

June 16, 2021

IPO Note

IPO Fact Sheet

Opening Date:	June 16, 2021
Closing Date:	June 18, 2021
BRLMs:	Axis Cap, Kotak Mahindra Capital, Credit Sui, IIFL Sec
Issue Size:	Rs 21.44bn
Numbers of Shares:	2,59,97,132
Face value:	Rs 10
Bid lot:	18 Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	Jun 23, 2021
Refunds/Unblocking ASBA Fund	Jun 24, 2021
Credit of equity shares to DP A/c	Jun 25, 2021
Trading commences	Jun 28, 2021

Issue Structure

QIB	75%
NIB	15%
Retail	10%

Issue Details

Pre-issue equity shares	7,75,93,283
Post-issue equity shares*	8,00,29,878
Post-issue Market Cap (Rs Crs)*	6,602.5
Post-issue Market Cap (Rs Crs)#	6,522.4

* Upper Band / # Lower Band

Object of the Issue

Repayment/pre-payment, in full or part, of certain borrowings availed by the Company and by its Subsidiaries viz KHKPL, SIMSPL and KHEPL; Other general corporate purposes.

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	46.81%	38.84%
Public	53.19%	61.16%

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plindia.com |

Listing gains likely, consistency holds the key for long term gains

We recommend 'SUBSCRIBE' to the IPO of KIMS Hospital for listing gains. KIMS is one of the largest corporate healthcare groups in AP and Telangana in terms of number of patients and treatments it offers. KIMS emerged as strong player in the sector on back of 1) its leadership in AP and Telangana region, 2) clinical excellence with affordable pricing, 3) immense scope for growing presence in adjoining markets through organic/inorganic route, 4) investment in digital healthcare & technology 5) strong operational performance and 6) experienced senior management team. KIMS operates in nine multi-specialty hospitals under the "KIMS Hospitals" brand, with an aggregate bed capacity of 3,064, with more than 2,500 operational beds as on FY21, which is 2.2x more than the 2nd largest provider in AP and Telangana.

We noticed that local hospitals generate better return ratios with limited capex than most pan India hospitals. Going forward, we expect better operational performance with the break-even stage of four newly acquired hospitals having lesser payback period and are ready to serve customers from day zero. We believe KIMS is relatively valued cheaply at 17.1x FY21 EV/EBITDA in comparison to its peers. Though we expect reasonable listing gains, yet maturity and operational delivery in four hospitals needs significant improvement, for any compelling rerating in the medium term.

Key Positives about KIMS Hospital: 1) Strong presence in AP and Telangana healthcare market with sales CAGR of 20.4% at Rs13.3bn in FY21 from Rs9.8bn in FY19. 2) Flagship hospital at Secunderabad is India's largest private hospital having 1,000 beds capacity. 3) Well equipped with high-quality medical devices that provide superior yet affordable healthcare services to patients.

Valuations: KIMS has an advantage to expand in cash-crop states like Kerala, Karnataka and Tamil Nadu with strong understanding on southern India healthcare market. It has keenly focused on its profitability and return ratios along with core expansion strategy which sets ahead from regional competitors and nicely balanced with limited presence, but higher return ratios. At upper price band, company is attractively valued at 17.1x FY21 EV/EBITDA for better financial performance, in comparison to its peers. Recommend 'SUBSCRIBE' for listing gains.

Key Risks to the Issue:

High dependency on healthcare professionals.

Unforeseen impact from third wave of Covid-19 could possibly slowdown non-covid healthcare services.

High reality cost in few markets.

KIMS Hospital

Krishna Institute of Medical Sciences Limited operates as one of the largest corporate healthcare groups in AP and Telangana in terms of number of patients treated and treatments offered. It provides multi-disciplinary integrated healthcare services with focus on primary, secondary & tertiary care in Tier 2-3 cities and primary, secondary, tertiary and quaternary healthcare in Tier 1 cities. Company has 9 multi-specialty hospitals under the “KIMS Hospitals” brand, with an aggregate bed capacity of 3,064 including over 2,500 operational beds as of March 31, 2021.

KIMS Hospital offers comprehensive range of healthcare services across over 25 specialties and super specialties including cardiac sciences, oncology, neurosciences, gastric sciences, orthopedics, organ transplantation, renal sciences and mother & child care.

