

February 12, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,660		1,660	
Sales (Rs. m)	25,275	29,157	25,282	29,143
% Chng.	-	-	-	-
EBITDA (Rs. m)	7,185	8,331	7,198	8,325
% Chng.	(0.2)	0.1	-	-
EPS (Rs.)	47.8	57.1	48.5	57.9
% Chng.	(1.5)	(1.5)	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	16,508	22,223	25,275	29,157
EBITDA (Rs. m)	5,158	6,054	7,185	8,331
Margin (%)	31.2	27.2	28.4	28.6
PAT (Rs. m)	3,327	3,137	3,822	4,567
EPS (Rs.)	41.6	39.2	47.8	57.1
Gr. (%)	60.3	(5.7)	21.8	19.5
DPS (Rs.)	-	5.8	11.6	11.6
Yield (%)	-	0.4	0.8	0.8
RoE (%)	29.6	20.6	21.2	21.5
RoCE (%)	33.4	27.2	27.9	28.1
EV/Sales (x)	7.1	5.3	4.6	3.9
EV/EBITDA (x)	22.7	19.4	16.3	13.7
PE (x)	35.3	37.5	30.8	25.7
P/BV (x)	8.5	7.1	6.0	5.1

Key Data

KRII.BO | KIMS IN

52-W High / Low	Rs.1,669 / Rs.1,113
Sensex / Nifty	60,683 / 17,857
Market Cap	Rs.118bn/ \$ 1,425m
Shares Outstanding	80m
3M Avg. Daily Value	Rs.137.84m

Shareholding Pattern (%)

Promoter's	38.84
Foreign	11.89
Domestic Institution	25.83
Public & Others	23.44
Promoter Pledge (Rs bn)	8.85

Stock Performance (%)

	1M	6M	12M
Absolute	(2.6)	16.8	13.2
Relative	(3.5)	13.2	9.9

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In-line EBITDA; Sunshine and Nagpur units to drive growth

Quick Pointers:

- Existing AP and Telangana units are expected to grow at high-single-digits.
- Guided for 60-70% occupancy across Sunshine units over next 18-24 months.

Our FY24E and FY25E EBITDA estimates broadly remain unchanged. Krishna Institute of Medical Sciences (KIMS) Q3 operating performance was in-line with our estimate with EBITDA growth of 17% YoY (down 5% QoQ) to Rs1.5bn. Company's robust cost control, low capital intensive set-up and value accretive acquisitions have ensured good profitability in past (with EBITDA growth of 40% CAGR over FY18-22). Also recent acquisitions of Sunshine, Nashik and Nagpur are value accretive which will continue to aid growth momentum, in our view. We expect 17% EBITDA CAGR over FY23-25E with best in class return ratios of 22%/28% RoE/ RoCE. We maintain our 'Buy' rating with TP of Rs1,660/share based on 20x EV/EBITDA. At CMP, stock is trading at valuations of 17x EV/EBITDA (adj for IND AS and partner's stake) and 26x P/E on FY25E.

- In-line EBITDA at Rs1.5bn:** KIMS reported EBITDA of Rs 1.51bn. Adjusted for one-off (Rs26mn related to Nagpur unit) and rental (Rs68mn), EBITDA came in at Rs1.47bn (down 5% QoQ). Sunshine reported revenues and Pre IND AS EBITDA at Rs.1bn and Rs. 219mn, with OPM of 21.2% (up 300bps QoQ) in Q3. Nagpur unit consolidated from Sept. month and reported revenues and Pre IND AS EBITDA at Rs. 372mn and Rs 15mn. With one-time adjustment to tune of Rs26mn, EBITDA came in at Rs43mn with 11.4% OPM. Consolidated OPM was at 27%; Ex. Sunshine and Nagpur, margins were at ~29%. Consolidated revenue grew by 43% YoY, in line with our est.
- Seasonality impact on occupancy; improved ARPOB:** Occupancy was at 68.2% at company level vs 72.6% in Q2 impacted due to seasonality. Sunshine occupancy was at 36.3% vs 42.6% in Q2, whereas Nagpur occupancy was at 70.4% in Q3. Consolidated ARBOB came in at Rs. 29,812/ day in Q3; improved 2% QoQ. Payor mix remain steady at 80% (Cash+insurance)
- Key con-call takeaways: (1) Capex** - Total capex plan of Rs 3.5bn for FY23; which will be largely spend towards Bangalore, Nashik and Vizag unit. Similar capex will be deployed in FY24. **(2) Sunshine** - The new unit for Sunshine Secunderabad is in its final stages of completion and plans to move to a new state-of-art facility by Q1FY24. The company replaced many high cost consultant and hired new consultants in Gachibowli and Begumpeth hospital. Potential to reach occupancy levels from 30-40% to 60-70%, given new therapies getting added. **(3)** During Q3, KIMS acquired an additional stake in three of its subsidiaries: 1.92% in Sunshine hospital, 4.07% in Kondapur hospital and 7.79% in Srikakulam Hospitals. KIMS aims to acquire further stake in these units **(4) Nagpur** – Identified new clinical talents and plans to increase its operational beds (currently at 250) as occupancy to improve over 12-24 months. Revenue run-rate of Rs. 130mn/month to reach Rs. 200-220mn from Q2FY24 onwards, which should also aid margins.

