

August 13, 2022

## Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,550		1,600	
Sales (Rs. m)	22,138	24,053	22,389	24,316
% Chng.	(1.1)	(1.1)		
EBITDA (Rs. m)	6,215	7,155	6,483	7,389
% Chng.	(4.1)	(3.2)		
EPS (Rs.)	41.8	46.0	48.8	51.6
% Chng.	(14.3)	(11.0)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	13,299	16,508	22,138	24,053
EBITDA (Rs. m)	3,709	5,158	6,215	7,155
Margin (%)	27.9	31.2	28.1	29.7
PAT (Rs. m)	2,012	3,327	3,346	3,678
EPS (Rs.)	25.9	41.6	41.8	46.0
Gr. (%)	62.1	60.3	0.6	9.9
DPS (Rs.)	-	-	5.8	11.6
Yield (%)	-	-	0.5	0.9
RoE (%)	27.5	29.6	21.8	20.3
RoCE (%)	29.8	33.4	29.6	29.7
EV/Sales (x)	7.3	6.1	4.5	4.2
EV/EBITDA (x)	26.3	19.5	16.2	14.1
PE (x)	48.7	30.4	30.2	27.5
P/BV (x)	11.3	7.3	6.0	5.2

### Key Data

KRII.BO | KIMS IN

52-W High / Low	Rs.1,565 / Rs.1,000
Sensex / Nifty	59,463 / 17,698
Market Cap	Rs.101bn/ \$ 1.268m
Shares Outstanding	80m
3M Avg. Daily Value	Rs.87.75m

### Shareholding Pattern (%)

Promoter's	38.84
Foreign	8.36
Domestic Institution	22.79
Public & Others	30.01
Promoter Pledge (Rs bn)	6.18

### Stock Performance (%)

	1M	6M	12M
Absolute	6.3	(7.9)	(2.9)
Relative	(3.6)	(10.0)	(10.4)

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# Krishna Institute of Medical Sciences (KIMS IN)

Rating: BUY | CMP: Rs1,262 | TP: Rs1,550

## Occupancy to improve

### Quick Pointers:

- Healthy ARPOB while occupancy was lower
- Occupancy seen improvement in month of June and July 2022 at 74%

**KIIMS Q1 operating performance was broadly in line and we see QoQ decline in occupancy as blip and should recover from Q2. Our FY23E and FY24E EBITDA stands cut by 4% and 3%. We maintain our 'Buy' rating with TP of Rs1,550/share, based on 20x FY24E EV/EBITDA. At CMP, stock is trading at valuations of 15.7x EV/EBITDA (adj for IND AS and partner's stake) and 28x P/E on FY24E. KIMS's robust cost control, low capital intensive set-up and value accretive acquisitions have ensured good profitability in past with EBITDA growth at 40% CAGR over FY18-22. Also, the recent acquisition of Sunshine is value accretive. This coupled with brownfield and greenfield expansion of +1500 beds over next 3-4 years will continue to aid growth momentum, in our view. We expect 18% EBITDA CAGR over FY22-24E, with best in class return ratios at 20%/30% RoE/RoCE.**

- In- line EBITDA; healthy ARPOB:** KIMS reported Q1FY23 EBITDA of Rs 1.37bn (down 5% YoY; up 21% QoQ); in line with our estimate. The YoY EBITDA decline due to high COVID base and lower occupancy. The QoQ growth was aided by Sunshine consolidation. Ex. Sunshine occupancy was at 71% vs 80% in FY22. Revenue grew by 5% YoY to Rs4.95bn. Ex Sunshine ARPOB improved 5% QoQ to Rs. 26,341. Telangana units contributed 51% to total revenue while EBITDA contribution was 57% in Q1FY23. Sunshine reported Rs1.1bn of revenues with 17.5% OPM.
- Brownfield expansion and Sunshine consolidation to drive growth:** The company's cluster wise investment and expansion approach will drive growth in coming years. Its focus on expanding existing facilities across Andhra Pradesh region (brownfield expansion) and Telangana (Sunshine acquisition) will aid revenue CAGR of 22% over FY22-24E. Out of 3,666 bed capacity, 3,222 beds are currently operational and mgmt guided to commercialize to its full capacity by end of FY23/24.
- Key con-call takeaways:** (1) Margin decline was due to consolidation of sunshine and increase in employee and power & fuel cost. Further price hike will be reflected from Q2 onwards. (2) Overall occupancy was lower in April and May month however June and July have normalized with occupancy back to 74%. (3) Depreciation charges were higher given equipment purchase at Sunshine hospital and current run rate is new base (4) Sunshine's current occupancy stands at 40-45% with ~70% of revenue coming from Ortho + Cardiac specialty. The objective of KIMS is to scale up other specialties which would aid occupancy (5) Bangalore and Nashik units should commercialize in next 15-18 months (6) Kondapur expansion plan is on track and company should move to new facility over next 36-48 months. (7) Depreciation charges were higher led by certain equipment purchase in Sunshine hospital and transition of shifting its Secunderbad Sunshine hospital from lease to owned set up. Current run-rate is new base.

