

June 15, 2021

Started by renowned cardiothoracic surgeon Dr Bhaskara Rao Bollineni in 2000, Krishna Institute of Medical Sciences (KIMS) is one of the largest corporate healthcare groups in Andhra Pradesh and Telangana. As of FY21, KIMS operates nine multi-specialty hospitals with a bed capacity of 3,064, including over 2,500 operational beds. It offers a comprehensive range of healthcare services across 25 specialties and super specialties. The company has a 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. In FY21, KIMS recorded ARPOB of ₹ 20,609, a bed occupancy rate of 78.60% and an ALOS of 5.53 days, on an aggregate basis.

## Strong hospital chain pedigree in AP, Telangana

KIMS owns one of the largest hospital chains in AP and Telangana. It reported ₹ 1340.1 crore of revenues and ₹ 381.0 crore of adjusted EBITDA in FY21, the highest in AP and Telangana. It has 3,064 beds as of 9MFY21, which is 2.2x more beds than the second largest provider in these regions.

## Strong financial track record

KIMS has achieved healthy profitability in both Tier I and Tier II, III markets by identifying markets with significant underserved healthcare demand and delivering quality healthcare services at affordable prices, which, in turn, drives patient volumes. As of FY21, KIMS' debt-to-adjusted EBITDA ratio was 0.71x and gearing ratio was 0.31x compared to industry range of 0.1-5.2x. It has achieved strong free cash flow by effectively managing capex. **KIMS is one of only three hospitals in India that are rated AA by Crisil.**

## Key risk & concerns

- Risk of additional Covid-19 waves
- Highly dependent on hospitals in Hyderabad (Telangana)
- Geographical risk – All revenues derived from AP and Telangana
- Concern on increase in competition
- Retention of talent – Risk of increase in attrition rate

## Priced at FY21 EV/EBITDA of 17x on upper band

Amid advantage of regional dominance, operational efficiency, KIMS has demonstrated one of the best financial performances among peers. It also has almost net debt free b/s, healthy FCF in FY21 despite operating in an asset heavy industry. KIMS' ability to turn around acquired assets also seems one of the best in industry. Hence, based on current performance, we assign **SUBSCRIBE** for listing gain. However, due to steep competition, expanding in others geographies may depress its financials, going ahead.

## Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Total Revenues	923.9	1128.7	1340.1	20.4%
EBITDA	81.0	245.0	370.9	114.0%
EBITDA Margins (%)	8.8%	21.7%	27.7%	
PAT	-48.8	115.1	205.5	
EPS (₹)	-6.3	14.8	26.5	
P/E (x)	-16.7	7.1	4.0	
P/B (x)	1.4	1.3	0.9	
RoE (%)	-8.6	18.8	23.5	
RoCE (%)	2.8	18.6	25.9	

Source: RHP, ICICI Direct Research



### Particulars

#### Issue Details

Issue Opens	16th Jun 2021
Issue Closes	18th Jun 2021
Issue Size (₹ crore)*	₹ 2143.74 crore
Fresh Issue	₹ 200 crore
Price Band (₹)	₹ 815 - ₹ 825
No. of Shares on Offer (in crore)	2.6
QIB (%)	75
Retail (%)	10
Minimum lot size (no of shares)	18

\* based on upper price band of ₹ 825

### Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	46.8	38.8
Public	53.2	61.2

### Objective of issue

Objects of issue	₹ crore
Repayment/Pre-payment of Borrowings	150.0
General corporate purposes	50.0
<b>Total Fresh Issue</b>	<b>200.0</b>
<b>Offer for Sale</b>	<b>1943.7</b>

