

Krishna Institute of Medical Sciences Ltd

Acquired clusters to drive growth

KIMS, has experienced good growth due to the merger between Sunshine and Kingsway. Additionally, the base business has also shown improvement in terms of EBITDA, indicating that the cost rationalization efforts put in place have been successful. Turnaround of Sunshine will be key driver for KIMS overall EBITDA as there is big room to grow from 18% to 25% EBITDA once occupancy picks up at Sunshine. Management is further confident of operationalizing Bangalore and Nashik facility in 2 years' time leveraging their healthy balance sheet & operating cashflows. Also, management is looking at increasing its stake in certain subsidiaries thereby reducing its minority contribution.

Over the longer term, growth is expected to be robust led by expansion of operating beds, increased occupancies, and improved case mix. As new hospitals move towards matured category, revenue and EBITDA margins would gain traction because 55% of beds capacity is from new and acquired clusters. With bed capacity ramp up over the next few years, the revenue is expected to remain robust. We assign 20x EV/EBITDA on FY25E EBITDA and arrive at Rs 1,682 per share, translating into an upside of 19% and hence, we assign Buy rating on the stock.

Decent performance all around

- Revenue increased 42.8% YoY and was flat by 0.3% QoQ to Rs 5,622 mn. This was mainly due to decline in Inpatients admission which saw decline of 1.7% QoQ but has seen rise of 26.5% YoY.
- ARPP (12.8% YoY) and ARPOB (Rs. 29,812- growth of 12.8% YoY) have shown improvements at the group level, though IP volume has declined due to the festive season. Going forward, it will show healthy growth.
- EBITDA for the quarter reported a healthy growth of 16.5% YoY but was flat on sequential basis to Rs. 1,512Mn, whereas EBITDA margin was at 26.9% which witnessed contraction of 608 bps YoY and 13 bps QoQ. This was mainly due to higher employee and other expenses. Consolidation of Sunshine and Nagpur hospital was another reason for lower margins.
- Sunshine Hospitals have shown an improvement in ARPOB from Rs. 60,419 in Q2FY23 to 65,436 in Q3FY23, growth of 8.8% whereas EBITDA has improved from 18% in Q3FY23 to 21% in Q3FY23

Outlook and Valuation:

The company plans to add beds capacity of 2200-2300 beds over a span of 3 years which will increase the number of operational beds by 75% from 3064 in FY22 to 5375 beds in FY25E. This will help to boost revenue growth going forward. Currently, the stock is trading at comforting valuation on FY25E EV/EBITDA of 15x. We value the stock at 20x (in line with its historical average) due to capacity and geographical expansion, improved margins and robust revenue growth, thereby, arrive at target price of Rs 1,704 per share which offers upside of 19% from current valuations. Therefore, we assign **BUY** rating on the stock.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3 FY23e	Var. (%)
Revenues	5,622	3,936	42.8	5,641	-0.3	6,090	-7.7
Operating expenses	4,110	2,638	55.8	4,116	-0.2	-	-
EBITDA	1,512	1,298	16.5	1,524	-0.8	1,638	-7.7
EBITDA Margin (%)	26.9	33.0	(608) bps	27.0	(13) bps	26.9	(0.4) bps
Depreciation	333	188	77.0	311	7.0		
Interest	115	30	288.7	79	46.2		
Other Income	65	24	169.7	92	-29.9		
Exceptional items	-	-	NA	148	NA		
PBT	1,128	1,104	2.2	1,375	-17.9		
Tax	310	282	10.1	314	-1.3		
Effective Tax Rate (%)	27.5	25.5	196 bps	22.8	463 bps		
PAT	818	822	-0.5	1,061	-22.9		
Share of Associate	0	20	NA	0	NA		
Minority Interest	(58)	(30)	94.1	(90)	-34.7		
Consolidated PAT	760	812	-6.4	971	-21.8	826	-8.0
PAT Margins	13.5%	20.6%	(7) bps	17.2%	(4) bps	13.6%	(0.0) bps

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	13,299	18.5	3,709	27.9	2,012	81.3	25.1	27.1	21.6	37.7	20.1
FY22	16,509	24.1	5,158	31.2	3,327	65.3	41.6	29.1	24.2	22.8	14.3
FY23E	22,211	34.5	6,193	27.9	3,311	-0.5	41.4	21.0	19.3	34.8	17.7
FY24E	26,250	18.2	7,118	27.1	3,614	9.2	45.2	18.8	17.4	31.8	15.6
FY25E	29,817	13.6	8,357	28.0	4,360	20.7	54.5	18.8	18.0	26.4	13.9

