

June 18, 2024

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current FY25E	Previous FY26E	Current FY25E	Previous FY26E
Rating	BUY	BUY		
Target Price	2,200	2,100		
Sales (Rs. m)	27,554	33,572	27,466	32,923
% Chng.	0.3	2.0		
EBITDA (Rs. m)	7,390	8,689	7,299	8,513
% Chng.	1.3	2.1		
EPS (Rs.)	42.4	50.5	41.6	50.8
% Chng.	1.9	(0.4)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	21,977	24,981	27,554	33,572
EBITDA (Rs. m)	6,040	6,404	7,390	8,689
Margin (%)	27.5	25.6	26.8	25.9
PAT (Rs. m)	3,215	3,101	3,395	4,045
EPS (Rs.)	40.2	38.8	42.4	50.5
Gr. (%)	(3.4)	(3.5)	9.5	19.1
DPS (Rs.)	-	-	3.5	5.8
Yield (%)	-	-	0.2	0.3
RoE (%)	21.0	17.7	17.1	17.4
RoCE (%)	25.3	19.5	18.1	18.9
EV/Sales (x)	7.6	6.9	6.3	5.2
EV/EBITDA (x)	27.6	26.9	23.4	19.9
PE (x)	50.5	52.3	47.8	40.1
P/BV (x)	9.7	8.9	7.6	6.5

Key Data	KRII.BO KIMS IN
52-W High / Low	Rs.2,357 / Rs.1,599
Sensex / Nifty	76,993 / 23,466
Market Cap	Rs.162bn/ \$ (2,14,68,26,273)m
Shares Outstanding	80m
3M Avg. Daily Value	Rs.175.14m

Shareholding Pattern (%)

Promoter's	38.82
Foreign	16.73
Domestic Institution	33.13
Public & Others	11.32
Promoter Pledge (Rs bn)	10.14

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	4.8	26.3
Relative	(1.4)	(4.0)	3.7

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Growth to improve

We hosted Dr. Abhinay Bollineni, CEO of Krishna Institute of Medical Sciences (KIMS), for 2 days NDR at Mumbai. The management indicated that KIMS will continue to grow at double digits with Sunshine and Nagpur units driving growth in the near term. Though FY24 witnessed muted EBITDA growth, new clinical talent hiring and addition of sub-specialties across Telangana units will help ramp up revenues and profitability from FY25. Further, the company is exploring greenfield expansions in Bengaluru and Maharashtra. Given its lean cost structure and partnership with local doctors outside Andhra Pradesh (AP) & Telangana region, the management remains confident of achieving faster breakeven and +25% OPM across these new clusters over the next 4-5 years. We expect KIMS to generate Rs12-13bn of operating cash flow over FY24-26E, which will be utilized to set up new units across Maharashtra and Karnataka.

KIMS EBITDA has grown at 21% CAGR over FY21-24. We increase our FY25E & FY26E EBITDA projections marginally by 2-3%. We expect 20% EBITDA CAGR over FY24-27E, with healthy return ratios at ~20% RoE/RoCE. We continue to recommend 'Buy' with a target price of Rs2,200/share, valuing at 23x EV/EBITDA on FY26E.

■ **Profitability to improve across Telangana units:** KIMS Telangana cluster reported subdued profitability over the last 2 quarters (EBITDA down 12% YoY in H2FY24) impacted by several one-offs – shifting of 2 blocks to the Secunderabad flagship unit, renovation work to complete KIMS Cuddles expansion and Meropenem pricing impact. Further, the company has been incurring high doctor cost to add more sub-specialties, benefit of which will be visible from Q1FY25. We expect margins to improve to 31-32% in FY25 from 30.5% in FY24. Demolishing of 2 blocks (250 beds) at the Secunderabad flagship unit will help KIMS to utilize the additional FSI and increase bed capacity by 250. This, along with Kondapur unit expansion, will result in ~2,000 beds capacity by FY27 from the current 1,200. Overall, the management expects 12-13% EBITDA CAGR from the Telangana cluster over the next 4-5 years.

■ **Sunshine and Nagpur units' scale-up on track:** Sunshine units (Telangana) and Nagpur facility together reported EBITDA of Rs1.4bn in FY24 and have potential to double EBITDA over the next 3 years. Sunshine units enjoy 25% OPM despite ~50% occupancy, aided by a better payor mix. The new Sunshine unit in Begumpet is ramping up well, and its occupancy will improve as the company adds more specialties. Overall, the management has guided for +60% occupancy and 30% margin over the next 15-18 months across Sunshine units. The Nagpur unit is generating revenues of Rs150mn on monthly basis, which can be scaled up to Rs180-200mn by the end of FY25. Margins can go up to 21-22% on current revenues as there is further scope for consumables to go down.

