

June 5, 2022

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,600		1,638	
Sales (Rs. m)	22,389	24,316	22,578	24,517
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	6,483	7,389	6,669	7,463
% Chng.	(2.8)	(1.0)		
EPS (Rs.)	48.8	51.6	50.8	52.8
% Chng.	(3.8)	(2.2)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	13,299	16,508	22,389	24,316
EBITDA (Rs. m)	3,709	5,158	6,483	7,389
Margin (%)	27.9	31.2	29.0	30.4
PAT (Rs. m)	2,012	3,327	3,906	4,132
EPS (Rs.)	25.9	41.6	48.8	51.6
Gr. (%)	62.1	60.3	17.4	5.8
DPS (Rs.)	-	-	5.8	11.6
Yield (%)	-	-	0.5	0.9
RoE (%)	27.5	29.6	25.0	21.8
RoCE (%)	29.8	33.4	33.2	31.3
EV/Sales (x)	7.3	6.0	4.5	4.1
EV/EBITDA (x)	26.0	19.3	15.4	13.5
PE (x)	48.2	30.1	25.6	24.2
P/BV (x)	11.2	7.2	5.8	4.9

Key Data

KRII.BO | KIMS IN

52-W High / Low	Rs.1,565 / Rs.938
Sensex / Nifty	55,769 / 16,584
Market Cap	Rs.100bn/ \$ 1,289m
Shares Outstanding	80m
3M Avg. Daily Value	Rs.157.05m

Shareholding Pattern (%)

Promoter's	38.84
Foreign	8.91
Domestic Institution	21.02
Public & Others	31.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.1)	(6.6)	-
Relative	(4.1)	(3.4)	-

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Stepping up

We hosted Dr. Bhaskar Rao (MD), Dr. Abhinay (CEO) and Mr. Vikas (CFO) of Krishna Institute of Medical Sciences (KIMS), for 2 day NDR at Mumbai. Management indicated that KIMS will continue to grow at double digit. In near term Sunshine acquisition will aid growth. Further KIMS intends to create cluster based investment approach in Karnataka and Maharashtra region. KIMS have lean cost structure and given it is partnering with local doctors outside AP & Telangana region, management remains confident of achieving faster break even and +25% OPM across these new clusters over next 4-5 years. KIMS will be generating Rs8-10bn of operating cash flow over FY22-24 which will utilized to set up new units across Maharashtra and Karnataka region.

EBITDA has grown at 40% CAGR over FY18-22. Our FY23E & FY24E EBITDA stands marginally cut by 1-3%. We expect 20% EBIDTA CAGR over FY22-24E, with one of best in class return ratios at 22%/31% RoE/RoCE. Recommend Buy with target price of Rs1600/share, valuing at 20x EV/EBIDTA on FY24E.

- Sunshine acquisition to drive growth:** KIMS recently acquired 51.07% stake in Sunshine Hospitals (600 bed capacity) at a total EV of Rs. 7.3bn, at 9.7x FY21 EV/EBITDA. Sunshine's current occupancy stands at 45% with ~70% of revenue comes from Ortho + Cardiac specialty. The objective of KIMS is to scale up other specialties which would aid occupancy. Further there will be synergies in consumables procurement and HR cost. The acquisition was done in Oct 2021- For Nov- March 2021, Sunshine has reported Rs. 1.9bn of revenues and pre IND AS EBITDA of Rs. 350mn.
- Gachibowli -** The newly added orthopaedics speciality centre to generate revenues of Rs. 180 mn per month (Currently at Rs. 110mn per month) with 25% margin. Currently Sunshine Gachibowli have 225 beds capacity with 40% occupancy. Mgmt has guided its occupancy to reach at 55-60% level by end of FY23 by adding new specialties.
- Secunderbad –** KIMS is evaluating to buy land parcel along with building for Rs. 2.8bn near its flagship hospital to move its existing Sunshine unit in Begumpet which was running on lease at 7% of sales (rental exps). The mgmt intends to move at a prime location which will be more attractive to clinicians and patients. More important it will help to divert access inpatient volumes across specialties at its flagship hospital. It's a 325 bed capacity hospital, current occupancy at 50% and potential to scale up revenues to Rs. 300mn /month from current levels of Rs220-240 mn/month with healthy margins.
- Karimnagar –** Sunshine Karimnagar facility operates at a small capacity of 70 beds and have negligible contribution of revenues (Rs10mn/month).

