admissions, waiting and discharges, as well as other lab and pharmacy metrics.
- **Invest in digital health care and technology:** The Company is focused on developing a healthcare ecosystem that utilizes digital healthcare technologies to offer patients a fully integrated approach to manage their journey towards health and wellness. It believes that incorporating new technologies into its operations and expanding its digital capabilities will improve patient care, expand the scope of treatments that it offers and lead to greater affordability, efficiency and cost savings.

Industry Snapshot:**Structure of the healthcare delivery industry in India**

The healthcare delivery market, consisting of hospitals and diagnostic centres, to account for a major share of the healthcare pie (71%), followed by domestic pharmaceuticals (20%) and medical devices market (9%) as of fiscal 2020.

The Indian healthcare delivery market is estimated at ₹ 4.3 trillion in fiscal 2021

The Indian healthcare delivery market at ₹ 4.3 trillion in value terms and 1.7 billion treatments in volume terms (inclusive of both in-patient and out-patient) in fiscal 2021, with the growth being contributed by the increased government expenditure onto the sector to combat Covid-19 as private hospitals are expected to witness a decline in revenues. In value terms, the IPD is expected to account for nearly 69%, while OPD is likely to account for the remaining. Though in terms of volumes, OPD is estimated to outweigh IPD volumes, with the latter contributing the bulk of the revenues to healthcare facilities. The share of IPD (in value terms) is expected to grow from 69% in the current fiscal year to nearly 74% in fiscal 2024.

Key growth drivers of healthcare delivery industry

- Government policies to improve healthcare coverage.
- Strengthening of physical health infrastructure: Sub-centres.
- Strengthening of physical health infrastructure: Government hospitals.
- Expansion of health insurance coverage: Ayushman Bharat.
- With life expectancy improving and changing demographic profile, healthcare services are a must.
- Population in 60+ age group to grow faster.
- Rising income levels to make quality healthcare services more affordable.
- Growing health insurance penetration to propel demand.

Competitive Landscape

The company faces regional competition from players which operate in the same region and localities. It faces competition mainly from other providers who offer secondary and tertiary healthcare services across specialties. Its principal competitors in India include international and national players with multiple facilities, such as Apollo Hospitals, Fortis Healthcare, Narayana Health and Care Hospitals, as well as regional or standalone hospitals. In addition, some of the hospitals that compete with it are owned by Government agencies or non-profit entities supported by endowments and charitable contributions.

Key Risk:

- The company is highly dependent on its healthcare professionals, including doctors that it engages on a consultancy basis, and its business and financial results could be impacted if it is not able to attract and retain such healthcare professionals.
- The company's revenues are highly dependent on its hospitals in Hyderabad (Telangana). It is also significantly dependent on certain specialties for a majority of its revenues. Any impact on the revenues from these hospitals or earnings from its top specialties could materially affect its business, financial condition, results of operations and cash flows.
- Certain lands on which the company's hospital buildings and ancillary facilities are operating are not owned by it and not leased on a perpetual basis. Any adverse impact on the title or ownership rights of the owner or breach of the terms or nonrenewal of the license agreement may lead to disruptions and affect its business operations.
- The company operates in a highly regulated industry, and compliance with applicable safety, health, environmental and other governmental regulations and any violations of existing regulations may adversely affect its business, results of operations and cash flows.

Comparison with Listed Industry Peers

Name of Company	Face Value (Rs. / Share)	P/E	EPS	RoNW (%)	NAV (Rs. Per Share)
Krishna Institute of Medical Sciences Ltd.	10	*	26.42	23.30%	115.36
Peer Group					
Apollo Hospitals Enterprise Ltd.	5	101.39	32.70	12.91%	240.10
Fortis Healthcare Ltd.	10	NA	(1.45)	1.37%	88.98
Narayana Hrudayala Ltd.	10	NA	(0.70)	10.48%	54.85
Max Healthcare Institute Ltd.	10	NA	(1.59)	9.66%	57.34

Source: Financial Information of Krishna Institute of Medical Sciences Ltd, Fortis Healthcare Limited, Narayana Hrudayalaya Limited and Max Healthcare Institute Limited has been sourced from the financial statements for the year ended March 31, 2021 and financial information of Apollo Hospitals Enterprise Limited has been sourced from the annual report for the year ended March 31, 2020. P/E Ratio has been computed based on the closing market price of equity shares on NSE on June 7, 2021, divided by the Diluted EPS.

Valuation:

At the upper end of the IPO price band, Krishna Institute of Medical Sciences Ltd. is offered at 32.2x its FY21 earnings, with a market cap of ₹66,014 million.

Given the company's dominant position in the region of Andhra Pradesh and Telangana, diversified revenue across specialties, growth prospects, strong balance sheet along with high RoNW of 23.30% as in FY21; we give this IPO a "Subscribe" rating.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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