

Base Business Faces Continuous Decline in Occupancies

Est. Vs. Actual for Q3FY23: Revenue—**INLINE**; EBITDA Margin – **INLINE**; PAT – **MISS**

Changes in Estimates post Q3FY23

FY23E/FY24E: Revenue -1.4%/-3.2%; EBITDA Margins 26.7%/26.2%; PAT -3.2%/-2.1%

Recommendation Rationale

- The Consolidated occupancies are on lower side 68.2% vs 72.6% QoQ and ARPOB is Rs 29,800 vs. Rs 29,237 QoQ in Q3FY23.
- Matured assets in telangana had reported 600bps QoQ fall in occupancies as similar trend is observed in the industry has impacted the overall growth of the company.
- Consolidated PAT Rs 82 Cr is flat -2.4% YoY due to depreciation and finance costs.

Sector Outlook: Positive

Company Outlook & Guidance: The overall industry' occupancies in Telangana and AP are in downtrend due to over supply of Beds (4x in last 3 years), which are reflected by players like KIMS, Apollo and Aster DM in the last quarter.

Current Valuation: EV/EBITDA18x for FY25 earnings (Earlier Valuation: EV/EBITDA 19x)

Current TP: Rs 1,670/share (Earlier TP: Rs 1,740/share)

Recommendation: BUY

Financial Performance: In Q3FY23, Consolidated revenue Rs 562 Cr increased by 42.8% which is below to our estimates led by lower occupancies and stable ARPOBs. The Consolidated occupancies are on lower side 68.2% vs 72.6% QoQ and ARPOB is Rs 29,800 vs. Rs 29,237 QoQ in Q3FY23. Matured assets in telangana had reported 600bps QoQ fall in occupancies as similar trend is observed in the industry has impacted the overall growth of the company. Revenue in major therapies like cardiac and oncology has de-grown while industry has reported low single digit growth in the last quarter. Consolidated EBITDA Rs 151 Cr with margins of 26.9% is stable on QoQ basis despite lower capacity utilizations and stable realizations for the last quarter. Consolidated PAT Rs 82 Cr is flat -2.4% YoY due to depreciation and finance costs.

Outlook: The overall industry' occupancies in Telangana and AP are in downtrend due to over supply of Beds (4x in last 3 years), which are reflected by players like KIMS, Apollo and Aster DM in the last quarter. The industry' occupancies fell by 200bps on YoY in Q3FY23. KIMS' matured hospitals comprises 60% revenue in Telangana and AP are showing softness in occupancies since last 4 quarters. KIMS has tried to achieve organic growth by acquiring assets in adjoining areas but acquired assets are expected to take more time to stabilise their EBITDA margins in upcoming quarters. The above factors could pose challenges for KIMS in current scenario. However, the company has strong RoCE ~32% and strong operating cash flow generation makes it a good bet for longterm investment.

Valuation & Recommendation: BUY

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	562	-0.3%	42.8%	575	-2.3%
EBITDA	151	-0.9%	16.6%	155	-2.6%
EBITDA Margin	26.9%	-14	-605	27.0%	-
Net Profit	82	-22.8%	-2.4%	93	-12.0%
EPS (Rs)	9.9	-22.8%	-2.4%	11.2	-12.0%

Source: Company, Axis Research

(CMP as of 16 Feb 2023)

CMP (Rs)	1,410
Upside /Downside (%)	18.5%
High/Low (Rs)	1,668/1,115
Market cap (Cr)	11,330
Avg. daily vol. (6m)Shrs.	94,881
No. of shares (Cr)	8.3

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	38.8	38.8	38.8
FII's	8.4	10.2	11.9
MFs / UTI	17.8	20.5	20.4
Banks	0.0	0.0	0.0
Others	35.0	30.5	28.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	2,415	2,710	2,963
EBITDA	657	724	776
Net Profit	425	460	480
EPS (Rs)	51	55	58
PER (x)	27.6	25.5	24.4
P/BV (x)	18.0	16.4	15.1
EV/EBITDA (x)	6.5	5.3	4.4
ROE (%)	23.6	20.8	18.2

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	-1.4%	-3.2%	-1.2%
EBITDA	-3.4%	-2.2%	-1.7%
PAT	-3.4%	-2.1%	-4.0%

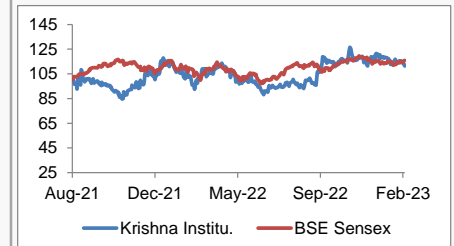
ESG disclosure Score**

Environmental	N.A.
Social Disclosure Score	N.A.
Governance Disclosure	N.A.
Total ESG Disclosure	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

Ankush Mahajan
Research Analyst

Email: ankush.mahajan@axissecurities.in

Key Risks to our Estimates and TP

- Economic Slowdown may impact the overall revenue growth of the company.
- High attrition rate of Doctors may impact the revenue growth of the company.
- Unplanned Capex may lead to a weak balance sheet for the company.