Exhibit 1: Q3FY23 Result Overview (Rs mn) – In line EBITDA

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY (%)
Net Sales	5,622	3,936	42.8	5,641	(0.3)	16,217	12,785	26.8
COGS	1,235	822	50.3	1,253	(1.4)	3,586	2,800	28.0
<i>% of Net Sales</i>	<i>22.0</i>	<i>20.9</i>		<i>22.2</i>		<i>22.1</i>	<i>21.9</i>	
Staff Cost	872	610	42.8	842	3.6	2,547	1,971	29.2
<i>% of Net Sales</i>	<i>15.5</i>	<i>15.5</i>		<i>14.9</i>		<i>15.7</i>	<i>15.4</i>	
Other Expenses	2,003	1,206	66.1	2,022	(0.9)	5,677	3,992	42.2
<i>% of Net Sales</i>	<i>35.6</i>	<i>30.6</i>		<i>35.8</i>		<i>35.0</i>	<i>31.2</i>	
Total	4,110	2,638	55.8	4,116	(0.2)	11,810	8,763	34.8
EBITDA	1,512	1,298	16.5	1,524	(0.8)	4,408	4,022	9.6
<i>Margins (%)</i>	<i>26.9</i>	<i>33.0</i>		<i>27.0</i>		<i>27.2</i>	<i>31.5</i>	
Other Income	65	24	169.7	92	(29.9)	210	121	73.9
Interest	115	30	288.7	79	46.2	251	121	107.9
Depreciation	333	188	77.0	311	7.0	938	540	73.6
PBT	1,128	1,104	2.2	1,226	(8.0)	3,428	3,482	(1.5)
Provision for Taxation	310	282	10.1	314	(1.3)	905	896	1.0
<i>Tax rate %</i>	<i>27.5</i>	<i>25.5</i>		<i>25.6</i>		<i>26.4</i>	<i>25.7</i>	
PAT	818	822	(0.5)	912	(10.3)	2,523	2,586	(2.4)
Minority Interest	58	11	433.5	90	(34.7)	241	66	267.3
Reported PAT	760	811	(6.3)	823	(7.7)	2,282	2,520	(9.4)

Source: Company, PL

Exhibit 2: Dominant player in AP and Telangana

Q3FY23	Telangana	AP Mature	AP Non Mature	Sunshine	Nagpur	Total
Revenues (in mn)	2,739	618	925	1,032	372	5685
EBITDA (in mn)	833	194	182	219	15	1,443
<i>EBITDA margins</i>	<i>30.4%</i>	<i>31.4%</i>	<i>19.7%</i>	<i>21.2%</i>	<i>4.0%</i>	<i>25.5%</i>

Source: Company, PL

Exhibit 3: Revenue growth aided by Sunshine consolidation

Cluster wise revenues – Rs mn	FY21	FY22	9MFY23
Telangana (KIMS)	8,560	11,066	8,205
<i>% total</i>	<i>64%</i>	<i>66%</i>	<i>50%</i>
AP- Mature	2,060	2,252	1,791
<i>% total</i>	<i>15%</i>	<i>13%</i>	<i>11%</i>
AP-Acquired	2,781	3,392	2,611
<i>% total</i>	<i>21%</i>	<i>20%</i>	<i>16%</i>
Sunshine	NA	NA	3,303
<i>% total</i>			<i>20%</i>
Nagpur	NA	NA	515
<i>% total</i>			<i>3%</i>
Total	13,401	16,710	16,425