Overall we expect Sunshine revenues to grow to Rs. 5.2bn and EBITDA of Rs. 1.2bn by FY24E.

- **New expansion- Will adopt cluster based approach:** Management in its cluster based approach, looking forward to replicate AP and Telangana model in Maharashtra and Karnataka region. KIMS plan to commercialize ~1500 beds over next 4-5 years across Maharashtra and Karnataka region. The expansion will be combination of inorganic + greenfield expansion. More important company will partner with local doctors/consultant in specific micro market which will help to generate better footfalls and achieve faster break-even. KIMS will have full control of decision making in such partnership.

 - Maharashtra – Mgmt intends to add total 800-1000 beds in newly formed Maharashtra cluster which will include Nashik, Nagpur, Mumbai and Pune market. So far company have closed deal in Nashik and in talks/due diligence stage for other markets. In Nashik, company has entered into JV with Dr Raj Nagarkar, well known Oncology surgeon in Nashik region. Total capex for phase 1 will be of Rs. 1.6-1.8bn of which KIMS will be incurring Rs. 480 mn as his equity share and remaining will be taken as debt in JV. The phase 1 will have 200 beds and will commercialize by end of FY24.
 - Karnataka – Mgmt sees many greenfield opportunities in Bangalore market specifically in north Bangalore region. Recently KIMS have landed with a brownfield opportunity in North Bangalore (Mahadevapura) in form of distressed mall where the company has bought 50% ownership in land and building and balance 50% to opt on lease with a target to commercialize 350-400 beds within 15-18 months. Company will partner with experienced doctors and healthcare professionals.

Overall we have factor in Rs. 8bn of capex over FY22-24E of which Rs. 5-6bn will be spent towards new units.

- **Outlook for existing units (9 hospitals in AP and Telangana):** KIMS intends to increase the current operational beds utilization from 2246 in FY22 to its optimal capacity to 3064 beds considering normalcy and demand environment continues to remain healthy going forward.

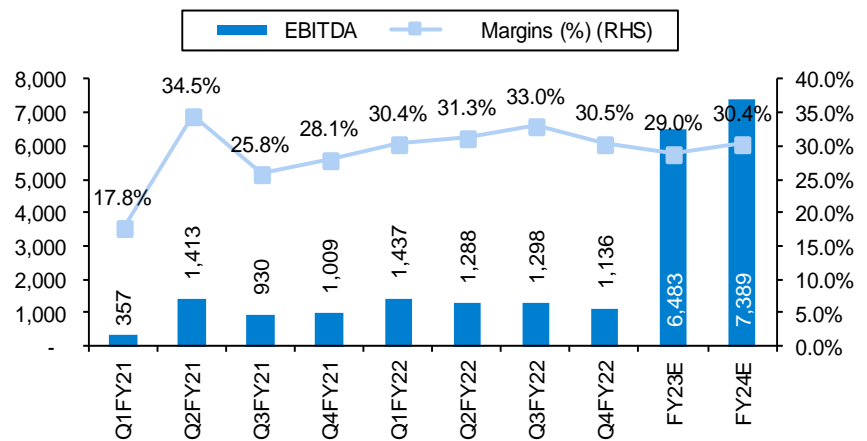
 - Secundarabad – KIMS flagship hospital accounted +55% and +64% of the company’s overall revenue and EBITDA in FY22. Recently added high-end specialties such as heart & lung transplant at its flagship unit to sustain margin improvement.
 - Kondapur– KIMS purchased land with a partner in Kondapur to build 400-500 beds in addition to existing 200 beds capacity in next 24 months. Since, Kondapur hospital building is on leased, the capex would start after 2 years.
 - Additionally, it has purchased several other lands in Nellore (150 bed addition with capex planned of Rs. 1bn), Rajahmundry and Srikakulam (100 bed addition) to cater the maximum untapped patients to build nearly 400-450 beds to operationalize in next 18-24 months. In Ongole and Ananthpur planning to start oncology units. Another 350 bed addition plan in Vizag, Ananthpur by modifying existing facility.

Overall we expect 6 % revenue and 8-10% EBIDTA CAGR over FY22-24E from its existing units.

