



Choice

Nurturing Financial Excellence

IPO REPORT

**“Subscribe with Caution” to
Krishna Institute of Medical Sciences**

‘D demanded valuation fully priced in positive fundamentals’

Salient features of the IPO:

- Krishna Institute of Medical Sciences Limited (KIMS)** operates 9 multi-specialty hospitals under the 'KIMS Hospitals' brand name with an aggregated bed capacity of 3,064 bed including over 2,500 operational beds as of March 2021.
- KIMS's flagship hospital at Secunderabad is one of the largest private hospitals in India at a single location with a capacity of 1,000 beds

Valuation: At higher price band of Rs825, the issue is valued at P/E of 32.1x (on FY21 post issue EPS of Rs25.7).

Below are few key observations of the issue: (continued in next page)

- KIMS is a regional hospital player which provides healthcare services through 9 hospitals located in AP and Telangana with total bed capacity of 3,064 as of FY21. KIMS is the largest hospital player in AP and Telangana as bed capacity is 2.2 times more than the second largest healthcare services provider in this region.
- KIMS flagship hospital is situated at Secunderabad (Telangana) having 1,000 bed capacity. In revenue mix, this hospital accounted for 53% of total revenue generated in FY21.
- KIMS has significantly expanded its network through acquisition of hospitals in the recent years. ~33% of bed capacity has been installed in the last four years.
- As per mgmt, KIMS is an affordable quality care across Tier I and TierII/III cities with ~20-30% lower prices compared other private hospitals in South India, resulting in lower ARPOP than peers. KIMS ARPOB was Rs18,300 in FY20 v/s Rs37,000 for Apollo, Rs51,000 for Max and Rs43,600 for Fortis.
- In FY21, KIMS's ARPOB was Rs20,609 (Rs39,571 for hospitals in Tier I and Rs11,187 for TierII/III hospitals). KIMS's bed occupancy rate was 78.6% and an ALOS of 5.53 days.
- KIMS offers a comprehensive range of healthcare services across over 25 specialities and super specialities. Revenue is diversified across specialities include 17.8% from cardiac sciences, 12.6% from neuro sciences, 9.3% from renal sciences, 4.6% from orthopaedics, 5.3% from gastric sciences, 5.7% from oncology, 6.1% from mother & child care among others. Top 10 doctors contributed 22% and top 25 doctors at 36% of total income.
- Out-patient volume reduced -4% during FY19-FY21 mainly due to COVID-19 related lockdown though the impact was offset by increase in in-patient volume driven by Covid-19 critical cases which required hospitalization.
- Despite the low ARPOB, return ratios remained healthy (pre issue RoE at 23.8% in FY21). Mgmt attributed this to rationalizing doctor, procurement and other administrative costs. EBIDTA margin improved from 8.8% in FY19 to 27.9% in FY21 (peer average of 16%). *However sustaining margin at these levels will remain challenging task for KIMS.*

Recommendation	Subscribe with Caution
Price Band	Rs815 - Rs825 per share
Face Value	Rs10 per share
Fresh Issue Size	Rs200 cr
Share for Fresh Issue	0.242 cr shares
OFS Issue Size	Rs1,943.7 cr
Total Issue Size	Rs2,143.7 cr
Bidding Date	Jun 16' 2021 - Jun 18' 2021
MCAP at Higher Price Band	Rs6,601.4 cr

Book Running Lead Manager	Axis Capital Limited IIFL Securities Limited Kotak Mahindra Capital Company Credit Suisse Securities (India) Private Limited
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Registrar	Link Intime India Private Limited
Industry	Healthcare

Retail application money at higher cut-off price per lot	
Number of shares per lot	18
Application Money	Rs14,850 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	75%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	10%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoter & promoter group	46.8%	38.8%
Public	53.2%	61.2%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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Continued.....