Change in Estimates

	New			Old			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	2,415	2,710	2,963	2,450	2,800	3,000	-1.4%	-3.2%	-1.2%
EBITDA	657	724	776	680	740	790	-3.4%	-2.2%	-1.7%
PAT	425	460	480	440	470	500	-3.4%	-2.1%	-4.0%

Source: Company, Axis Securities

Results Review

Particulars (Rs crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Net Sales	394	372	496	564	562	42.8%	-0.3%
Growth (YoY%)	9.1%	3.8%	3.8%	37.0%	42.8%		
Total Expenditure	264	259	358	411	411	55.7%	-0.1%
Raw Material Consumed	82	79	113	118	124		
Purchase of stock in trade	0	-3	-3	7	-1		
Stock Adjustment	0	0	0	0	0		
Gross Profits	311	297	386	439	439		
% of sales	20.9%	20.2%	22.1%	22.2%	22.0%		
Gross margins (%)	79.1%	79.8%	77.9%	77.8%	78.0%	-106	23
Employee Expenses	61	65	83	84	87	42.8%	3.6%
% of sales	15.5%	17.4%	16.8%	14.9%	15.5%		
Other Expenses	121	119	165	202	200	66.1%	-0.9%
% of sales	30.6%	31.9%	33.3%	35.8%	35.6%		
EBITDA	130	114	137	153	151	16.6%	-0.9%
EBITDAM (%)	33.0%	30.5%	27.7%	27.1%	26.9%	-605	-14
Interest	3	4	6	8	12		
Depreciation	19	19	29	31	33		
Other Income	2	8	5	9	6		
PBT	112	107	108	138	113	0.7%	-17.9%
Tax	28	23	28	31	31		
Tax (%)	25.0%	21.9%	26.1%	22.7%	27.3%		
Reported PAT	84	83	79	106	82	-2.4%	-22.8%

Source: Company, Axis Securities

Revenue Breakup

Particulars (Rs crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
IP Volumes (Nos)	36,205	32,588	39,673	47,000	46,000	27.1%	-2.1%
ALOS (Days)	5.4	5.4	4.1	4.2	4.2		
ARPOB (Rs)	24,877	25,144	30,192	29,237	29,800	19.8%	1.9%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Particulars (Rs Cr.)	FY22	FY23E	FY24E	FY25E
Net sales	1,651	2,415	2,710	2,963
Other operating income	0	0	0	0
Net Revenue	1,651	2,415	2,710	2,963
Cost of goods sold	355	527	604	676
Contribution (%)	21.51%	21.80%	22.30%	22.80%
Other operating costs	780	1,232	1,382	1,511
EBITDA	516	657	724	776
Other income	20	21	19	17
PBIDT	536	678	743	793
Depreciation	73	99	111	130
Interest & Fin Chg.	16	35	41	46
E/o income / (Expense)	0	0	0	0
Pre-tax profit	448	544	591	617
Tax provision	113	139	151	157
(-) Minority Interests	0	0	0	0
Associates	10	20	20	20
Adjusted PAT	344	425	460	480
Other Comprehensive Income	0	0	0	0
Reported PAT	344	425	460	480

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY22	FY23E	FY24E	FY25E
Share Capital	80	83	83	83
Reserves & Surplus	1,331	1,715	2,126	2,555
Net Worth	1,411	1,799	2,209	2,639
Total Loan funds	256	306	356	406
Deferred Tax Liability	38	36	36	36
Long Term Provisions	17	17	17	17
Other Long Term Liability	0	0	0	0
Capital Employed	1,906	2,403	2,886	3,385
Gross Block	1,254	1,704	2,054	2,404
Less: Depreciation	260	359	469	599
Net Block	994	1,345	1,584	1,804
Investments	0	0	0	0
Sundry Debtors	129	188	211	231
Cash & Bank Bal	190	228	250	424
Loans & Advances	-1	2	2	2
Inventory	36	36	36	36
Other Current Assets	38	38	38	38
Total Current Assets	215	275	298	318
Curr Liab & Prov	392	493	537	731
Net Current Assets	178	218	239	414
Total Assets	1,906	2,402	2,885	3,385

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY22A	FY23E	FY24E	FY25E
PBT	457	564	611	637
Add: depreciation	73	99	111	130
Add: Interest	16	35	41	46
Cash flow from operations	546	698	763	813
Change in working capital	186	(4)	(0)	(0)
Taxes	113	139	151	157
Miscellaneous expenses	0	0	0	0
Net cash from operations	247	562	612	656
Capital expenditure	(490)	(500)	(550)	(435)
Change in Investments	0	0	0	0
Net cash from investing	(490)	(500)	(550)	(435)
Increase/Decrease in debt	(29)	50	50	50
Dividends	0	(40)	(50)	(50)
Proceedings from equity	2	3	0	0
Interest	(16)	(35)	(41)	(46)
Others	193	(2)	(0)	0
Net cash from financing	150	(24)	(41)	(46)
Net Inc./(Dec.) in Cash	(94)	38	21	174
Opening cash balance	284	190	228	250
Closing cash balance	191	228	250	424