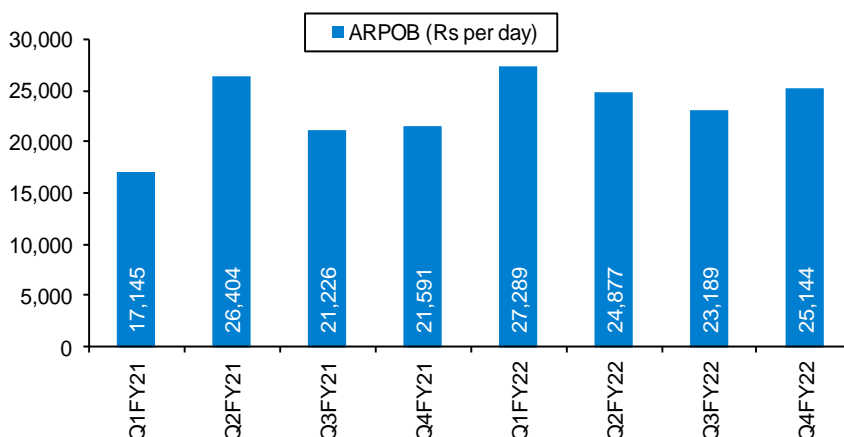
Other Highlights:

- KIMS Secunderabad gets a steady influx of patients from Vidarbha (Nagpur, Akola, Amravati) and Marathwada (Nanded, Latur, Aurangabad, etc) regions and therefore there is decent brand awareness for KIMS in these regions.
- Operating cash flow – The company is generating a cash flow of around Rs. 3.5bn every year. Hence mgmt. does not see any cash flow mismatch over the next 3 years for capex planned for expansion.
- Generally, company aims for minimum 1.25x asset turnover for new unit in 3-4 years. Given its lean cost structure, remain hopeful of achieving +25% OPM.
- Current ARPOB is sustainable for FY23 and may increase going forward on improved payor and case mix. Further company has not taken any price hike over last 2 years which will also see some upward revision.
- Expect ARPOB of Rs. 25-27k/day for its Nashik unit which will be at 5-7% discount to other hospitals in similar vicinity. Sees 20-25% of revenues coming from schemes in Nashik unit.
- Sees Karnataka and Maharashtra as more lucrative cluster and hence preponed the Bangalore expansion by 12-15 months and put Chennai expansion on hold for next 18-24 months.