- KIMS reported 20% CAGR in operating revenue during FY19-FY21 as compared to flat or single digit growth in peers while profitability also remained strong with NPM at 15.5%. The company strategized to increase out-patient volume and reduce ALOS to boost profitability going forward.
- **Outlook of healthcare sector remains buoyant given the ongoing pandemic and likely increase in spending due to health cautiousness. As per the Crisil report, India's healthcare sector is expected to grow at a CAGR of 17-18% during 2020-24.**
- **Considering the financial performance, KIMS reported strong performance in top line and bottom line, way above the industry trend. Return ratios (RoE/RoA at 19.3%/12.6% post issue) are driven by strong growth and margin performance. EBIDTA margin stood at 27.9% in FY21 v/s industry average of ~16%. We view sustaining margin at these levels (way above industry trend) would remain challenging task. Further, business is skewed towards particular region AP and Telangana which may restrict KIMS to leverages the growth opportunities from overall development of domestic healthcare sector.**
- **At higher price band of Rs825, demanded market cap of Rs6,601.4 cr is valued at P/E of 32.1x. EPS improved to Rs25.7 in FY21 from Rs14.4 in FY20 mainly driven by strong margin performance. On P/S(x) basis, KIMS is valued at 5x P/S above industry average of 3.7x (Apollo, Narayana, Shalby and Kovai), which looks expensive. Business growth & return ratios maintained at healthy level but sustainability remains challenging.**

Considering all these parameters, we assign **'Subscribe with Caution'** rating to issue

Peer comparison

Companies	CMP (Rs/s)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)
KIMS	825	-	-	6,601	27.9%	15.5%	19.3%	12.6%
Apollo Hospitals Enterprise Ltd	3,337	41.6%	138.0%	46,718	10.1%	1.9%	6.4%	2.0%
Narayana Hrudayalaya Ltd.	491	21.0%	71.0%	10,036	6.8%	-0.5%	-1.2%	-0.5%
Shalby Ltd.	166	58.0%	140.0%	1,793	20.0%	9.7%	5.0%	4.2%
Kovai Medical Center & Hospital Ltd.	1,431	34.2%	125.0%	1,574	28.0%	11.3%	15.3%	6.1%
Max Healthcare Institute	255	86.0%	-	24,633	16.1%	-5.5%	-2.4%	-1.6%

Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	D/E (x)	EPS (Rs/s)	Net Worth	BVPS
KIMS	32.1	7.5	5.0	17.7	0.3	25.7	1,064	441
Apollo Hospitals Enterprise Ltd	231.3	14.9	4.4	45.9	1.0	14.4	3,136	224
Narayana Hrudayalaya Ltd.	-716.9	9.0	3.9	59.6	0.5	-0.7	1,120	55
Shalby Ltd.	42.7	2.1	4.2	20.3	0.0	3.9	835	77
Kovai Medical Center & Hospital Ltd.	20.2	3.1	2.3	10.5	1.2	70.9	510	464
Max Healthcare Institute	-178.5	4.4	9.8	62.0	0.2	-1.4	5,639	58

Companies (Rs cr)	Sales CAGR FY19-FY21	Bed Capacity	EBIDTA/ Bed	TTM Sales	TTM EBIDTA	TTM PAT	EV	Total Assets
KIMS	20.4%	3,064	0.12	1,330	371	205	6,557	1,636
Apollo Hospitals Enterprise Ltd	5.1%	10,197	0.11	10,614	1,074	202	49,301	10,309
Narayana Hrudayalaya Ltd.	-5.0%	6,752	0.03	2,582	175	-14	10,429	2,770
Shalby Ltd.	-3.3%	2,012	0.04	431	86	42	1,745	997
Kovai Medical Center & Hospital Ltd.	4.8%	1,390	0.14	690	193	78	2,018	1,281
Max Healthcare Institute	-	3,400	0.12	2,505	404	-138	25,058	8,544

*-KIMS's ROE/ROA calculated on post issue basis. Revenue, EBIDTA per bed is calculated on installed bed capacity