Source: Company, SMIFS research estimates



Rating: **Buy** Upside: **19%**
 Current Price: **1,438** Target Price: **1,704**

| Market data

Bloomberg:	KIMS: IN
52-week H/L (Rs):	1,669/1,116
Mcap (Rs bn/USD Bn):	115/1.3
Shares outstanding (mn):	80.0
Free float:	51.0
Daily vol. (3M Avg.):	6.2 Mn
Face Value (Rs):	10.0

Source: Bloomberg, SMIFS Research

| Shareholding pattern (%)

	Dec-22	Sept-22	Jun-22	Mar-22
Promoter	38.8	38.8	38.8	38.8
FII's	20.5	10.2	8.4	8.9
DII's	28.3	28.0	22.8	21.0
Public/others	12.3	23.0	30.0	31.2

Pro. Pledging

Pledging	19.4	19.4	15.7	14.9
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Source: BSE

| Price performance (%)*

	1M	3M	12M	Since IPO*
NIFTY 50	1.7	3.0	2.9	14.3
NIFTY 500	2.3	2.1	7.4	12.6
KIMS	-4.2	-8.8	10.2	42.0

*as on 14th Feb 2023; Source: AceEquity, SMIFS Research

*Company came out with IPO in June 21, from IPO listing price the stock is up by 46%.

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Q3FY23 – Key takeaways from the management call

Kingsway (Nagpur) with an annual revenue run rate of ~Rs.1700 Mn was merged i.e. 1st September (1 month); due to some one-off expenses the Kingsway 's EBITDA Margin declined from ~10% to 4% in the quarter. In near term these acquisitions will be margin dilutive for the overall business but significant cost rationalisation along with increase in bed capacity at nominal cost can help generate operating leverage & thereby improve margins.

Telangana (KIMS) margins have rationalised from peak levels in FY22 at 36% to 30% in Q3FY23; this is mainly because of lower occupancy & lower ARPOB.

AP Mature assets continue to do well with assets generating close to 31% EBITDA margin with healthy occupancy level.

Secunderabad: The new Unit for Sunshine Secunderabad Hospital is in its final stages of completion, and the company aim to shift to this new state-of-art facility by FY 24.

Sunshine EBITDA margins have improved as company has replaced high cost of consultant with younger consultant which comes at lower costs. The company is still replacing the talents once that happens, (which will be completed in next 2 quarter) The occupancy of Sunshine which is currently at 30-40% level will reach to 60-70% in FY24.

In the quarter, due to disposal of Sunshine Karimnagar unit, the IP volume has declined by 20%.

Brownfield Projects: Projects undertaken at Nashik (Greenfield project) and Bangalore (Semi Brownfield) are progressing well and are expected to be operational by FY25. Vizag Gastro unit is ready and will be operational by FY24.

Promoter pledge: The promoter pledge will stay for another 2-3 quarters. The real estate business will not impact KIMS hospital business.

Nagpur Kingsway hospital: Operational beds are lesser than beds capacity. In current shape and form, this facility generates revenue of Rs 2600 Mn revenue per annum. KIMS plans to bring new clinical teams and new clinical department. So far, 3 people have joined and by end of Q1FY24 the entire team recruitment will be done. Post this facility will generate higher revenue as operational beds will move to optimum levels.

The Chennai Greenfield project has been put on hold. Bangalore and Nashik will have low 20's margin post 18-20 months of being operational.

Capex: The company plans to spent Rs. 3250-3500 Mn on Capex in FY24.

Business going forward: AP and Telangana are mature assets and have reached a high point, so management has guided for single digit growth rate for these assets. More growth will come from Sunshine and Nagpur cluster. After 36 months, more contribution will come from Bangalore and Nashik.

Minority shareholders: Minority had 12.7% share in Consol. EBITDA of KIMS in the quarter. Adjusting for minority, EBITDA was Rs. 885 Mn for KIMS.