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, founder and Managing Director and Dr. Abhinay Bollineni, Executive Director and CEO. Company strives to provide quality service to more patients, and believes that it has scope for additional patients with improved occupancy rates. Company strategically focuses on southern India healthcare market where it has a strong understanding of regional nuances, customer culture and mindset of medical professionals along with significant and growing need for quality and affordable healthcare services.

Offer Details

Exhibit 1: Offer Details

Offer Period	Opens On: 16 th June, 2021 Closes On: 18 th June, 2021
Issue Details	Fresh Issue of Rs20.0bn
Issue Size	Rs21.44bn
Price Band	Rs815-825
Bid Lot	18 Shares
QIB	Not more than 75% of net offer
NIB	Not less than 15% of the Net Offer
Retail	Not less than 10% of the Net Offer
BRLM	Axis Capital, Kotak Mahindra Capital, Credit Suisse Securities, IIFL Securities
Registrar	KFin Technologies Pvt. Ltd.
Listings	BSE & NSE

Source: Company, PL

Exhibit 2: Object of the Issue

Objects	Amount (Rs Mn)
Repayment/pre-payment, in full or part, of certain borrowings availed by Company and by its Subsidiaries viz KHKPL, SIMSPL and KHEPL	1500.0
General Corporate Purposes	~500.0

Source: Company, PL

Key Attributes of KIMS Hospital

Leadership in AP and Telangana region mainly driven by clinical excellence and affordable pricing: The company has strategically focused on southern India healthcare markets of AP and Telangana after opening its first hospital in Nellore (AP) in 2000. It has delivered clinical excellence through quality healthcare services supported by a combination of 1) top medical talent, 2) strong clinical and patient safety protocols and 3) investments in new medical technology. Hospital's doctors have been trained in premier medical institutions plus have received accolades and awards for their work in their respective fields. Further, KIMS continues to invest in medical technology and equipment to offer advanced healthcare services.

The company strives to offer quality healthcare services at affordable prices, regardless of markets, specialty or service type. It has successfully implemented affordable pricing model in both Tier 1 and Tier 2-3 markets, despite hospitals facing different competitive landscapes in different markets, pricing pressures, serving patients from different economic backgrounds and offering different mix of specialty offerings. To sustain affordable pricing while generating strong returns, company rationalized its doctors procurement as well as the other administrative costs. Company manages its doctor costs by using a mix of fixed and variable compensation arrangements, based on patient volumes, costs and other factors at each hospital.

Strategic acquisitions resulted in successful inorganic growth: Company has a successful history of sourcing, executing and integrating acquisitions. It has a low-leverage approach to acquisitions that has enabled to maintain an affordable pricing model to grow in both Tier 1 and Tier 2-3 markets. Company looks for acquisition of hospitals that can fit into its hospital network and match existing hospital profile in terms of specialties, technologies and healthcare professionals. Company has encouraged doctors acquired hospitals to stay with, participate in the equity ownership of the hospital and contribute to the hospital's future growth.

Aims to expand presence in adjacent markets: Company plans to expand its hospital network in neighboring core markets at AP and Telangana by focusing on states like Karnataka, Tamil Nadu, Odisha and Central India. Company believes that there is a strong KIMS brand awareness in the region that can support smaller, KIMS-branded hospital units in the future. By entering in these new markets, with strong existing brand recognition among patients of this regions can accelerate growth of new hospitals that have been established or acquired.

Investment in digital health care and technology: Company is more 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. Company is incorporating new technologies into operations and expanding its digital capabilities to improve patient care, expand scope of treatments that company offers and leads to greater affordability, efficiency and cost savings. These technologies allow hospitals and its patients to monitor their health and recovery, identify deviations or setbacks and determine when follow-up consultations or inpatient admissions are advisable. Company also intends to invest in the infrastructure and technology necessary to perform technology-enabled

operating procedures in its hospitals like advanced medical equipment, automation and greater adoption of robotics technology in hospitals; which can improve its diagnostic services and enable doctors to perform more complex procedures.