Source: Choice Broking Research, RHP

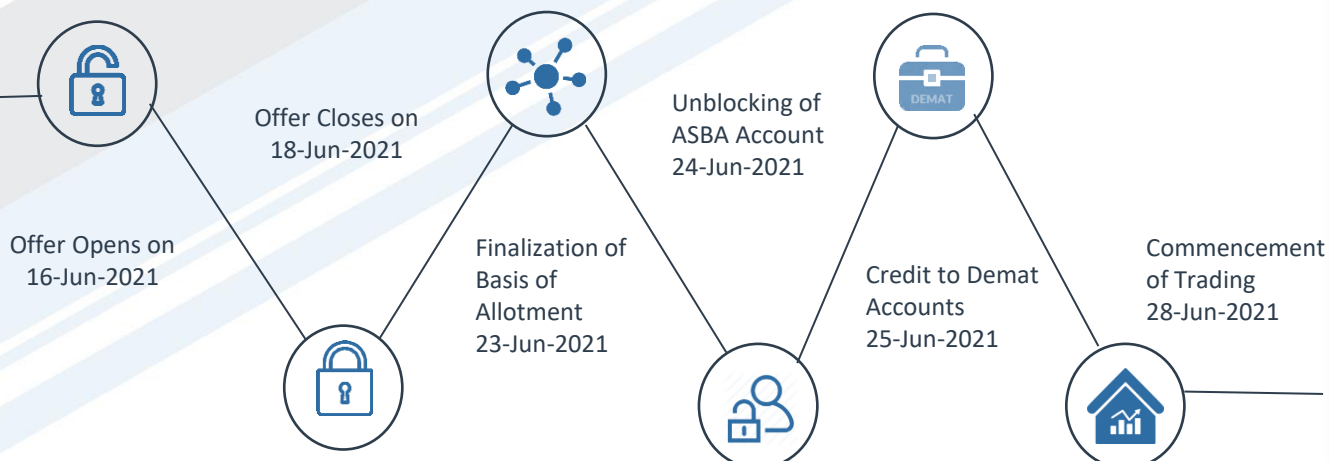
About the issue:

- Krishna Institute of Medical Sciences (KIMS) is coming with initial public offering of Rs2,143.7 cr.
- The issue comprises fresh issue of Rs200 cr and offer for sale (OFS) of 2.356 cr shares.
- At the higher price band of Rs825, fresh number of shares are stood at 0.242 cr. While OFS size comes at Rs1,943.7 cr at the higher price band.
- OFS constitutes 90% of the total issue.
- Promoter & promoter group is selling 0.52 cr shares. Post issue, promoters' stake will reduce to 38.8% from 46.8% pre issue.
- General Atlantic is selling 1.6 cr of shares. Post Issue, General Atlantic stake will reduce to 19.7% from pre-issue of 40.9%. Average cost of acquisition is Rs310 for General Atlantic.
- Average cost of acquisition for major promoter Dr. Bhaskhara Rao is Rs89.8.
- Issue will open for subscription on Jun 16' 2021 and close on Jun 18' 2021
- Not less than 75% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not more than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not more than 10% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- Out of total issue, Rs20 cr is reserved for employees.
- A discount of Rs 40 per share will be given to the eligible employees bidding in the employee reservation portion.

Objective of Offer

Fresh Issue	Rs200 cr
Repayment/ pre-payment, in full or part, of certain borrowings availed by company	Rs150 cr
General corporate purposes	Rs50 cr

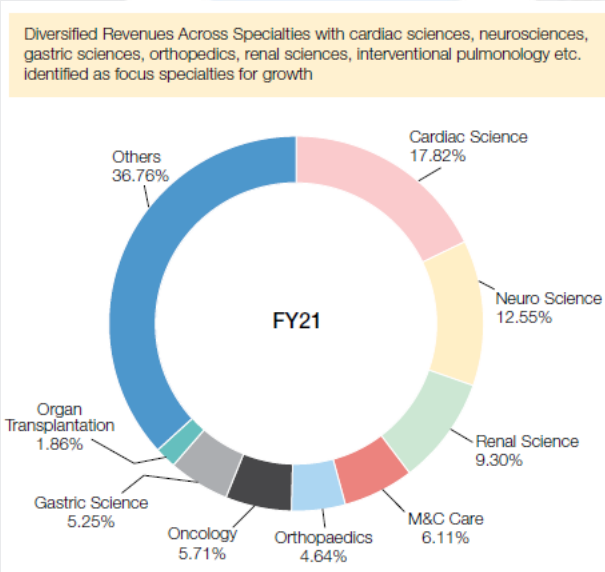
Indicative IPO process time line:



Company introduction:

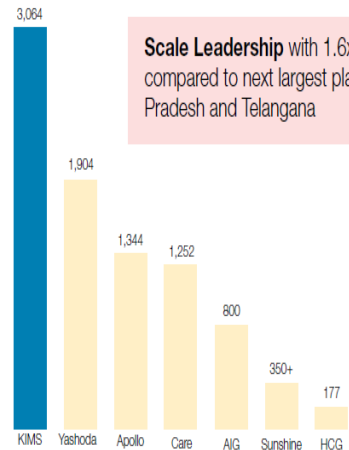
KIMS is one of the largest corporate healthcare group in AP and Telangana in terms of number of patients treated and treatments offered. KIMS operate 9 multi-specialty hospitals under the 'KIMS Hospitals' brand, with an aggregate bed capacity of 3,064, including over 2,500 operational beds as of Mar 31, 2021, which is 2.2 times more beds than the second largest provider in AP and Telangana. KIMS offer a comprehensive range of healthcare services across 25 specialties and super specialties including cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother & child care.

KIMS's flagship hospital at Secunderabad is one of the largest private hospitals in India at a single location with a capacity of 1,000 beds. KIMS has grown from a single hospital to a chain of multi-specialty hospital through organic growth and strategic acquisition. The company has significantly expanded hospital network in recent years through acquisitions of hospitals in Ongole (AP) in FY17, Vizag (AP) and Anantapur (AP) in FY19 and Kurnool (AP) in FY20. KIMS expanded ~33% of capacity (one third of 3,064 bed) in the last four years.



KIMS is the Dominant Regional Player

Number of beds by key players in Andhra Pradesh and Telangana⁽¹⁾



Scale Leadership with 1.6x bed capacity compared to next largest player in Andhra Pradesh and Telangana

Diversified Presence across Tier I and Tier I/III Cities in Andhra Pradesh and Telangana

Source: Choice Broking Research, RHP

Business Overview:

Company's business is skewed towards the southern region where KIMS have a strong understanding of regional nuances, customer culture and the mindset of medical professionals and where there is significant and growing need for quality and affordable healthcare services. KIMS has expanded into nine cities across AP and Telangana through a combination of greenfield, brownfield and acquisition-led expansion. Current network consists of hospitals strategically located to serve the healthcare needs of AP and Telangana across urban Tier 1 cities such as Secunderabad and Hyderabad and more rural Tier 2-3 areas such as Vizag, Nellore, Rajahmundry, Srikakulam, Ongole, Anantapur and Kurnool.

Revenue is diversified across specialities. In FY21, operating revenue mix include 17.8% from cardiac sciences, 12.6% from neuro sciences, 9.3% from renal sciences, 4.6% from orthopaedics, 5.3% from gastric sciences, 5.7% from oncology, 6.1% from mother & child care, 1.9% from organ transplant, 35.28% from other specialties and 1.48% from other income. Top 10 doctors contributed 21.8% of total income and the top 25 doctors contributed 36.1% of total income in FY21.

As of FY21, KIMS bed capacity was 3,064 and bed occupancy rate of 78.6%. Inpatient volume rose by modest CAGR of 2.3% while outpatient volume reduced by CAGR of -4% during FY19-FY21. As per the mgmt, outpatient volume reduced during FY19-FY21 mainly due to COVID-19 related lockdown, quarantines and other travel related restrictions, which resulted in fewer people traveling to hospitals to seek outpatient treatment. Though the impact was offset by increase in volume of inpatient driven by Covid-19 critical cases which required hospitalization.