\*Upper Band

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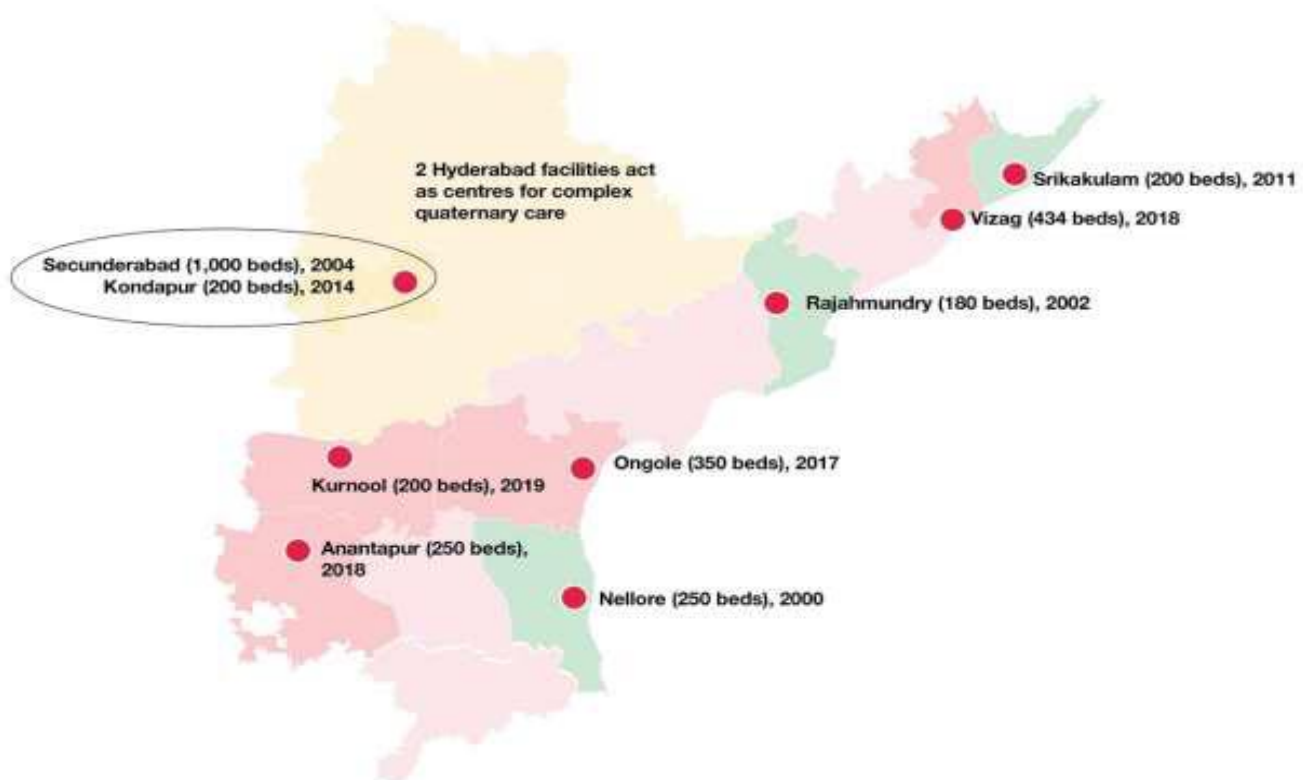
## Company background

Started by renowned cardiothoracic surgeon Dr Bhaskara Rao Bollineni in 2000, Krishna Institute of Medical Sciences (KIMS) is one of the largest corporate healthcare groups in AP and Telangana. Currently, KIMS operates nine specialty hospitals with a bed capacity of 3,064, including over 2,500 operational beds as of FY21, which is 2.2x more beds than the second largest provider in AP and Telangana. It offers a comprehensive range of healthcare services across over 25 specialties and super specialties, including cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother & childcare. KIMS has a 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 KIMS hospitals also has integrated diagnostic services and pharmacies.

KIMS has grown from a single hospital to a chain of multi-specialty hospitals through organic growth and strategic acquisitions. The company's flagship hospital at Secunderabad (Telangana) is one of the largest private hospitals in India at a single location (excluding medical colleges), with capacity of 1000 beds.

It added over 940 beds, in hospitals in Vizag (AP), Anantapur (AP), Rajahmundry (AP) and Kurnool (AP) in FY19-21 and improved overall bed occupancy rate in these hospitals from 71.83% to 78.60% in the same period.