Strong track record of operational and financial performance: Company has grown from a single, approximately 200-bed hospital at Nellore (AP) in the year 2000 to a leading multi-disciplinary integrated private healthcare service provider with nine multi-specialty hospitals and over 3,000 beds today. KIMS has consistently delivered a sound operational and financial performance through its strong patient volumes, cost efficiency and diversified revenue streams across medical specialties. It achieved healthy profitability in both Tier 1 and Tier 2-3 markets, by identifying markets with significant healthcare demand and delivering quality healthcare services at affordable prices, which in turn drives patient volumes.

In FY21, company's total revenue was Rs 13,299 mn. During the year, their 9 hospitals recorded Average Revenue Per Operating Bed ("ARPOB") of INR 20,609, a bed occupancy rate of 78.60%, and an Average length of stay ("ALOS") of 5.53 days, on an aggregate basis. The ARPOB for their hospitals in Tier 1 cities was Rs 39,571 and for Tier 2-3 cities was Rs 11,187 in FY21. The three-year average margins of 19.5% and average ROE of 11.2% are impressive with increasing growth trend on YoY basis.

Experienced senior management team with strong institutional shareholder support: KIMS has benefited from an experienced senior management team which has made significant contributions to their growth and has a long and proven track record in the healthcare services industry. Its professionally managed team with commitment to patient care and ethical standards enables smooth operation of facilities. The senior management team has extensive healthcare industry experience and is led by Dr. Bhaskara Rao Bollineni and Dr. B Abhinay, the Managing Director and CEO of the company, respectively. They have over 27 years of experience in cardiothoracic surgery. Mr. Vikas Maheshwari, the CFO, has over 2 decades of experience in finance and accounting and has worked in leading companies across different sectors. Other senior management has over 15-years of experience in their relevant fields, covering various aspects of their operations from information technology to biomedical services.

KIMS's largest shareholder, General Atlantic, is a leading global growth investor with a track record of providing strategic, practical and impactful support to high-growth companies in India and globally. General Atlantic has a 40 years' history of identifying emerging companies with strong fundamental performance and organic growth that can accelerate their expansion and scale. General Atlantic has more than \$40 billion in assets under management across five global sectors: healthcare, life sciences, technology, consumer and financial services.

Impact of Covid - 19

KIMS expects uncertainty towards continuing impact of COVID-19 pandemic on its business and operations with unforeseen 3rd Covid wave.

In response to COVID-19 outbreak in CY20, KIMS's regular business operations were affected and experienced substantial reduction in inpatient and outpatient volumes due to nationwide lockdown, quarantines, stay-at-home & shelter-in-place orders, promotion of social distancing and other travel related restrictions due to which Medical tourism also slowed. As a result, monthly inpatient volume decreased in each month from February to April 2020, reaching 5,460 in April 2020, as compared to 11,653 in January 2020- a decrease of 53% which gradually off-set by opening up of lockdown in the country.

In order to reduce impact of COVID-19 on company operations, KIMS took various steps to implement effective cost control such as 1) managing expenses and liquidity, 2) reducing costs related to marketing, 3) branding & travel and 4) other crucial areas.