Margin performance improved significantly with EBIDTA margin improved to 27.9% in FY21 v/s 8.8% in FY19. PAT rose to Rs205 cr in FY21 as compared to loss of Rs-49 cr in FY19.

	FY19	FY20	FY21	CAGR FY19-FY21
Bed Capacity	2,804	3,004	3,064	4.5%
Bed occupancy rate (%)	71.8%	80.5%	78.6%	
Inpatient Volume	1,11,382	1,40,676	1,16,592	2.3%
Outpatient Volume	9,00,043	11,37,560	8,30,211	-4.0%
EBIDTA (Rs cr)	81	245	371	114.0%
EBIDTA Margin (%)	8.8%	21.8%	27.9%	
PAT (Rs cr)	(49)	115	205	

	Secunderabad ⁽⁷⁾	Nellore	Rajahmundry	Srikakulam	Kondapur	Ongole	Vizag	Anantapur	Kurnool
Ownership %	100.00%	100.00%	100.00%	57.83%	75.26%	100.00%	51.00%	80.00%	55.00%
Bed capacity	1,000	250	120	200	200	350	434	250	200
Operational beds ⁽¹⁾	885	250	120	150	150	150	314	215	200
Bed occupancy rate (%) ⁽²⁾	79.43%	79.97%	93.31%	76.50%	96.59%	95.74%	70.44%	83.53%	72.58%
ALOS (days) ⁽³⁾	4.70	3.45	3.40	4.86	3.55	3.65	5.20	5.28	4.56
ARPOB (₹ per day) ⁽⁴⁾	26,225	15,155	19,302	10,322	33,388	13,548	7,622	10,621	8,560
Inpatient volume	45,402	18,191	11,019	7,762	11,909	11,489	14,046	10,394	10,464
Outpatient volume	3,72,900	1,39,577	60,334	48,863	1,25,891	1,12,293	1,27,208	72,505	77,989
Hospital revenue (₹ in millions) ⁽⁵⁾	5,595.74	951.12	723.15	389.11	1,412.58	568.12	556.53	582.88	408.19
Revenue from inpatients (₹ in millions) ⁽⁶⁾	4,446.88	752.40	494.66	327.40	1,191.99	361.69	417.84	434.86	371.69
Revenue from outpatients (₹ in millions)	1,148.87	198.72	228.49	61.72	220.59	206.43	138.68	148.02	36.50
EBITDA (₹ in millions) ⁽⁶⁾	1,598.03	240.54	164.52	72.63	351.74	94.08	(17.62)	49.93	(10.26)
EBITDA margin ⁽⁶⁾	27.94%	25.20%	22.74%	18.46%	24.73%	16.43%	(3.15%)	8.53%	(2.50%)

Source: Choice Broking Research, RHP



Competitive strengths:

- Regional leadership driven clinical excellence and affordable healthcare
- Ability to attract, train and retain high quality doctors, consultants and medical support staff
- Track record of strong operational and financial performance
- Well positioned to consolidate in India's large, unorganized yet rapidly growing and underserved affordable healthcare market
- Disciplined approach to acquisition resulting in successful inorganic growth
- Experienced senior management team with strong institutional shareholder support

Business strategy:

- Strengthen existing hospitals and specialties
- Strategically grow presence in adjacent markets
- Implementation of initiatives to improve existing operating efficiencies
- Invest in digital health care and technology



Risk and concerns:

- Sustainability of health return ratios above industry trend
- Pressure in out-patient volume
- Business sensitive to specific region namely AP and Telangana

Financial statements:

Rs crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21
Operating Revenue (OR)	918	1,123	1,330
Purchase of medical consumables, drugs and surgical instruments	(217)	(257)	(283)
Changes in Inventories of Finished Goods, Work-in-Progress	7	3	(6)
Employee Benefit Expenses	(163)	(198)	(220)
Other Expenses	(464)	(425)	(450)
EBITDA	81	245	371
Depreciation and Amortization Expenses	(56)	(71)	(70)
EBIT	25	174	301
Finance Costs	(46)	(40)	(32)
Other Income	6	6	10
PBT	(15)	141	279
Tax Expenses	(33)	(25)	(74)
PAT	(49)	115	205