Quarterly financials, operating metrics, and key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	3,585	4,732	4,117	3,936	3,723	4,955	5,641	5,622
Raw Materials	773	1,123	855	822	751	1,098	1,253	1,235
Employee Costs	564	725	635	610	649	833	842	872
Other Expenditure	1,240	1,447	1,339	1,206	1,188	1,653	2,022	2,003
EBITDA	1,009	1,437	1,288	1,298	1,136	1,372	1,524	1,512
Other Income	42	43	54	24	82	53	92	65
Depreciation	166	171	181	188	186	294	311	333
EBIT	884	1,309	1,160	1,133	1,031	1,131	1,305	1,243
Interest	74	63	29	30	39	57	79	115
Exceptional items	0	0	0	0	0	0	148	0
PBT	810	1,245	1,132	1,104	993	1,074	1,375	1,128
Tax	224	325	289	282	235	281	314	310
Tax rate (%)	27.6	26.1	25.5	25.5	23.7	26.2	22.8	27.5
PAT before MI and Asso.	586	920	843	822	758	792	1,061	818
Share of Associate / JV	0	0	0	20	75	0	0	0
Minority Interest	-8	-29	-25	-30	-26	-93	-90	-58
Consolidated PAT	578	891	817	812	807	700	971	760
Adjusted PAT	578	891	817	812	807	700	860	760
YoY Growth (%)								
Revenue	NA	135.3	0.5	9.1	3.8	4.7	37.0	42.8
EBITDA	NA	302.2	-8.8	39.5	12.6	-4.5	18.4	16.5
Adj PAT	NA	898.5	-2.1	66.4	39.6	-21.5	5.2	-6.4
QoQ Growth (%)								
Revenue	-0.6	32.0	-13.0	-4.4	-5.4	33.1	13.8	-0.3
EBITDA	8.4	42.4	-10.4	0.8	-12.5	20.8	11.1	-0.8
Adj PAT	18.5	54.2	-8.3	-0.7	-0.6	-13.3	22.9	-11.6
Margin (%)								
RMC/revenue (%)	21.6	23.7	20.8	20.9	20.2	22.2	22.2	22.0
Gross margin (%)	78.4	76.3	79.2	79.1	79.8	77.8	77.8	78.0
Employee cost/revenue (%)	15.7	15.3	15.4	15.5	17.4	16.8	14.9	15.5
Other expenses/revenue (%)	34.6	30.6	32.5	30.6	31.9	33.4	35.8	35.6
EBITDA margin (%)	28.1	30.4	31.3	33.0	30.5	27.7	27.0	26.9
Adj PAT margin (%)	16.1	18.8	19.8	20.6	21.7	14.1	15.2	13.5

Source: Company, SMIFS Research

Outlook and Valuation

Currently, the stock is trading at comforting valuation on FY25E EV/EBITDA of 15x. We value the stock at 20x (in line with its historical average) due to capacity and geographical expansion, improved EBITDA margins and robust revenue growth, thereby, arrive at target price of Rs 1,704 per share which offers upside of 19% from current valuations.

Fig 2: EV/EBITDA Valuation for FY25E

Particulars	Rs Mn
EBITDA	6,999
Applied EV / EBITDA	20
Computed EV	1,39,974
Less: Debt	4,865
Add: Cash	1,259
Computed Equity Value (Rs. mn)	1,36,368
No. of shares	80
Intrinsic Value per share	1,704

*We taken Adjusted EBITDA (after deducting share of minority shareholders) while calculating EV/EBITDA.