**Exhibit 1: Q1FY23 Result Overview (Rs mn) – In line EBITDA**

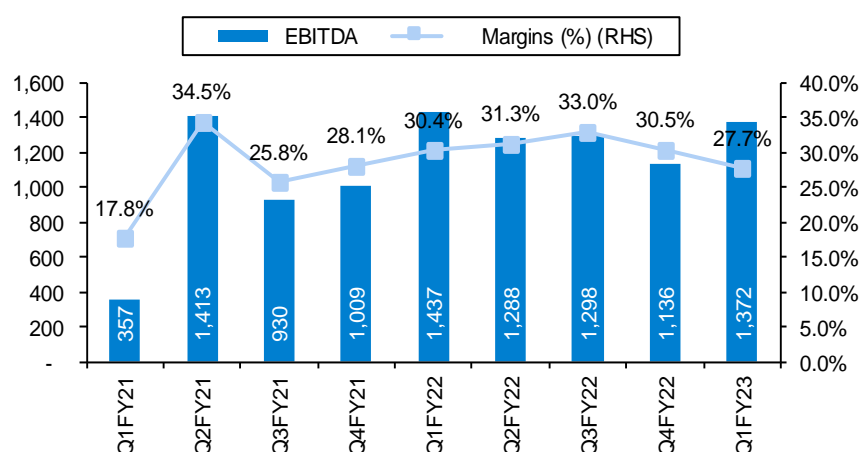
Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
<b>Net Sales</b>	<b>4,955</b>	<b>4,732</b>	<b>4.7</b>	<b>3,723</b>	<b>33.1</b>
COGS	1,098	1,123	(2.3)	751	46.1
<i>% of Net Sales</i>	<i>22.2</i>	<i>23.7</i>		<i>20.2</i>	
Staff Cost	833	725	14.9	649	28.5
<i>% of Net Sales</i>	<i>16.8</i>	<i>15.3</i>		<i>17.4</i>	
Other Expenses	1,653	1,447	14.3	1,188	39.1
<i>% of Net Sales</i>	<i>33.4</i>	<i>30.6</i>		<i>31.9</i>	
Total	3,584	3,295	8.8	2,588	38.5
<b>EBITDA</b>	<b>1,372</b>	<b>1,437</b>	<b>(4.5)</b>	<b>1,136</b>	<b>20.8</b>
<i>Margins (%)</i>	<i>27.7</i>	<i>30.4</i>		<i>30.5</i>	
Other Income	53	43	24.9	82	(34.9)
Interest	57	62	(8.1)	39	48.4
Depreciation	294	171	72.2	186	57.8
<b>PBT</b>	<b>1,074</b>	<b>1,246</b>	<b>(13.9)</b>	<b>993</b>	<b>8.1</b>
Provision for Taxation	281	325	(13.5)	235	19.6
<i>Tax rate %</i>	<i>26.2</i>	<i>26.1</i>		<i>23.7</i>	
<b>PAT</b>	<b>792</b>	<b>921</b>	<b>(14.0)</b>	<b>758</b>	<b>4.6</b>
Minority Interest	93	29	217.5	(49)	(289.2)
<b>Reported PAT</b>	<b>700</b>	<b>892</b>	<b>(21.6)</b>	<b>807</b>	<b>(13.3)</b>