Exhibit 1: Network hospital Map



Source: RHP, ICICI Direct Research

**Exhibit 2: Key hospital wise operational metrics**

<b>FY21</b>	<b>Secunderabad</b>	<b>Nellore</b>	<b>Rajahmundry</b>	<b>Srikakulam</b>	<b>Kondapur</b>	<b>Ongole</b>	<b>Vizag</b>	<b>Anantapur</b>	<b>Kurnool</b>
Ownership %	100%	100%	100%	58%	86%	100%	51%	80%	55%
Bed capacity	1,000	250	180	200	200	350	434	250	200
Operational beds	885	250	180	150	150	246	314	215	200
Bed occupancy rate (%)	66.2%	88.7%	82.8%	63.8%	82.2%	96.7%	88.6%	97.7%	64.0%
ALOS (days)	5.0	5.1	4.8	4.9	3.9	8.2	6.2	6.0	4.6
ARPOB (₹ per day)	38,478.0	13,563.0	15,035.0	11,445.0	44,965.0	8,915.0	11,897.0	10,785.0	12,380.0
Inpatient volume	35,818.0	13,571.0	10,477.0	6,455.0	9,269.0	9,925.0	11,238.0	10,654.0	9,185.0
Outpatient volume	2,53,174.0	1,24,126.0	47,265.0	37,787.0	78,535.0	88,400.0	85,803.0	58,298.0	56,823.0
Hospital revenue (₹ in millions)	684.5	94.4	75.0	36.0	162.0	72.7	82.4	69.2	52.1
Revenue from inpatients (₹ in millions)	575.9	60.2	47.5	23.8	132.3	48.3	66.1	52.7	41.2
Revenue from outpatients (₹ in millions)	108.6	34.2	27.4	12.1	29.6	24.4	16.2	16.5	10.8
EBITDA (₹ in millions)	243.3	27.8	19.6	5.3	41.9	23.0	13.9	6.0	3.9
EBITDA margin	34.8%	29.4%	26.1%	14.5%	25.6%	31.6%	16.7%	8.7%	7.4%
Margins Improvement bps	681	418	336	-399	86	1520	1981	12	991
% of total Sales	22.3%	-0.8%	3.7%	-7.6%	14.7%	27.9%	48.0%	18.7%	27.5%
% of EBITDA	29.5%	-20.0%	-4.0%	-27.2%	11.0%	33.6%	58.2%	21.1%	10.9%
Year of commencement	2004	2000	2002	2011	2014	2017	2018	2018	2019

Source: RHP, ICICI Direct Research

In FY21, KIMS' 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 FY21, ARPOB for hospitals in Tier I cities was ₹ 39,571 and ARPOB for hospitals in Tier II, III cities was ₹ 11,187. Since inception in 2000, the company has retained over 80% of doctors.

**Exhibit 3: Key operational metrics**

<b>Years</b>	<b>Bed Capacity</b>	<b>Operating beds</b>	<b>Bed occupancy rate</b>	<b>Inpatient Volume</b>	<b>Outpatient Volume</b>	<b>ALOS</b>	<b>ARPOB</b>	<b>Hospital Revenues</b>	<b>Rev from inpatients</b>	<b>Rev from outpatients</b>
2018	2,120	1,705	75.8%	88,577	6,61,000	4.49	18,807	7,474.8	594.7	152.8
2019	2,804	2,209	71.8%	1,11,382	9,00,043	4.47	18,334	9,132.8	717.7	195.6
2020	3,004	2,434	80.5%	1,40,676	11,37,560	4.34	18,307	11,187.4	879.9	238.8
2021	3,064	2,590	78.6%	1,16,592	8,30,211	5.53	20,609	13,280.3	1,048.1	280.0

Source: RHP, ICICI Direct Research

## Competitive Strengths

### Regional leadership driven clinical excellence and affordable healthcare

KIMS is one of the largest corporate healthcare groups in AP and Telangana in terms of number of patients treated and treatments offered (source Crisil). The company had total income of ₹ 1340.1 crore and adjusted EBITDA of ₹ 381.0 crore in FY21, which were the highest in AP and Telangana. KIMS has 3,064 beds across nine multi-specialty hospitals in AP and Telangana as of 9MFY21, which is 2.2x more beds than the second largest provider in AP and Telangana. It has over 20 years of expertise in AP and Telangana. KIMS leadership in AP and Telangana are driven by (i) its clinical excellence and (ii) affordable pricing.

**Clinical excellence:** The company provides treatment for complex and chronic diseases covering primary, secondary, tertiary and quaternary healthcare. In addition to providing core medical, surgical and emergency services, it provides complex and advanced quaternary healthcare in various specialties.

All of KIMS' hospitals provide comprehensive healthcare services across a range of specialties and super-specialties. These include cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother & child care. It is a leader in some of these specialties.