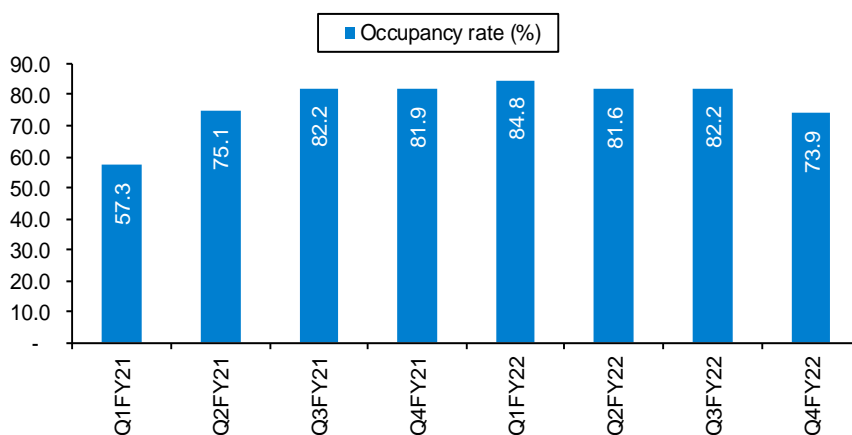
Exhibit 1: Best margins among peers



Source: Company, PL

Exhibit 2: Higher ARPOB led by increased complex surgeries and payor mix


Source: Company, PL

Exhibit 3: Occupancy impacted in Q4 due to Omicron


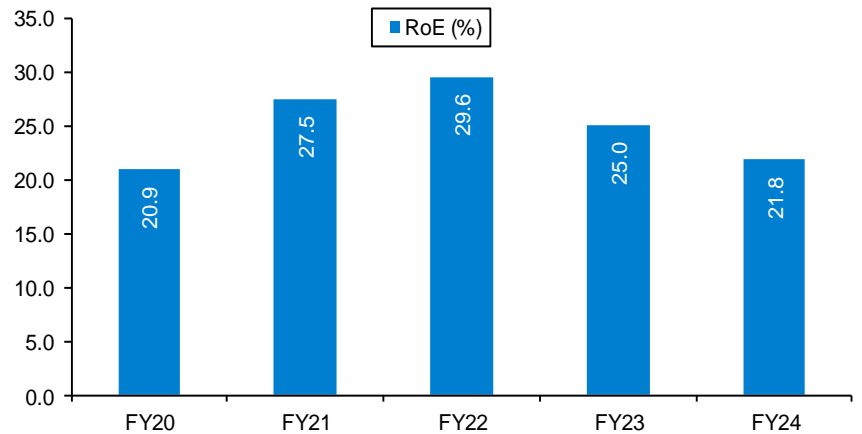
Source: Company, PL

Exhibit 4: Peer Valuation

	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	EV/EBITDA (x)		PE (x)		ROE (%)		ROCE (%)		PB (x)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Apollo Hospitals Ent.	518	3,605	5,000	BUY	22.0	16.6	53.2	35.2	16.2	21.1	20.8	27.1	8.1	6.8
Aster DM Healthcare	96	193	234	BUY	7.1	6.1	16.5	13.6	12.8	14.2	13.5	14.6	2.2	2.0
Fortis Healthcare	182	241	330	BUY	16.4	12.7	34.9	24.5	8.1	10.5	11.0	13.4	2.7	2.4
HealthCare Global Ent.	39	284	347	BUY	13.8	11.5	75.9	40.4	5.8	10.0	9.0	10.9	4.3	3.9
Krishna Inst. of Med. Sc.	101	1,256	1,600	BUY	15.5	13.6	25.8	24.4	25.0	21.8	33.2	31.3	5.8	4.9
Max Healthcare Institute	367	380	427	BUY	24.5	19.8	37.2	29.1	13.7	15.2	14.9	16.4	4.8	4.1
Narayana Hrudayalaya	133	652	773	BUY	18.0	15.1	32.2	26.5	24.6	23.7	23.8	23.6	7.1	5.7