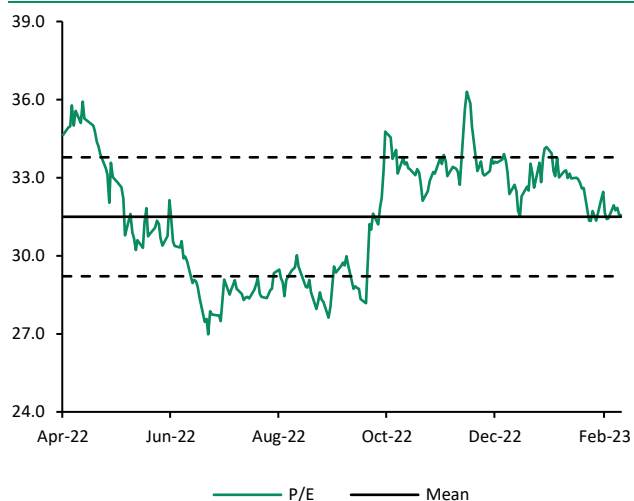
Fig 3: Key Assumptions

Overall	FY20	FY21	FY22	FY23E	FY24E	FY25E
Bed capacity	3004	3064	3064	3935	3975	5300
Operational beds	2434	2590	2590	3458	3583	4592
Occupancy rate %	70%	79%	80%	69%	70%	60%
ARPOB (Rs/day)	18,168	20,609	25,323	33,176	33,511	34,235
ALOS (days)	4.4	5.5	4.8	4.2	4.3	4.3
Net Revenues	11,226	13,299	16,508	22,198	26,002	29,540
EBITDA margin %	22%	28%	32%	28%	27%	27%

Fig 4: Change in Estimates

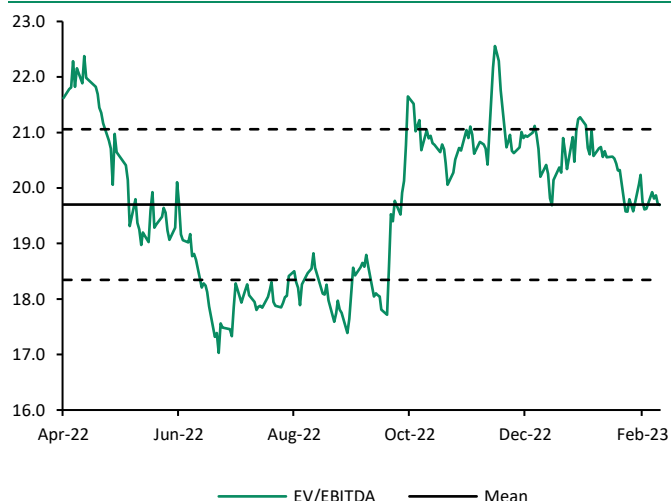
Particulars	New Estimates			Old Estimates			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenues	22,211	26,250	29,817	23,691	26,159	29,784	-6.2%	0.3%	0.1%
Gross Profit	17,367	20,406	23,269	17,801	20,335	23,243	-2.4%	0.3%	0.1%
Gross Margin	78.2%	77.7%	78.0%	75.1%	77.7%	78.0%	305 bps	0 bps	(0) bps
EBITDA	6,193	7,118	8,357	6,366	7,459	8,348	-2.7%	-4.6%	0.1%
EBITDA Margin (%)	27.9%	27.1%	28.0%	26.9%	28.5%	28.0%	101 bps	(140) bps	(0) bps
PAT	3,609	4,008	4,837	3,508	4,125	4,699	2.9%	-2.8%	2.9%
EPS	41.4	45.2	54.5	39.7	46.6	52.8	4.2%	-3.1%	3.2%

Fig 5: 1 year forward P/E chart



Source: Bloomberg, Company, SMIFS Research

Fig 6: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	13,299	16,509	22,211	26,250	29,817
Raw Materials	2,889	3,552	4,844	5,844	6,549
% of sales	21.7	21.5	21.8	22.3	22.0
Personnel	2,202	2,619	3,430	4,397	5,143
% of sales	16.6	15.9	15.4	16.8	17.3
Other Expenses	4,499	5,180	7,744	8,891	9,768
% of sales	33.8	31.4	34.9	33.9	32.8
EBITDA	3,709	5,158	6,193	7,118	8,357
Other Income	102	203	273	315	358
Depreciation & Amortization	695	727	1,281	1,579	1,824
EBIT	3,115	4,634	5,186	5,854	6,891
Finance cost	325	160	367	496	424
Core PBT	2,689	4,271	4,545	5,043	6,109
Exceptional items	0	0	0	0	0
PBT	2,790	4,474	4,819	5,358	6,467
Tax-Total	735	1,131	1,210	1,350	1,630
Effective tax rate (%)	26.4	25.3	25.1	25.2	25.2
PAT before MI and Associate	2,055	3,343	3,609	4,008	4,837
Share of Associates	0	95	0	0	0
Non-controlling interest	43	111	299	394	477
Consolidated PAT	2,012	3,327	3,311	3,614	4,360