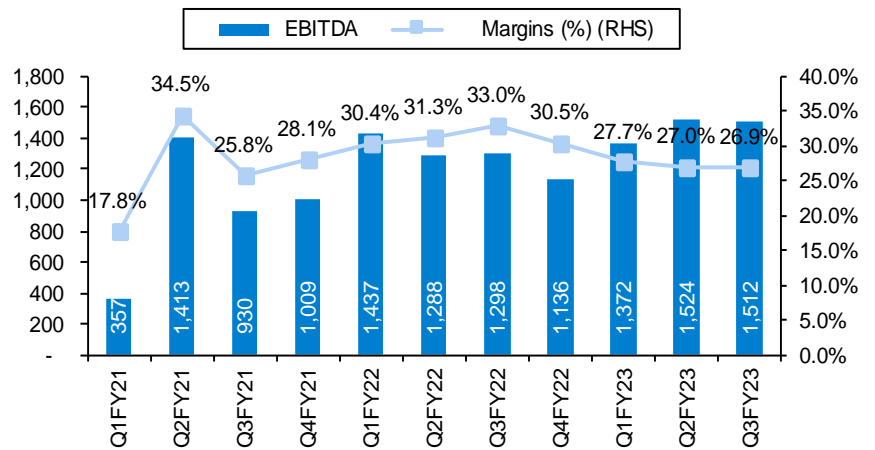
Source: Company, PL

Exhibit 4: AP mature units reported strong YoY improvement in margins

Cluster wise EBITDA- Rs mn	FY21	FY22	9MFY23
Telangana (KIMS)	2,705	3,987	2,467
OPM (%)	31.6	36.0	30.1
AP- Mature	518	554	571
OPM (%)	25.1	24.6	31.9
AP-Acquired	450	676	510
OPM (%)	16.2	19.9	19.5
Sunshine	NA	NA	625
OPM (%)			19%
Nagpur	NA	NA	29
OPM (%)			5.6
Total	3,673	5,217	4,202
OPM (%)	27.4	31.2	25.6