Source: Company, PL

**Exhibit 2: Dominant player in AP and Telangana**

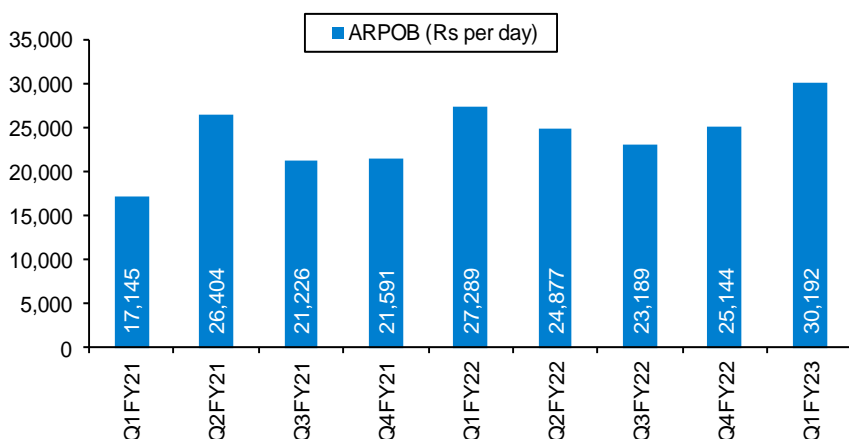
Q1FY23	Telangana	AP Mature	AP Non Mature	Sunshine	Total
Revenues (in mn)	2,583	549	787	1,110	5,029
EBITDA (in mn)	790	177	151	194	1,312
<i>EBITDA margins</i>	<i>30.6%</i>	<i>32.2%</i>	<i>19.2%</i>	<i>17.5%</i>	<i>26.1%</i>