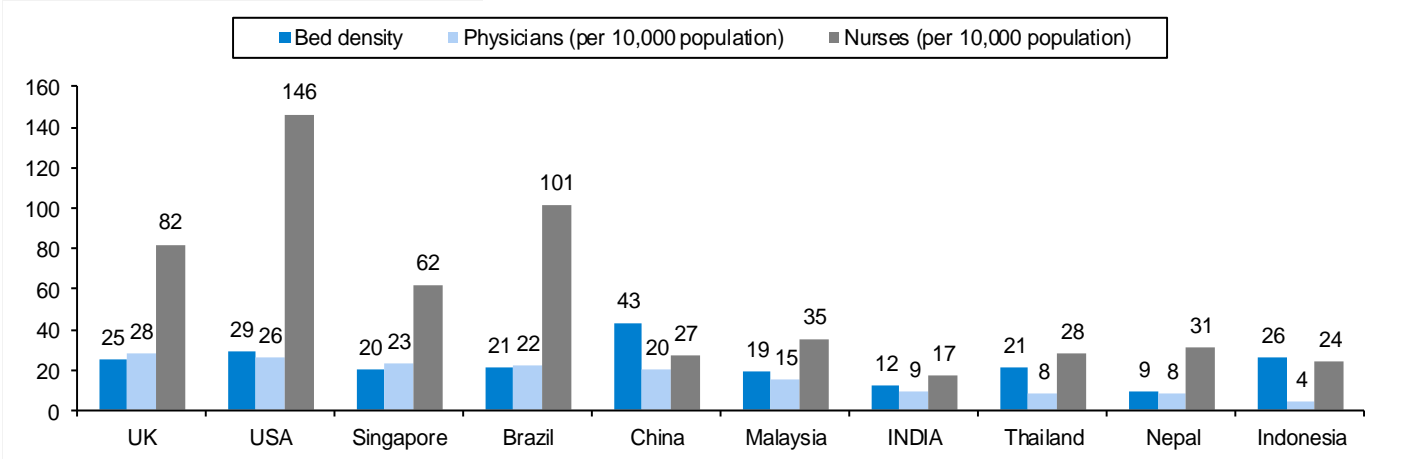
Company implemented safety protocols to ensure safety and well-being of its healthcare professionals during COVID-19 pandemic. It also adopted digital consultation as alternatives instead of physical visits, in accordance to applicable laws and other confidentiality obligations.

Industry Overview

According to the Global Health Expenditure Database compiled by the World Health Organisation (WHO), India's current expenditure on healthcare was 3.5% of gross domestic product (GDP) in 2018. India's real GDP in fiscal 2019 was Rs 139.8 trillion (constant fiscal 2012 prices). Accordingly, India's current healthcare expenditure during fiscal 2019 is estimated at ~Rs 4.9 trillion. Low healthcare expenditure in India is primarily due to under-penetration of healthcare services and lower consumer spending on healthcare.

Quality of healthcare in any country can be gauged through adequacy of healthcare infrastructure and personnel in that country. It can be assessed through bed density (bed count per 10,000 population) along with availability of physicians and nurses (per 10,000 population). The adequacy of a country's healthcare infrastructure and personnel is a barometer of its quality of healthcare. The country accounts for nearly a fifth of the world's population, but has an overall bed density of merely 12 per million populations. India's bed density not only falls far behind the global median of 29 beds, but also lags from other developing countries such as Brazil (21 beds), Malaysia (19 beds), and Vietnam (26 beds).

Exhibit 3: Healthcare details: India vs other countries



Source: Company, PL

Overall, communicable diseases have been decreasing in India while lifestyle-related illnesses or non-communicable diseases (NCDs) have been increasing rapidly over the past few years. Contribution of NCDs to the disease profile rose from 30% in FY1990 to 55% in FY2016. Statistics show these illnesses accounted for nearly 62% of all deaths in India in 2016.

As per World Economic Forum, the world will lose nearly \$30 trillion by 2030 for treatment of NCDs and India's share of this burden will be \$5.4 trillion. Andhra Pradesh and Telangana among the states with higher (>50%) NCD burden in India.

Non-communicable diseases: A silent killer. CRISIL Research believes NCDs exhibit a tendency to increase in tandem with rising income levels.