**Affordable pricing:** It offers quality healthcare services at affordable prices, regardless of the markets, specialty or service type. The company has successfully implemented affordable pricing model in its hospitals in both Tier I and Tier II, III markets, even though hospitals in different markets face different competitive landscapes and pricing pressures, serve patients from different economic backgrounds and offer a different mix of specialty offerings. In FY20, KIMS capital expenditure per bed was ₹ 63.5 lakh for hospitals in Tier I cities and ₹ 22.1 lakh for hospitals in Tier II, III cities, compared to the industry average of more than ₹ 1 crore in Tier I cities (tertiary/quaternary care hospitals) and ₹ 10-50 lakh in Tier II, III cities (secondary care hospitals) according to the Crisil Report. In FY21, KIMS' capex per bed was ₹ 69.1 lakh for hospitals in Tier I cities and ₹ 22.1 lakh for hospitals in Tier II, III cities. In Tier 1 cities, KIMS' prices across medical procedures are on average 20-30% lower than other private hospitals in India, according to the Crisil Report. In FY21, KIMS' ARPP is ₹ 79,526, which is 41% lower than the industry average of ₹ 112,000, according to the Crisil report.

Exhibit 3: ARPP of major hospital players

Company	ARPP (Rs 000')	% difference wrt KIMS
Apollo Hospitals	144	83%
Fortis	141	78%
HCG	74	-6%
KIMS Ltd	79	NA
Kovai Medical	63	-20%
Max Healthcare	219	178%
Narayana	93	18%
Shalby	80	1%
Average ARPP	112	41%

Source: RHP, ICICI Direct Research; ARPP = ARPOB x ALOS

## Ability to attract, retain high quality doctors, consultants, medical support staff

KIMS maintains standards of high quality healthcare by consistently employing a diverse pool of talented doctors, nurses and paramedical professionals. Its multi-disciplinary approach, combined with affordable cost for treatment, a high-volume tertiary care model, and focus on teaching and research, has helped 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. **Since inception in 2000, it has retained over 80% of doctors.** KIMS doctors have been involved in the growth of the group's hospitals by actively participating in the equity ownership in the company and subsidiaries.

## Track record of strong operational and financial performance

KIMS has achieved healthy profitability in both Tier I and Tier II, III markets by identifying markets with significant underserved healthcare demand and delivering quality healthcare services at affordable prices. In turn, this drives patient volumes. KIMS hospitals in Tier 1 markets provide higher margin services such as organ transplants, oncology and neuro-critical care, resulting in higher ARPOB and EBITDA. KIMS multispecialty healthcare platform has resulted in diversified revenue streams, with no single specialty accounting for more than 25% of total income in any of the last three years. As of FY21, KIMS' debt-to-adjusted EBITDA ratio was 0.71x and gearing ratio was 0.31x compared to the industry range of 0.1x-5.2x. It has achieved strong free cash flow by effectively managing capital expenditure. KIMS is one of only three hospitals in India that are rated AA by Crisil.

## Disciplined approach to acquisitions resulting in successful inorganic growth

KIMS has a successful history of sourcing, executing and integrating acquisitions. The company has a disciplined, low-leverage approach to acquisitions that has enabled to maintain affordable pricing model as it has grown in both Tier I and Tier II, III markets.

Since FY17, hospital network expanded primarily through acquisitions of other hospitals. In FY17, the company acquired hospital in Ongole (AP), a 350-bed multispecialty hospital founded by local doctors, through a slump sale by Ongole Arogya Hospitals Pvt Ltd. KIMS expanded hospital network to add KIMS Vizag, a 434-bed multispecialty hospital in April 2018 by entering into a service agreement. In addition, it acquired a 250-bed hospital in Anantapur (AP) in October 2018 and a 200-bed hospital in Kurnool (AP) in April 2019, which solidified its presence in southern AP and adjoining areas of Karnataka.

When KIMS acquires a new hospital, it generally seeks to purchase the land where its hospital is proposed to be located and construct own hospital building instead of acquiring buildings on lease. It seeks to identify markets and purchase land early in order to manage costs. In cases where the company is unable to purchase the underlying land, it acquires land rights on long-term, low cost terms to avoid high fixed rental costs.

As a result, in FY21, KIMS' capital expenditure per bed was ₹ 69.1 lakh for hospitals in Tier I cities and ₹ 22.1 lakh for hospitals in Tier II, III cities compared to industry average of ₹ 50-80 lakh in Tier 1 cities and ₹ 10-50 lakh in Tier II, III cities. With KIMS' low capital expenditure per bed, it was able to improve adjusted EBITDA from ₹ 174.0 crore in FY19 to ₹ 381.0 crore in FY21. The company seeks to acquire hospitals that can fit into its hospital network and match existing hospital profile in terms of specialties, technologies and healthcare professionals. It has also encouraged doctors at acquired hospitals to stay with KIMS, participate in the equity ownership of the hospital and contribute to the hospital's future growth.