- **Greenfield expansion of +1200 beds over FY24-26:** KIMS plans to operationalize 1200 beds over FY24-26 across the following three locations:
 - **Thane** – Phase 1 to start by Q4FY25 end, with total bed capacity of 300. Potential to add 150 beds more given the additional FSI available. Expected to generate ARPOB of +Rs55k per day
 - **Bengaluru** – Will follow cluster-wise approach by onboarding local doctors and dilute equity stake to 20-25%. 350 beds to be commercialized in Electronic City by Jan 2025 through O&M and another 415 beds by the end of FY25 in Marathahalli
 - **Nashik** – 300 beds to be commercialized by the end of Jul 2024. Hiring of all key doctors/consultants finalized. Another Rs6-7bn of capex pending across these units. The management expects Nashik unit to break even within the first year of operations and help negate operating losses across Bengaluru and Thane units in FY26 (factored in Rs350mn of operating losses in FY26 across Bengaluru and Thane)
- **AP cluster – New capacity addition to aid growth:** AP cluster units generate about 30% of volumes from scheme patients, and given their location in Tier 2 and 3 micro markets, these units will have lower ARPOBs. The cluster saw ~79% occupancy (based on census beds) and +22% OPM in FY24. The management plans to add oncology and mother and child care services across Anantapur, Vizag, Ongole and other facilities. This will generate additional revenues and margins. Overall, we see 13% EBITDA CAGR across AP cluster over FY24-26E.
- **Peak net debt of Rs17-18bn:** KIMS' current net debt stands at Rs8.5bn. It has pending capex of Rs6-7bn across Thane and Bengaluru units. Further, the company is adding beds through brownfield projects across the AP cluster. KIMS is also exploring new bed additions through the greenfield or inorganic route across clusters. We expect KIMS to generate Rs12-13bn of operating cash flow over FY24-26E. The management has guided peak net debt/EBITDA of 2x and peak net debt of Rs17-18bn.
- **Financials:** Combination of brownfield and greenfield expansion of +1800 beds over the next 3-4 years, new clinical talent hiring and addition of sub-specialties across Telangana units, will help ramp up revenues and profitability from FY25. We expect EBITDA CAGR of 12-13% from Telangana and AP clusters, and 2x EBITDA across Sunshine + Nagpur units over FY24-27E. Losses across the 3 units (Thane and 2 units of Bengaluru) are expected to be at Rs.350mn in FY26, while Nashik unit will start generating EBITDA from H2FY26. Overall, we see EBITDA CAGR of 17% over FY24-26E with healthy return ratios of ~20%.

Exhibit 1: Overall revenues to grow at higher double digits

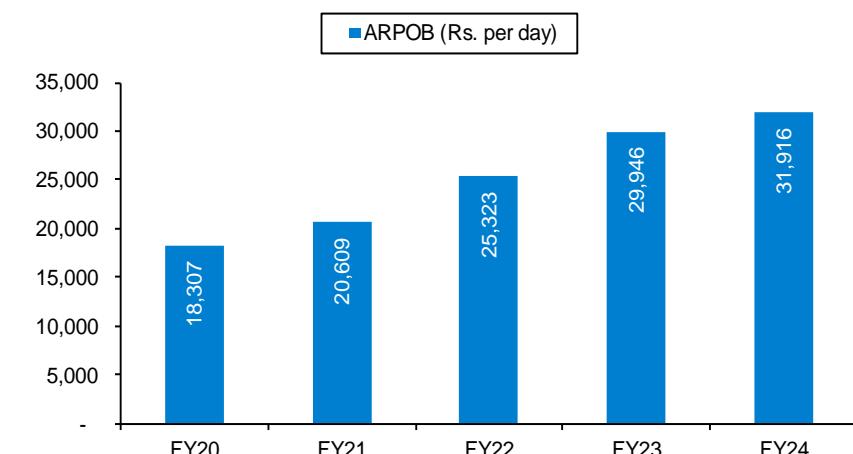
Cluster wise revenues (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Telangana (KIMS)	11,066	11,096	11,883	12,756	14,276
<i>% total</i>	66.2%	49.9%	47.3%	46.1%	42.4%
AP (KIMS)	5,645	5,952	6,775	7,358	8,293
<i>% total</i>	33.8%	26.8%	27.0%	26.6%	24.6%
Sunshine	NA	4,301	4,657	5,300	6,407
<i>% total</i>		19.3%	18.5%	19.1%	19.0%
Nagpur	NA	884	1,796	1,974	2,263
<i>% total</i>		4.0%	7.2%	7.1%	6.7%
Nashik + Bengaluru + Thane				296	2,463
<i>% total</i>		0.0%	0.0%	1.1%	7.3%
Total	16,711	22,233	25,111	27,684	33,702