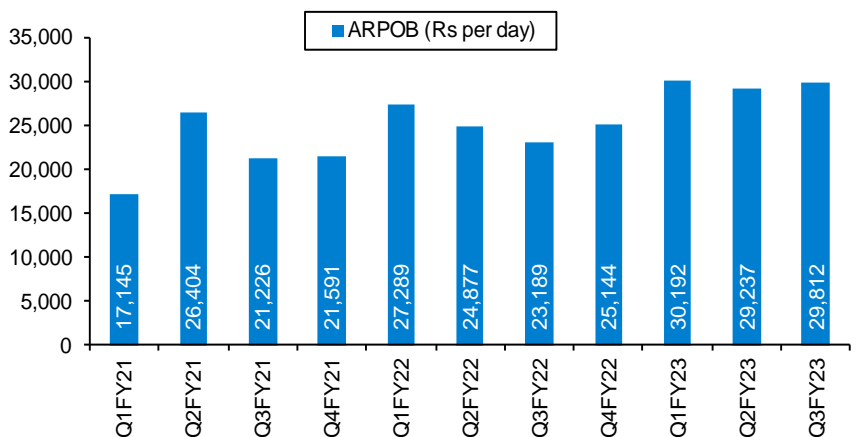
Source: Company, PL

Exhibit 5: Margins continue to remain healthy



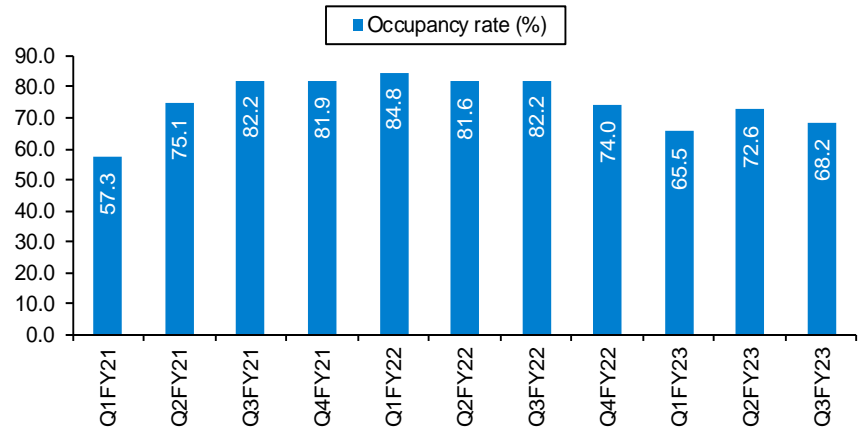
Source: Company, PL

Exhibit 6: ARPOB improved 29% YoY and 2% QoQ



Source: Company, PL

Exhibit 7: Occupancy declined QoQ due to seasonality



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	16,508	22,223	25,275	29,157
YoY gr. (%)	24.1	34.6	13.7	15.4
Cost of Goods Sold	3,552	4,964	5,582	6,437
Gross Profit	12,957	17,259	19,692	22,721
Margin (%)	78.5	77.7	77.9	77.9
Employee Cost	2,619	3,143	3,457	3,803
Other Expenses	5,180	8,062	9,050	10,586
EBITDA	5,158	6,054	7,185	8,331
YoY gr. (%)	39.1	17.4	18.7	16.0
Margin (%)	31.2	27.2	28.4	28.6
Depreciation and Amortization	727	1,275	1,294	1,495
EBIT	4,431	4,779	5,891	6,836
Margin (%)	26.8	21.5	23.3	23.4
Net Interest	160	370	350	300
Other Income	203	275	250	400
Profit Before Tax	4,473	4,684	5,791	6,936
Margin (%)	27.1	21.1	22.9	23.8
Total Tax	1,131	1,218	1,506	1,803
Effective tax rate (%)	25.3	26.0	26.0	26.0
Profit after tax	3,343	3,466	4,285	5,133
Minority interest	111	329	464	566
Share Profit from Associate	95	-	-	-
Adjusted PAT	3,327	3,137	3,822	4,567
YoY gr. (%)	65.3	(5.7)	21.8	19.5
Margin (%)	20.2	14.1	15.1	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,327	3,137	3,822	4,567
YoY gr. (%)	65.3	(5.7)	21.8	19.5
Margin (%)	20.2	14.1	15.1	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,327	3,137	3,822	4,567
Equity Shares O/s (m)	80	80	80	80
EPS (Rs)	41.6	39.2	47.8	57.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	11,316	15,316	19,316	22,316
Tangibles	11,316	15,316	19,316	22,316
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,293	4,568	5,862	7,358
Tangibles	3,293	4,568	5,862	7,358
Intangibles	-	-	-	-
Net fixed assets	8,023	10,748	13,454	14,958
Tangibles	8,023	10,748	13,454	14,958
Intangibles	-	-	-	-
Capital Work In Progress	1,389	1,389	1,389	1,389
Goodwill	848	848	848	848
Non-Current Investments	3,325	3,325	3,325	3,325
Net Deferred tax assets	(347)	(347)	(347)	(347)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	364	495	556	641
Trade receivables	1,286	1,854	2,086	2,405
Cash & Bank Balance	1,901	3,340	3,793	6,257
Other Current Assets	1,625	1,868	2,055	2,261
Total Assets	19,073	24,180	27,818	32,396
Equity				
Equity Share Capital	800	800	800	800
Other Equity	13,073	15,746	18,639	22,278
Total Networkth	13,873	16,546	19,440	23,078
Non-Current Liabilities				
Long Term borrowings	1,377	2,877	2,877	2,877
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	234	234	234	234
Trade payables	1,295	1,854	2,086	2,405
Other current liabilities	727	772	822	877
Total Equity & Liabilities	19,073	24,180	27,818	32,396

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,473	4,684	5,791	6,936
Add. Depreciation	727	1,275	1,294	1,495
Add. Interest	160	370	350	300
Less Financial Other Income	203	275	250	400
Add. Other	(107)	-	-	-
Op. profit before WC changes	5,254	6,329	7,435	8,731
Net Changes-WC	(745)	(338)	(199)	(236)
Direct tax	(1,269)	(1,218)	(1,506)	(1,803)
Net cash from Op. activities	3,240	4,774	5,731	6,692
Capital expenditures	(4,930)	(4,000)	(4,000)	(3,000)
Interest / Dividend Income	-	-	-	-
Others	814	-	-	-
Net Cash from Invt. activities	(4,115)	(4,000)	(4,000)	(3,000)
Issue of share cap. / premium	1,917	-	-	-
Debt changes	(1,094)	1,500	-	-
Dividend paid	-	(464)	(928)	(928)
Interest paid	(160)	(370)	(350)	(300)
Others	(52)	-	-	-
Net cash from Fin. activities	610	666	(1,278)	(1,228)
Net change in cash	(265)	1,440	453	2,464
Free Cash Flow	(1,690)	774	1,731	3,692