## Key risks & concerns

### Risk of additional Covid 19 waves

Beginning in March 2020 and, in particular, in April 2020, KIMS has experienced a substantial reduction in inpatient and outpatient volumes due to the nationwide lockdown implemented on March 25, 2020, quarantines, stay-at-home and shelter-in-place orders, the promotion of social distancing, and other travel related restrictions. Medical tourism has also slowed. While there have been progressive relaxations and calibrated easing of lockdown measures by the government, the full impact of the Covid-19 pandemic is still unknown and difficult to predict. Possible additional "waves" or resurgences of Covid-19 cases may result in slower economic recovery, further disruptions to businesses and the imposition of stricter or extended government lockdown policies.

### Highly dependent on hospitals in Hyderabad (Telangana)

A significant percentage of KIMS patients were served by its hospitals in Hyderabad: KIMS Secunderabad and KIMS Kondapur (62.98% in FY20 and 64.09% in FY21). Any material impact on revenues from the company's hospitals at Secunderabad and Kondapur in Telangana or from such specialties, including by reason of reduction in patient footfall, reputational harm, liabilities on account of medical negligence or natural calamities and increased competition, could have a material adverse effect on business, financial condition, results of operations and cash flows.

### Geographical concentration risk

KIMS operate nine multi-specialty hospitals in AP and Telangana. KIMS' concentration in AP and Telangana exposes it to adverse economic or political circumstances that affect demand for healthcare services in the region. Any political unrest, disruption, disturbance or sustained downturn in the economy of AP and Telangana and other states in southern India could adversely affect business, financial condition, results of operations and cash flows.

### Retention of talent

KIMS' operations depend on the efforts, ability and experience of its healthcare professionals, including doctors, nurses, consultants and other medical staff at own hospitals. A majority of KIMS' doctors are not its employees. The attrition rate for healthcare professionals, which includes resident doctors (including DNB students), consultant doctors, nursing staff (including interns) and paramedical personnel, for FY19, FY20 and FY21 was 39.7%, 39.0% and 51.6%, respectively. The higher attrition rate in FY21 was primarily due to higher attrition in nursing staff. Failure to attract and retain sufficient qualified healthcare professionals could adversely affect business, financial condition, results of operations, cash flows and prospects.

### Competition risk

KIMS operate in a competitive environment. In most markets, it competes with hospitals, clinics, diagnostic chains and dispensaries of varying sizes with different specialties. Existing or new competitors may try to compete for patients by exerting pricing pressures on some or all of its services by pricing their services at a significant discount to the company's offering services with greater convenience or better quality. Further, the company's competitors may expand their healthcare networks, which may exert further pricing and recruiting pressure. If KIMS is unable to compete effectively with competitors, market share, business, financial condition, results of operations and cash flows could be materially and adversely affected.

## Financial summary

### Exhibit 4: Income Statement

Revenue (₹ crore)	FY19	FY20	FY21
Revenue from operations	918.0	1,122.6	1,329.9
Other income	5.9	6.1	10.2
<b>Total revenue</b>	<b>923.9</b>	<b>1,128.7</b>	<b>1,340.1</b>
Raw Material Expenses	210.2	254.2	288.9
Employee expense	163.0	198.0	220.2
Other expenses	463.8	425.4	449.9
Total Expenses	837.0	877.6	959.1
<b>EBITDA</b>	<b>81.0</b>	<b>245.0</b>	<b>370.9</b>
Finance costs	45.7	39.9	32.5
Depreciation and amortisation expense	56.5	70.6	69.5
Profit before tax and exceptional items	-15.4	140.5	279.0
Exceptional items			
<b>Profit before tax</b>	<b>-15.4</b>	<b>140.5</b>	<b>279.0</b>
Tax expense	33.4	25.5	73.5
<b>Profit after tax</b>	<b>-48.8</b>	<b>115.1</b>	<b>205.5</b>