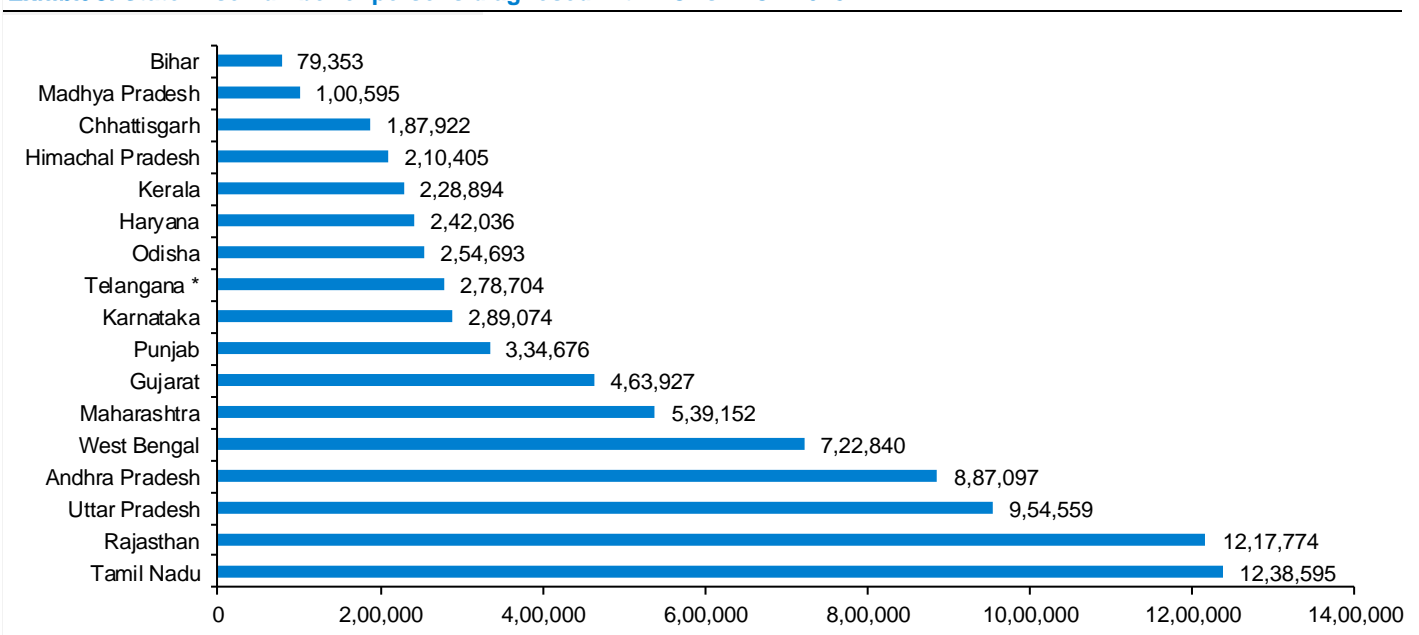
Exhibit 4: State-wise proportion of total disease burden from NCDs in 2016

States	KL	PB	TN	MH	WB	KA	AP	TG	HR	GJ	OR	MP	CT	RJ	JH	UP	BR
	75%	66%	65%	63%	63%	62%	60%	59%	59%	57%	52%	51%	50%	49%	48%	48%	48%

Source: Company, CRISIL Research, PL

Tamil Nadu led in number of NCD cases in CY18: As per the National Health Profile 2019, out of 65,194,599 patients who attended NCD clinics, 4.75% were diagnosed with diabetes, 6.19% with hypertension, 0.30% with cardiovascular ailments, 0.10% with stroke, and 0.26% with common cancers. Out of the 17 states compared Tamil Nadu, Rajasthan and Uttar Pradesh topped number of persons diagnosed with NCDs out of those screened in CY2018 followed by Andhra Pradesh, West Bengal and Maharashtra.

Exhibit 5: State-wise number of persons diagnosed with NCDs in CY 2018



Source: Company, PL

Andhra Pradesh has highest percentage of population aged 15-59 years: As per Census 2011 data, India's age-wise national average statistics indicates that 29.5% people fall in the 0-14-year group, 62.5% in the 15-59-year bracket and 8% are 60+. In Andhra Pradesh, ~67% of its population is aged 15-59 years and 9.4% above 60 years, which collectively is nearly 5.7% higher than the national average. This increases the state's vulnerability towards NCDs, thus necessitating greater focus on healthcare. Andhra Pradesh promoting universal healthcare through Dr. YSR Aarogyasri Health Insurance Scheme.

Government healthcare expenditure will now cover preventive and curative health and well-being. Of this, healthcare related measures will account for 71% of the budgeted expenditure of Rs 94,452 crore for fiscal 2021. A large part of the remaining spending on well-being will be contributed by the Jal Shakti Abhiyan. India's COVID-19 emergency response and health system preparedness package of Rs 150 billion was announced in three phases until Mar 2024, to address immediate needs in wake of the pandemic.

Valuation

KIMS being local player, has potential to have better margins and return ratios than the pan India players. Focus of the management is to grow its presence locally with existing chain in AP & Telangana region. In the future, company has an advantage to expand in cash-crop states like Kerala, Karnataka and Tamil Nadu where it has strong understanding of regional nuances, customer culture and need of quality services & mindset of medical professionals mainly for southern India healthcare market.