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratio (%)					
Revenue	18.5	24.1	34.5	18.2	13.6
EBITDA	48.7	39.1	20.1	14.9	17.4
Adjusted PAT	81.3	65.3	-0.5	9.2	20.7
Margin Ratios (%)					
Gross Profit	78.3	78.5	78.2	77.7	78.0
EBITDA	27.9	31.2	27.9	27.1	28.0
EBIT	23.4	28.1	23.3	22.3	23.1
Core PBT	20.2	25.9	20.5	19.2	20.5
Adjusted PAT	15.1	20.2	14.9	13.8	14.6
Return Ratios (%)					
ROE	27.1	29.1	21.0	18.8	18.8
ROCE	21.6	24.2	19.3	17.4	18.0
Turnover Ratios (days)					
Gross Block Turnover (x)	1.2	1.4	1.4	1.2	1.1
Adj OCF/Adj PAT (%)	160.8	92.6	133.9	138.4	132.7
Inventory	34	31	33	33	33
Debtors	34	27	26	25	25
Creditors	161	134	134	138	138
Cash conversion cycle	(93)	(77)	-75	-80	-80
Solvency Ratio (x)					
Debt-equity	0.4	0.2	0.3	0.3	0.2
Net debt-equity	0.1	0.1	0.3	0.2	0.0
Gross Debt/EBITDA	0.9	0.5	1.0	0.8	0.6
Current Ratio	1.6	1.8	1.2	1.1	1.4
Interest coverage ratio	9.6	29	14	12	16
Dividend					
DPS	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0
Per share Ratios (Rs)					
Basic EPS (reported)	26.9	41.9	41.4	45.2	54.5
Adjusted EPS	25.1	41.6	41.4	45.2	54.5
CEPS	33.8	50.7	57.4	64.9	77.3
BV	109.5	176.3	217.6	262.8	317.3
Valuation (x)					
Adj P/E	37.7	22.8	34.8	31.8	26.4
P/BV	8.6	5.4	6.6	5.5	4.5
EV/EBITDA	20.1	14.3	17.7	15.6	13.9
EV/Sales	5.6	4.5	4.9	4.2	3.9
Adj MCap /Core PBT	28.2	17.7	25.3	22.8	18.8
Adj MCap /Adj OCF	23.4	24.6	26.0	23.0	19.9

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Source of funds					
Capital	776	800	800	800	800
Reserves & Surplus	7,861	13,073	16,383	19,997	24,358
Minority Interest	125	233	233	233	233
Shareholders' Funds	8,762	14,106	17,417	21,031	25,391
Total Loan Funds	3,164	2,565	6,065	5,915	4,865
Other liabilities	537	554	554	554	554
Total Liabilities	12,463	17,225	24,036	27,500	30,810
Application of funds					
Gross Block	11,105	12,555	19,538	24,488	28,445
Net Block	8,463	9,204	15,015	18,486	20,712
Capital WIP	92	208	332	402	447
Investments	0	3,325	3,325	3,325	3,325
Other non-current assets	1,294	2,403	4,634	4,634	4,634
Inventories	241	364	438	528	592
Sundry Debtors	1,098	1,286	1,582	1,798	2,042
Cash & Bank Balances	2,844	1,901	658	706	1,703
Other current Assets	328	383	383	383	383
Total Current Assets	4,512	3,934	3,061	3,415	4,720
Sundry Creditors	1,319	1,295	1,778	2,209	2,476
Other Current Liabilities	580	553	553	553	553
Total Current Liabilities	1,899	1,848	2,331	2,762	3,029
Net Current Assets	2,613	2,086	730	653	1,692
Total Assets	12,463	17,225	24,036	27,500	30,810

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	3,796	5,254	5,895	6,724	7,880
Net changes in working capital	141	(745)	114	125	(42)
Tax Paid	(377)	(1,269)	(1,210)	(1,350)	(1,630)
Cash flow from operating activities	3,560	3,240	4,799	5,499	6,208
Adj. OCF	3,235	3,080	4,432	5,002	5,784
Capital expenditure	-936	-1,700	-6,500	-5,000	-4,000
Adj FCF	2,299	1,380	-2,068	2	1,784
Cash flow from investing activities	-3,542	-4,115	-8,174	-4,704	-3,638
Debt	-507	-1,094	3,500	-50	-950
Dividend	0	0	0	0	0
Interest and Lease	-345	-212	-367	-596	-524
Cash flow from financing activities	98	610	3,133	-646	-1,474
Net change in cash	116	-265	-242	148	1,097

Source: Company, SMIFS Research Estimates

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