Source: Company Data, PL Research

Key Financial Metrics

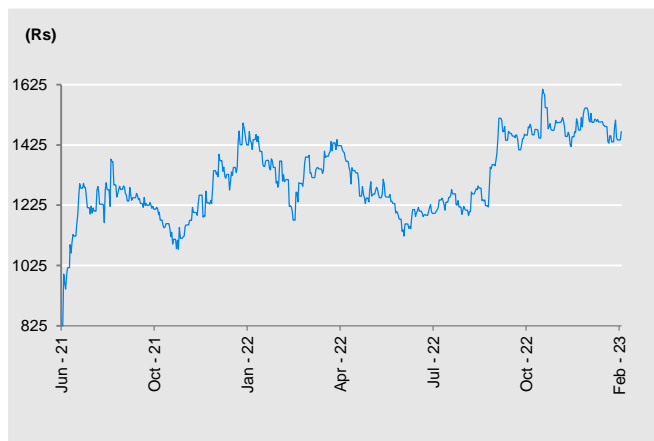
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	41.6	39.2	47.8	57.1
CEPS	50.7	55.1	63.9	75.7
BVPS	173.4	206.8	242.9	288.4
FCF	(21.1)	9.7	21.6	46.1
DPS	-	5.8	11.6	11.6
Return Ratio(%)				
RoCE	33.4	27.2	27.9	28.1
ROIC	25.8	22.9	24.5	26.2
RoE	29.6	20.6	21.2	21.5
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	8	8	8	8
Valuation(x)				
PER	35.3	37.5	30.8	25.7
P/B	8.5	7.1	6.0	5.1
P/CEPS	29.0	26.6	23.0	19.4
EV/EBITDA	22.7	19.4	16.3	13.7
EV/Sales	7.1	5.3	4.6	3.9
Dividend Yield (%)	-	0.4	0.8	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	3,723	4,955	5,641	5,622
YoY gr. (%)	3.8	4.7	37.0	42.8
Raw Material Expenses	751	1,098	1,253	1,235
Gross Profit	2,972	3,857	4,388	4,387
Margin (%)	79.8	77.8	77.8	78.0
EBITDA	1,136	1,372	1,524	1,512
YoY gr. (%)	12.6	(4.5)	18.4	16.5
Margin (%)	30.5	27.7	27.0	26.9
Depreciation / Depletion	186	294	311	333
EBIT	949	1,077	1,213	1,179
Margin (%)	25.5	21.7	21.5	21.0
Net Interest	39	57	79	115
Other Income	82	53	92	65
Profit before Tax	993	1,074	1,226	1,128
Margin (%)	26.7	21.7	21.7	20.1
Total Tax	235	281	314	310
Effective tax rate (%)	23.7	26.2	25.6	27.5
Profit after Tax	758	792	912	818
Minority interest	(49)	93	90	58
Share Profit from Associates	-	-	-	-
Adjusted PAT	807	700	823	760
YoY gr. (%)	39.6	(21.6)	0.7	(6.3)
Margin (%)	21.7	14.1	14.6	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	807	700	823	760
YoY gr. (%)	39.6	(21.6)	0.7	(6.3)
Margin (%)	21.7	14.1	14.6	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	807	700	823	760
Avg. Shares O/s (m)	80	80	80	80
EPS (Rs)	10.1	8.7	10.3	9.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	1,660	1,505
2	14-Nov-22	BUY	1,660	1,448
3	06-Oct-22	BUY	1,550	1,467
4	30-Aug-22	BUY	1,550	1,204
5	13-Aug-22	BUY	1,550	1,262
6	07-Jul-22	BUY	1,600	1,220
7	05-Jun-22	BUY	1,600	1,250
8	22-May-22	BUY	1,638	1,262
9	08-Apr-22	BUY	1,638	1,405
10	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	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	BUY	565	469
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	282
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	965	719
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

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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