KIMS has also keenly focused on its profitability and return ratios along with its core expansion strategy which ranks it ahead of regional competitors, Kovai Medical having similar business model, but growth is constrained due to limited expansion plan. KIMS is nicely balanced between small players with limited presence, but moderately amongst higher return ratios like Kovai Medical and pan Indian players who have bigger appetite of capex at the cost of return ratios. At upper price band, company is attractively valued at 17.1x FY21 EV/EBITDA for better financial performance, in comparison to its peers. We recommend 'SUBSCRIBE' for listing gains.

Exhibit 6: Key financial ratios of major hospital players (FY21E)

Company Name	Revenue Rs bn	EBITDA Rs bn	Net profit Rs bn	EBITDA Margin	Net profit Margin
Forties Healthcare	55.7	9.4	3.5	16.9%	6.3%
Apollo Hospital	105.9	11.4	0.9	10.7%	0.9%
Max Healthcare	36.3	6.1	1.5	16.9%	4.0%
Healthcare Global	10.0	1.3	-1.1	12.8%	-10.7%
KIMS*	13.3	3.7	2.1	27.9%	15.5%

3 year average growth rate

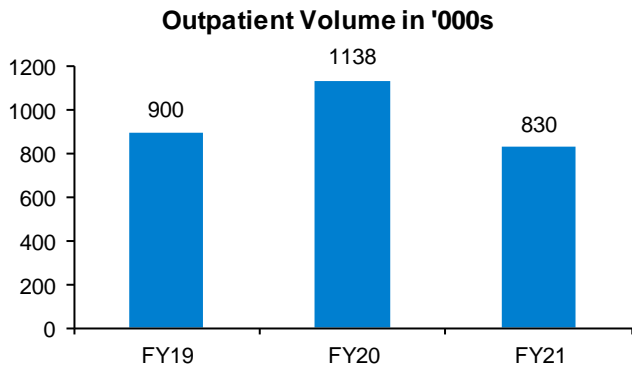
Company Name	Revenue Growth	EBITDA Growth	ROA	ROCE	EV/EBITDA
Forties Healthcare	-3.5%	38.1%	-0.9	-1.7	47.5
Apollo Hospital	9.1%	5.8%	2.5	2.4	44.3
Max Healthcare	32.8%	221.2%	-1.0	-0.9	42.4
Healthcare Global	7.2%	6.1%	-18.3	-17.0	26.4
KIMs	20.4%	254.0%	26.0	27.0	17.1