Source: Company, Axis Securities

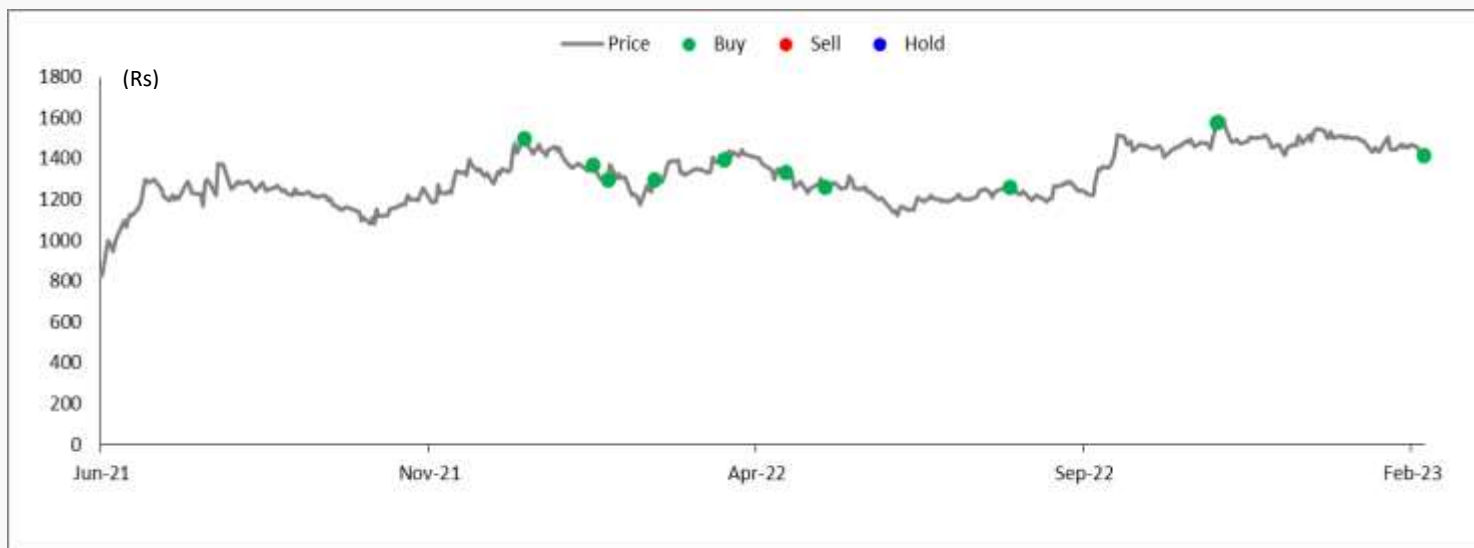
Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth	24.1	46.3	12.2	9.3
OPM	31.3	27.2	26.7	26.2
Oper. profit growth	39.1	27.3	10.1	7.3
COGS / Net sales	21.5	21.8	22.3	22.8
Overheads/Net sales	47.2	51.0	51.0	51.0
Depreciation / G. block	5.8	5.8	5.4	5.4
Effective interest rate	24.7	24.7	24.7	24.7
Net wkg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	1.3	1.4	1.3	1.2
RoCE	31.8	31.1	27.4	25.5
Debt / equity (x)	0.2	0.2	0.2	0.2
Effective tax rate	24.7	24.7	24.7	24.7
RoE	24.4	23.6	20.8	18.2
Payout ratio (Div/NP)	0.0	48.1	60.1	60.1
EPS (Rs.)	43.0	51.1	55.3	57.7
EPS Growth	70.1	23.5	8.3	4.3
CEPS (Rs.)	52.1	62.9	68.6	73.3
DPS (Rs.)	0.0	4.8	6.0	6.0

Source: Company, Axis Securities

KIMS Price Chart and Recommendation History



Date	Reco	TP	Research
03-Jan-22	Buy	1,600	Top Picks
03-Feb-22	Buy	1,600	Top Picks
10-Feb-22	Buy	1,570	Result Update
03-Mar-22	Buy	1,600	Top Picks
04-Apr-22	Buy	1,600	Top Picks
02-May-22	Buy	1,600	Top Picks
23-May-22	Buy	1,450	Result Update
16-Aug-22	Buy	1,450	Result Update
15-Nov-22	Buy	1,740	Result Update
17-Feb-23	Buy	1,670	Result Update

Source: Axis Securities

About the analyst**Analyst:** Ankush Mahajan**Contact Details:** ankush.mahajan@axissecurities.in**Sector:** Midcaps/ Pharma Sector**Analyst Bio:** Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector**Disclosures:**

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SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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