Source: Company, PL

**Exhibit 3: Best margins among peers**


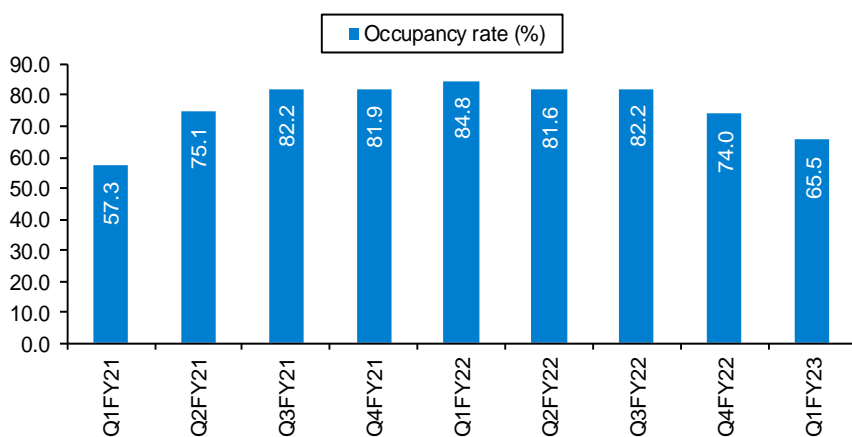
Source: Company, PL

**Exhibit 4: Higher ARPOB led by increased complex surgeries and payor mix**



Source: Company, PL

**Exhibit 5: Occupancy was lower vs FY22 levels**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>13,299</b>	<b>16,508</b>	<b>22,138</b>	<b>24,053</b>
YoY gr. (%)	18.5	24.1	34.1	8.7
Cost of Goods Sold	2,889	3,552	4,870	5,292
Gross Profit	10,410	12,957	17,267	18,762
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	7,909	8,150
<b>EBITDA</b>	<b>3,709</b>	<b>5,158</b>	<b>6,215</b>	<b>7,155</b>
YoY gr. (%)	51.4	39.1	20.5	15.1
Margin (%)	27.9	31.2	28.1	29.7
Depreciation and Amortization	695	727	1,200	1,294
<b>EBIT</b>	<b>3,013</b>	<b>4,431</b>	<b>5,015</b>	<b>5,861</b>
Margin (%)	22.7	26.8	22.7	24.4
Net Interest	325	160	180	120
Other Income	102	203	200	220
<b>Profit Before Tax</b>	<b>2,790</b>	<b>4,473</b>	<b>5,035</b>	<b>5,961</b>
Margin (%)	21.0	27.1	22.7	24.8
Total Tax	735	1,131	1,309	1,550
Effective tax rate (%)	26.4	25.3	26.0	26.0
<b>Profit after tax</b>	<b>2,055</b>	<b>3,343</b>	<b>3,726</b>	<b>4,411</b>
Minority interest	43	111	380	733
Share Profit from Associate	-	95	-	-
<b>Adjusted PAT</b>	<b>2,012</b>	<b>3,327</b>	<b>3,346</b>	<b>3,678</b>
YoY gr. (%)	68.8	65.3	0.6	9.9
Margin (%)	15.1	20.2	15.1	15.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,012</b>	<b>3,327</b>	<b>3,346</b>	<b>3,678</b>
YoY gr. (%)	68.8	65.3	0.6	9.9
Margin (%)	15.1	20.2	15.1	15.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,012	3,327	3,346	3,678
<b>Equity Shares O/s (m)</b>	<b>78</b>	<b>80</b>	<b>80</b>	<b>80</b>
<b>EPS (Rs)</b>	<b>25.9</b>	<b>41.6</b>	<b>41.8</b>	<b>46.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>10,520</b>	<b>11,316</b>	<b>15,316</b>	<b>19,316</b>
Tangibles	10,520	11,316	15,316	19,316
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,567</b>	<b>3,293</b>	<b>4,493</b>	<b>5,787</b>
Tangibles	2,567	3,293	4,493	5,787
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>7,954</b>	<b>8,023</b>	<b>10,823</b>	<b>13,529</b>
Tangibles	7,954	8,023	10,823	13,529
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	241	364	485	527
Trade receivables	1,098	1,286	1,820	1,977
Cash & Bank Balance	2,844	1,901	2,099	2,004
Other Current Assets	559	1,625	1,787	1,966
<b>Total Assets</b>	<b>14,362</b>	<b>19,073</b>	<b>22,889</b>	<b>25,877</b>
<b>Equity</b>				
Equity Share Capital	776	800	800	800
Other Equity	7,861	13,073	15,955	18,704
<b>Total Network</b>	<b>8,637</b>	<b>13,873</b>	<b>16,755</b>	<b>19,505</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,846	1,377	1,377	1,377
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	553	234	234	234
Trade payables	1,319	1,295	2,183	2,372
Other current liabilities	1,065	727	772	822
<b>Total Equity &amp; Liabilities</b>	<b>14,362</b>	<b>19,073</b>	<b>22,889</b>	<b>25,877</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	2,790	4,473	5,035	5,961
Add. Depreciation	695	727	1,200	1,294
Add. Interest	325	160	180	120
Less Financial Other Income	102	203	200	220
Add. Other	(677)	(107)	(380)	(733)
Op. profit before WC changes	3,133	5,254	6,035	6,642
Net Changes-WC	804	(745)	117	(139)
Direct tax	(377)	(1,269)	(1,309)	(1,550)
<b>Net cash from Op. activities</b>	<b>3,560</b>	<b>3,240</b>	<b>4,843</b>	<b>4,953</b>
Capital expenditures	(1,297)	(4,930)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(2,245)	814	-	-
<b>Net Cash from Invt. activities</b>	<b>(3,542)</b>	<b>(4,115)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Issue of share cap. / premium	950	1,917	-	-
Debt changes	(507)	(1,094)	-	-
Dividend paid	-	-	(464)	(928)
Interest paid	(325)	(160)	(180)	(120)
Others	(20)	(52)	-	-
<b>Net cash from Fin. activities</b>	<b>98</b>	<b>610</b>	<b>(644)</b>	<b>(1,048)</b>
<b>Net change in cash</b>	<b>116</b>	<b>(265)</b>	<b>199</b>	<b>(96)</b>
Free Cash Flow	2,263	(1,690)	843	953