Source: Company, Bloomberg, PL

*Actual

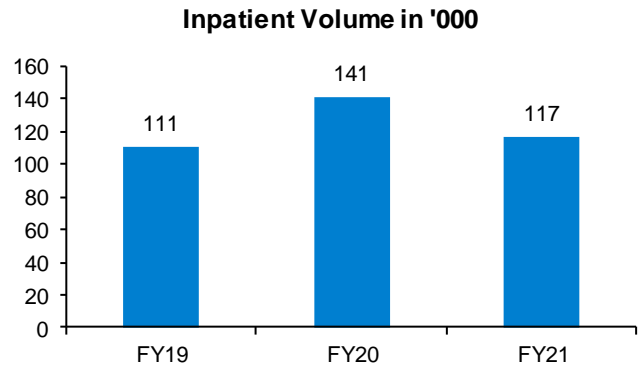
Operational and Financial Metrics

Exhibit 7: Outpatient Volume



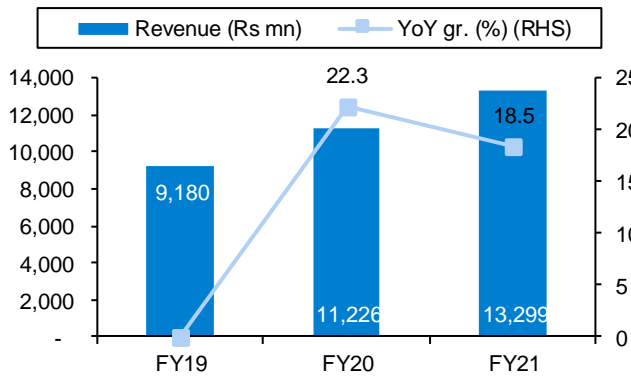
Source: Company, PL

Exhibit 8: Inpatient Volume



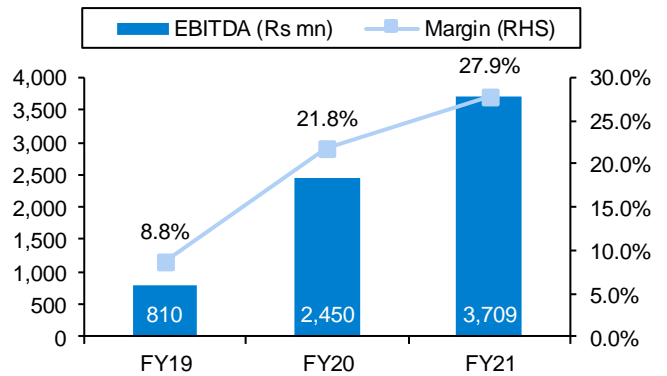
Source: Company, PL

Exhibit 9: Revenue grew in double digit in last two years



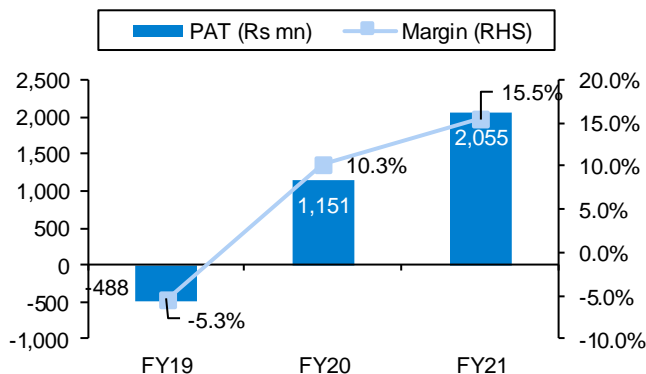
Source: Company, PL

Exhibit 10: Margin expansion drove EBITDA growth



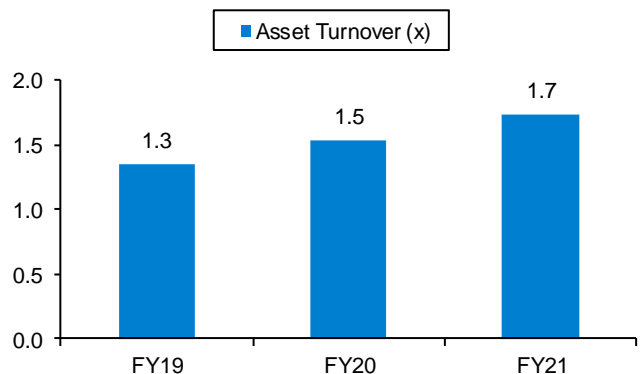
Source: Company, PL

Exhibit 11: PAT doubled in FY21



Source: Company, PL

Exhibit 12: Asset Turnover continued to improve



Source: Company, PL

Financials

Exhibit 13: Income Statement (Rs mn)

Y/E March	2019	2020	2021
Net Sales	9,180	11,226	13,299
<i>Change (%)</i>		22.3	18.5
Material Consumed	2,102	2,542	2,889
Gross Profit	7,078	8,685	10,410
<i>Gross Margin %</i>	77.1	77.4	78.3
Operating expenses	6,268	6,235	6,701
EBITDA	810	2,450	3,709
<i>Change (%)</i>		202.6	51.4
<i>Margin (%)</i>	8.82	21.82	27.89
Depreciation	565	706	695
Int. and Fin. Ch.	457	399	325
Other Non-recurring Inc.	59	61	102
PBT	-154	1,405	2,790
<i>Change (%)</i>			98.6
<i>Margin (%)</i>	-1.7	12.5	21.0
Tax	334	255	735
Tax Rate (%)	-217.3	18.1	26.4
Adjusted PAT	-488	1,151	2,055
<i>Change (%)</i>			78.6
<i>Margin (%)</i>	-5.3	10.3	15.5
Exceptional Item	0	0	0
Loss from discontinued operations	0	0	0
Reported PAT	-488	1,151	2,055