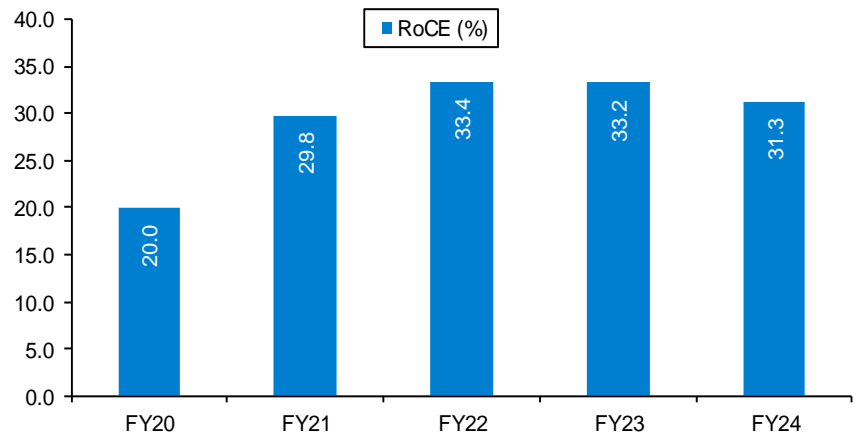
Source: Company, PL

Exhibit 5: Healthy RoE despite capex intensity going up



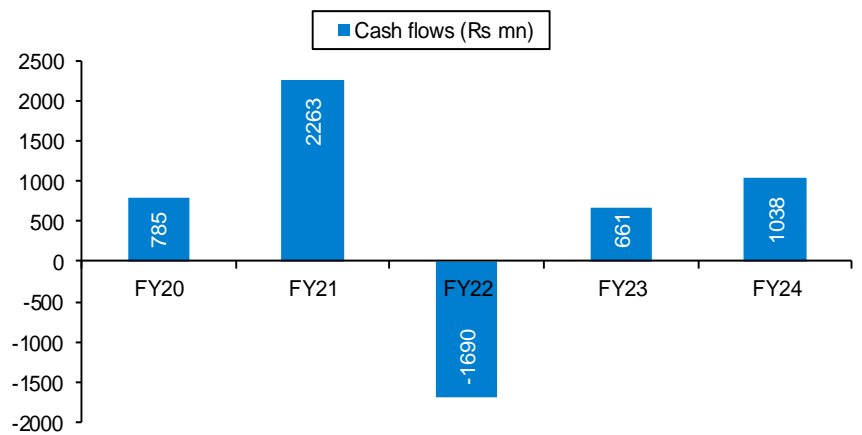
Source: Company, PL

Exhibit 6: Healthy RoCE profile



Source: Company, PL

Exhibit 7: Strong free cash flow generation



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	13,299	16,508	22,389	24,316
YoY gr. (%)	18.5	24.1	35.6	8.6
Cost of Goods Sold	2,889	3,552	4,926	5,350
Gross Profit	10,410	12,957	17,463	18,967
Margin (%)	78.3	78.5	78.0	78.0
Employee Cost	2,202	2,619	3,143	3,457
Other Expenses	4,499	5,180	7,837	8,120
EBITDA	3,709	5,158	6,483	7,389
YoY gr. (%)	51.4	39.1	25.7	14.0
Margin (%)	27.9	31.2	29.0	30.4
Depreciation and Amortization	695	727	766	966
EBIT	3,013	4,431	5,717	6,423
Margin (%)	22.7	26.8	25.5	26.4
Net Interest	325	160	120	100
Other Income	102	203	200	220
Profit Before Tax	2,790	4,473	5,797	6,543
Margin (%)	21.0	27.1	25.9	26.9
Total Tax	735	1,131	1,507	1,701
Effective tax rate (%)	26.4	25.3	26.0	26.0
Profit after tax	2,055	3,343	4,290	4,842
Minority interest	43	111	384	710
Share Profit from Associate	-	95	-	-
Adjusted PAT	2,012	3,327	3,906	4,132
YoY gr. (%)	68.8	65.3	17.4	5.8
Margin (%)	15.1	20.2	17.4	17.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,012	3,327	3,906	4,132
YoY gr. (%)	68.8	65.3	17.4	5.8
Margin (%)	15.1	20.2	17.4	17.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,012	3,327	3,906	4,132
Equity Shares O/s (m)	78	80	80	80
EPS (Rs)	25.9	41.6	48.8	51.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	10,520	11,316	15,316	19,316
Tangibles	10,520	11,316	15,316	19,316
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,567	3,293	4,059	5,025
Tangibles	2,567	3,293	4,059	5,025
Intangibles	-	-	-	-
Net fixed assets	7,954	8,023	11,257	14,291
Tangibles	7,954	8,023	11,257	14,291
Intangibles	-	-	-	-
Capital Work In Progress	602	1,389	1,389	1,389
Goodwill	848	848	848	848
Non-Current Investments	-	3,325	3,325	3,325
Net Deferred tax assets	(329)	(347)	(347)	(347)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	241	364	613	666
Trade receivables	1,098	1,286	1,963	2,132
Cash & Bank Balance	2,844	1,901	1,978	1,987
Other Current Assets	559	1,625	1,787	1,966
Total Assets	14,362	19,073	23,473	26,917
Equity				
Equity Share Capital	776	800	800	800
Other Equity	7,861	13,073	16,514	19,718
Total Networkth	8,637	13,873	17,314	20,519
Non-Current Liabilities				
Long Term borrowings	1,846	1,377	1,377	1,377
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	553	234	234	234
Trade payables	1,319	1,295	2,208	2,398
Other current liabilities	1,065	727	772	822
Total Equity & Liabilities	14,362	19,073	23,473	26,917

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	2,790	4,473	5,797	6,543
Add. Depreciation	695	727	766	966
Add. Interest	325	160	120	100
Less Financial Other Income	102	203	200	220
Add. Other	(677)	(107)	(384)	(710)
Op. profit before WC changes	3,133	5,254	6,299	6,900
Net Changes-WC	804	(745)	(130)	(161)
Direct tax	(377)	(1,269)	(1,507)	(1,701)
Net cash from Op. activities	3,560	3,240	4,661	5,038
Capital expenditures	(1,297)	(4,930)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(2,245)	691	-	-
Net Cash from Inv. activities	(3,542)	(4,239)	(4,000)	(4,000)
Issue of share cap. / premium	950	1,917	-	-
Debt changes	(507)	(1,094)	-	-
Dividend paid	-	-	(464)	(928)
Interest paid	(325)	(160)	(120)	(100)
Others	(20)	72	-	-
Net cash from Fin. activities	98	734	(584)	(1,028)
Net change in cash	116	(265)	77	9
Free Cash Flow	2,263	(1,690)	661	1,038