Source: Company Data, PL Research

**Key Financial Metrics**

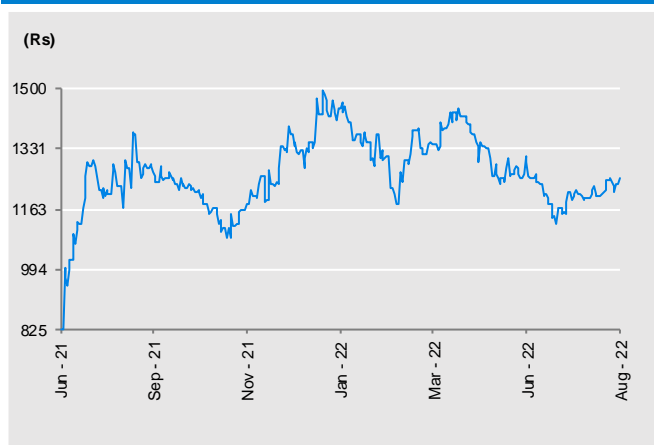
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	25.9	41.6	41.8	46.0
CEPS	34.9	50.7	56.8	62.1
BVPS	111.3	173.4	209.4	243.7
FCF	29.2	(21.1)	10.5	11.9
DPS	-	-	5.8	11.6
<b>Return Ratio(%)</b>				
RoCE	29.8	33.4	29.6	29.7
ROIC	26.2	25.8	24.1	24.5
RoE	27.5	29.6	21.8	20.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	1	8	2	2
<b>Valuation(x)</b>				
PER	48.7	30.4	30.2	27.5
P/B	11.3	7.3	6.0	5.2
P/CEPS	36.2	24.9	22.2	20.3
EV/EBITDA	26.3	19.5	16.2	14.1
EV/Sales	7.3	6.1	4.5	4.2
Dividend Yield (%)	-	-	0.5	0.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>4,117</b>	<b>3,936</b>	<b>3,723</b>	<b>4,955</b>
YoY gr. (%)	0.5	9.1	3.8	4.7
Raw Material Expenses	855	822	751	1,098
Gross Profit	3,262	3,114	2,972	3,857
Margin (%)	79.2	79.1	79.8	77.8
<b>EBITDA</b>	<b>1,288</b>	<b>1,298</b>	<b>1,136</b>	<b>1,372</b>
YoY gr. (%)	(8.8)	39.5	12.6	(4.5)
Margin (%)	31.3	33.0	30.5	27.7
Depreciation / Depletion	181	188	186	294
<b>EBIT</b>	<b>1,106</b>	<b>1,110</b>	<b>949</b>	<b>1,077</b>
Margin (%)	26.9	28.2	25.5	21.7
Net Interest	29	30	39	57
Other Income	54	24	82	53
<b>Profit before Tax</b>	<b>1,132</b>	<b>1,104</b>	<b>993</b>	<b>1,074</b>
Margin (%)	27.5	28.0	26.7	21.7
Total Tax	289	282	235	281
Effective tax rate (%)	25.5	25.5	23.7	26.2
<b>Profit after Tax</b>	<b>843</b>	<b>822</b>	<b>758</b>	<b>792</b>
Minority interest	25	11	(49)	93
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>817</b>	<b>811</b>	<b>807</b>	<b>700</b>
YoY gr. (%)	(2.1)	66.3	39.6	(21.6)
Margin (%)	19.8	20.6	21.7	14.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>817</b>	<b>811</b>	<b>807</b>	<b>700</b>
YoY gr. (%)	(2.1)	66.3	39.6	(21.6)
Margin (%)	19.8	20.6	21.7	14.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>817</b>	<b>811</b>	<b>807</b>	<b>700</b>
Avg. Shares O/s (m)	80	80	80	80
<b>EPS (Rs)</b>	<b>10.2</b>	<b>10.1</b>	<b>10.1</b>	<b>8.7</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	BUY	1,010	1,016
13	Ipca Laboratories	Hold	1,010	1,016
14	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
15	Krishna Institute of Medical Sciences	BUY	1,600	1,220
16	Lupin	Hold	600	660
17	Max Healthcare Institute	BUY	427	370
18	Narayana Hrudayalaya	BUY	810	686
19	Sun Pharmaceutical Industries	BUY	1,070	943
20	Torrent Pharmaceuticals	BUY	1,750	1,529
21	Zydus Lifesciences	BUY	425	364

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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