Balance Sheet

Particulars	FY19	FY20	FY21
Share Capital	74	74	78
Reserves and Surplus	466	524	786
Non-controlling interests	26	13	12
Long Term Borrowings	243	269	185
Long Term Provisions	10	14	16
Short Term Borrowings	18	10	55
Trades Payables	104	123	132
Lease Liabilities	48	48	46
Short Term Provisions	6	7	10
Deferred tax liabilities (Net)	61	36	45
Other liabilities	63	78	71
Total Liabilities	1,120	1,196	1,436
Tangible Assets	764	805	822
Intangible Assets	102	111	110
Capital Work In Progress	0	2	9
Non-current tax assets (net)	37	40	13
Long Term Loans and Advances	4	5	16
Non-current financial assets	2	0	3
Other Non Current Assets	37	13	12
Inventories	27	30	24
Trade Receivables	123	132	110
Cash and Bank Balances	10	46	284
Non current financial assets	9	5	23
Other Current Assets	5	6	9
Total Assets	1,120	1,196	1,436

IPO UPDATE

Cash Flow Statement

Particulars	FY19	FY20	FY21
Cash Flow from Operating Activities	134	202	356
Cash Flow from Investing Activities	(110)	(125)	(354)
Purchase of fixed assets and properties	(77)	(52)	(94)
Cash Flow from Financing Activities	(27)	(44)	10
Net Cash Flow	(3)	32	12
Opening Balance of Cash and Bank Balances	11	8	41
Closing Balance of Cash and Bank Balances	8	41	52

Financial Ratios

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		22.3%	18.5%
EBITDA Growth Rate (%)		202.6%	51.4%
EBITDA Margin (%)	8.8%	21.8%	27.9%
EBIT Growth Rate (%)		611.7%	72.8%
EBIT Margin (%)	2.7%	15.5%	22.7%
Adjusted PAT Growth Rate (%)		-335.8%	78.6%
Reported PAT Margin (%)	-5.3%	10.3%	15.5%
Turnover ratios			
Inventories Turnover Ratio (x)	34.2	37.0	55.2
Trade Receivable Turnover Ratio (x)	7.4	8.5	12.1
Accounts Payable Turnover Ratio (x)	8.8	9.1	10.1
Fixed Asset Turnover Ratio (x)	1.2	1.4	1.6
Total Asset Turnover Ratio (x)	0.8	0.9	0.9
Working Capital Turnover Ratio (x)	0.0	63.7	9.4
Operational ratios			
Current Ratio (x)	1.0	1.2	1.9
Debt to Equity (x)	0.5	0.5	0.3
Total Debt (Rs.)	260.3	278.8	1,148.25
Net Debt (Rs.)	241.3	227.7	-68.1
Net Debt to EBITDA (x)	3.0	0.9	-0.2
Net Debt to Equity (x)	0.4	0.4	-0.1
Return ratios			
RoE (%)	-9.0%	19.2%	7.3%
RoA (%)	-4.4%	9.6%	2.8%
RoCE (%)	3.0%	19.5%	28.0%
RoIC (%)	-9.9%	13.5%	17.8%
EV	6,851.5	6,834.5	6,556.9
EV/Sales (x)	7.5	6.1	4.9
EV/EBITDA (x)	84.6	27.9	17.7
Per share ratios			
EPS	-6.1	14.4	25.7
BVPS	70.8	76.4	109.5
OCF/sh	16.7	25.2	44.5
FCF/sh	5.0	29.0	26.1
Valuation ratios			
P/E (x)	-135.3	57.4	32.1
P/BVPS (x)	11.6	10.8	7.5
P/S (x)	7.2	5.9	5.0
EV/EBITDA (x)	84.6	27.9	17.7

Source: Choice Broking Research, RHP

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