Source: Company Data, PL Research

Key Financial Metrics

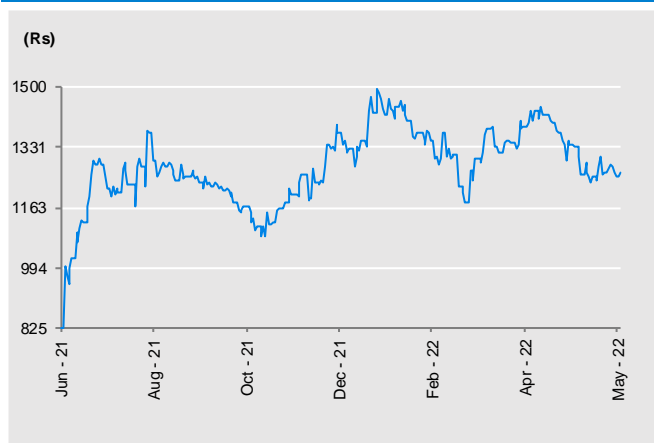
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	25.9	41.6	48.8	51.6
CEPS	34.9	50.7	58.4	63.7
BVPS	111.3	173.4	216.4	256.4
FCF	29.2	(21.1)	8.3	13.0
DPS	-	-	5.8	11.6
Return Ratio(%)				
RoCE	29.8	33.4	33.2	31.3
ROIC	26.2	25.8	26.6	25.8
RoE	27.5	29.6	25.0	21.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	1	8	6	6
Valuation(x)				
PER	48.2	30.1	25.6	24.2
P/B	11.2	7.2	5.8	4.9
P/CEPS	35.8	24.7	21.4	19.6
EV/EBITDA	26.0	19.3	15.4	13.5
EV/Sales	7.3	6.0	4.5	4.1
Dividend Yield (%)	-	-	0.5	0.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	4,732	4,117	3,936	3,723
YoY gr. (%)	135.3	0.5	9.1	3.8
Raw Material Expenses	1,123	855	822	751
Gross Profit	3,608	3,262	3,114	2,972
Margin (%)	76.3	79.2	79.1	79.8
EBITDA	1,437	1,288	1,298	1,136
YoY gr. (%)	302.2	(8.8)	39.5	12.6
Margin (%)	30.4	31.3	33.0	30.5
Depreciation / Depletion	171	181	188	186
EBIT	1,266	1,106	1,110	949
Margin (%)	26.8	26.9	28.2	25.5
Net Interest	62	29	30	39
Other Income	43	54	24	82
Profit before Tax	1,246	1,132	1,104	993
Margin (%)	26.3	27.5	28.0	26.7
Total Tax	325	289	282	235
Effective tax rate (%)	26.1	25.5	25.5	23.7
Profit after Tax	921	843	822	758
Minority interest	29	25	11	(49)
Share Profit from Associates	-	-	-	-
Adjusted PAT	892	817	811	807
YoY gr. (%)	699.9	(2.1)	66.3	64.2
Margin (%)	18.8	19.8	20.6	21.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	892	817	811	807
YoY gr. (%)	699.9	(2.1)	66.3	64.2
Margin (%)	18.8	19.8	20.6	21.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	892	817	811	807
Avg. Shares O/s (m)	80	80	80	80
EPS (Rs)	11.1	10.2	10.1	10.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-May-22	BUY	1,638	1,262
2	08-Apr-22	BUY	1,638	1,405
3	03-Mar-22	BUY	1,638	1,300

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,862
2	Aster DM Healthcare	BUY	234	191
3	Aurobindo Pharma	Accumulate	635	534
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,300	3,898
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	330	235
9	Glenmark Pharmaceuticals	Accumulate	450	409
10	HealthCare Global Enterprises	BUY	347	276
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,085	938
13	Krishna Institute of Medical Sciences	BUY	1,638	1,262
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	634
17	Sun Pharmaceutical Industries	BUY	1,020	888
18	Torrent Pharmaceuticals	BUY	3,250	2,635
19	Zydus Lifesciences	BUY	450	357

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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