Source: Company, PL

Exhibit 14: Balance Sheet (Rs mn)

Y/E March	2019	2020	2021
Property, Plant and Equipment	7,080	7,489	7,706
Right of Use Asset	556	561	509
Goodwill	752	848	848
Intangible Assets	264	262	247
Capital work in progress	2	22	92
Financial Assets			
Loans	40	47	164
Other	62	15	58
Other Non Current Assets	374	129	121
Assets for Current Tax	328	387	104
Current Assets			
Inventories	269	304	241
Financial Assets			
Investments	0	0	0
Trade receivables	1233	1323	1098
Cash and cash equivalents	102	457	2844
Other Financial Assets	103	72	258
Other Current Assets	32	43	71
Total Assets	11,197	11,959	14,362
Equity			
Equity share Capital	745	745	776
Other Equity	4,662	5,236	7,861
Non Controlling Interest	263	133	125
Total Networth	5,669	6,114	8,762
Non Current Liabilities			
Financial Liabilities			
Borrowings	2,427	2,687	1,846
Lease liabilities	455	456	433
Provision	101.89	137.08	160.64
Other non-current liabilities	534.94	376.69	376.27
Current Liabilities			
Financial Liabilities			
Borrowings	176	101	553
Trade and other Payables	1041	1234	1319
Lease liabilities	28	24	26
Other Financial liabilities	477	628	467
Short term Provisions	61	73	105
Other Current liabilities	132	127	227
Current Tax Liab	95	0	87
Total Equity and Liabilities	11,197	11,959	14,362

Source: Company, PL

Exhibit 15: Cash Flow (Rs mn)

Y/E March	2019	2020	2021
OP/(loss) before Tax	-154	1405	2790
Depreciation and Amort.	565	706	695
Interest Paid	457	399	325
Others	1067	40	-15
Direct Taxes Paid	-315	-537	-377
Incr in WC	-281	1	141
CF from Operations	1,339	2,015	3,560
Increase in FA	-771	-515	-936
Change in Right of use of assets	0	0	0
Purchase of Investments	0	0	0
Others	-326	-732	-2606
CF from Investment Activity	-1,098	-1,247	-3,542
Issue of Shares	883	0	950
Change in lease liabilities	-81	-90	-73
Borrowings/(Repayments)	-812	-23	-507
Interest paid	-261	-330	-272
Dividend paid	0	0	0
Others	0	0	0
CF from Finance. Activity	-270	-443	98
Incr/Decr of Cash	-29	325	116
Add: Opening Balance	110	81	405
Closing Balance	81	405	521

Source: Company, PL

Exhibit 16: Key Ratios

Y/E March	2019	2020	2021
Basic (INR)			
EPS	-6.9	16.0	26.9
BV/Share	15.2	16.4	22.6
DPS	0	0	0
Payout %	0	0	0
Valuation (x)			
P/E	-119.4	51.6	30.7
EV/Sales	7.2	5.9	4.8
EV/EBITDA	82.2	27.1	17.1
P/BV	54.2	50.3	36.5
Dividend Yield (%)	0	0	0
Return Ratios (%)			
RoE	-8.6	18.8	23.5
RoCE	3.0	19.6	27.0
Working Capital Ratios			
Debtor (Days)	49	43	30
Inventory (Days)	11	10	7
Creditor (Days)	41	40	36
Asset Turnover (x)	1.3	1.5	1.7
Leverage Ratio			
Debt/Equity (x)	0.5	0.5	0.3

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	1,139	970
2	Cadila Healthcare	Accumulate	696	627
3	Cipla	Accumulate	960	904
4	Dr. Lal PathLabs	UR	-	2,996
5	Dr. Reddy's Laboratories	Accumulate	5,420	5,197
6	Eris Lifesciences	Accumulate	724	656
7	Glenmark Pharmaceuticals	Reduce	509	593
8	Indoco Remedies	BUY	401	338
9	Ipca Laboratories	Accumulate	2,163	2,071
10	Jubilant Pharmova	Accumulate	1,088	916
11	Lupin	Accumulate	1,314	1,212
12	Sun Pharmaceutical Industries	Accumulate	773	700
13	Thyrocare Technologies	UR	-	988

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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