Source: RHP, ICICI Direct Research

**Exhibit 6: Balance Sheet**

<b>Balance Sheet (₹ crore)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
<b>Equity and liabilities</b>			
<b>Shareholders' funds</b>			
Share capital	74.5	74.5	77.6
Reserves and surplus	466.2	523.6	786.1
Minority interest	26.3	13.3	12.5
<b>Non-current liabilities</b>			
Long-term borrowings	288.8	315.0	228.5
Deferred tax liabilities (net)	51.6	35.7	35.8
Other non-current liabilities	11.5	15.0	17.3
<b>Current liabilities</b>			
Short-term borrowings	68.0	75.3	104.6
Trade payables	104.1	123.4	131.9
Other current liabilities	22.7	12.7	31.4
Short-term provisions	6.1	7.3	10.5
<b>Total</b>	<b>1,119.7</b>	<b>1,195.9</b>	<b>1,436.2</b>
<b>Assets</b>			
<b>Non current assets</b>			
<b>Fixed assets</b>			
Tangible assets	763.6	805.0	821.6
Goodwill on consolidation	75.2	84.8	84.8
Capital work in progress	0.2	2.2	9.2
Intangible assets	26.4	26.2	24.7
Deferred tax assets (net)	3.8	1.4	2.9
Other financial assets	6.4	4.8	19.2
Other non-current assets	70.2	51.6	22.5
<b>Current assets</b>			
Inventories	26.9	30.4	24.1
Trade receivables	123.3	132.3	109.8
Cash and bank balances	10.2	45.7	284.4
Short-term loans and advances	1.5	1.8	2.3
Other current assets	12.0	9.7	30.6
<b>Total</b>	<b>1,119.7</b>	<b>1,195.9</b>	<b>1,436.2</b>

Source: RHP, ICICI Direct Research



**Exhibit 5: Cash Flow Statement**

<b>Cash Flow (₹ crore)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
PBT	-15.4	140.5	279.0
Operating profit before working capital changes	193.5	255.1	379.6
Changes in working capital	-28.1	0.1	14.1
Income tax paid	-31.5	-53.7	-37.7
<b>CF from operating activities</b>	<b>133.9</b>	<b>201.5</b>	<b>356.0</b>
(Purchase)/Sale of Fixed Assets	-108.8	-123.4	-128.1
Interest Received	0.6	1.1	3.5
Investment in bank deposits	-1.6	-2.4	-229.6
<b>CF from investing activities</b>	<b>-109.8</b>	<b>-124.7</b>	<b>-354.2</b>
Proceeds from issue of share capital	88.3	0.0	95.0
Buyback of shares			
Adj. of Loan	-81.2	-2.3	-50.7
Interest Paid	-26.1	-33.0	-27.2
Dividends Paid			
Other Financial Activities	-8.1	-9.0	-7.3
<b>CF from financing activities</b>	<b>-27.0</b>	<b>-44.3</b>	<b>9.8</b>
Net Cash Flow	-2.9	32.5	11.6
Opening Cash	11.0	8.1	40.5
<b>Closing Cash Flow</b>	<b>8.1</b>	<b>40.5</b>	<b>52.1</b>
FCF	25.1	78.1	227.8

Source: RHP, ICICI Direct Research

## Financial summary

Exhibit 7: Key Ratios			
Ratio Sheet	FY19	FY20	FY21
<b>Per share data (₹)</b>			
Diluted EPS	-6.1	14.4	25.7
Cash EPS	1.0	23.2	34.4
BV per share	70.8	76.4	109.5
Cash Per Share	1.3	5.7	35.5
<b>Operating Ratios (%)</b>			
Gross Profit Margins	77.1	77.4	78.3
EBITDA Margins	8.8	21.8	27.9
PAT Margins	-5.3	10.3	15.5
Inventory days	10.7	9.9	6.6
Debtor days	49.0	43.0	30.1
Creditor days	41.4	40.1	36.2
EBITDA Conversion Rate	165.4	82.2	96.0
<b>Return Ratios (%)</b>			
RoE	-9.0	19.2	23.8
RoCE	2.7	17.6	25.2
RoIC	2.8	18.5	33.4
<b>Valuation Ratios (x)</b>			
EV / Sales	7.6	6.2	5.0
EV/EBITDA	85.8	28.4	17.9
Market Cap / Sales	7.2	5.9	5.0
P/E	-16.9	7.2	4.0
Price to Book Value	1.5	1.3	0.9
<b>Solvency Ratios</b>			
Debt / EBITDA	4.4	1.6	0.9
Debt / Equity	0.6	0.6	0.4
Net Debt/ Equity	0.6	0.6	0.1
Current Ratio	1.3	1.5	2.6
Quick Ratio	1.1	1.3	2.5
Asset Turnover	1.1	1.2	1.4

Source: RHP, ICICI Direct Research, considered upper band for calculations

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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