Source: Company, PL

Exhibit 2: Margin improvement potential across units

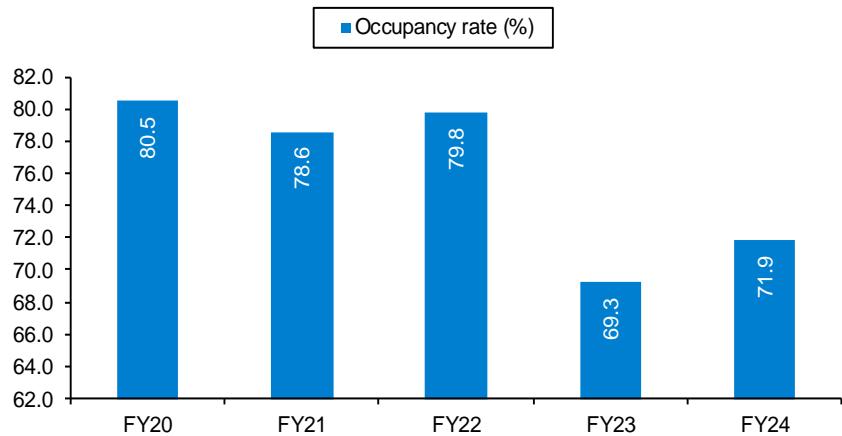
Cluster-wise EBITDA (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Telangana (KIMS)	4,107	3,710	3,624	4,082	4,640
<i>OPM (%)</i>	37.1	33.4	30.5	32.0	32.5
AP (KIMS)	1,254	1,445	1,506	1,692	1,949
<i>OPM (%)</i>	22.2	24.3	22.2	23.0	23.5
Sunshine	NA	1,075	1,155	1,431	1,922
<i>OPM (%)</i>		25.0	24.8	27.0	30.0
Nagpur	NA	66	251	395	543
<i>OPM (%)</i>		7.5	14.0	20.0	24.0
Nashik + Bengaluru + Thane				-80	-235
<i>OPM (%)</i>				-27.1	-9.5
Total	5,361	6,296	6,536	7,520	8,819
<i>OPM (%)</i>	32.1	28.3	26.0	27.2	26.2

Source: Company, PL

Exhibit 3: Higher ARPOB led by increased complex surgeries and improved payor mix

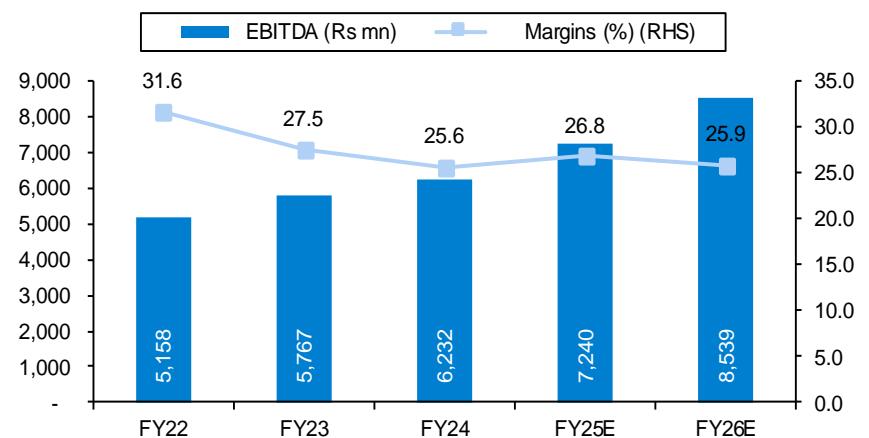
Source: Company, PL

Exhibit 4: Occupancy drop due to consolidation of Sunshine and Nagpur unit over FY22-24



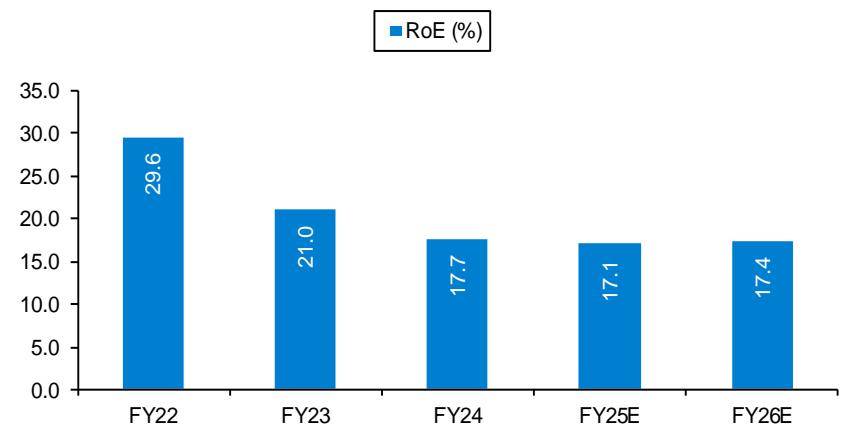
Source: Company, PL

Exhibit 5: Healthy margins to continue

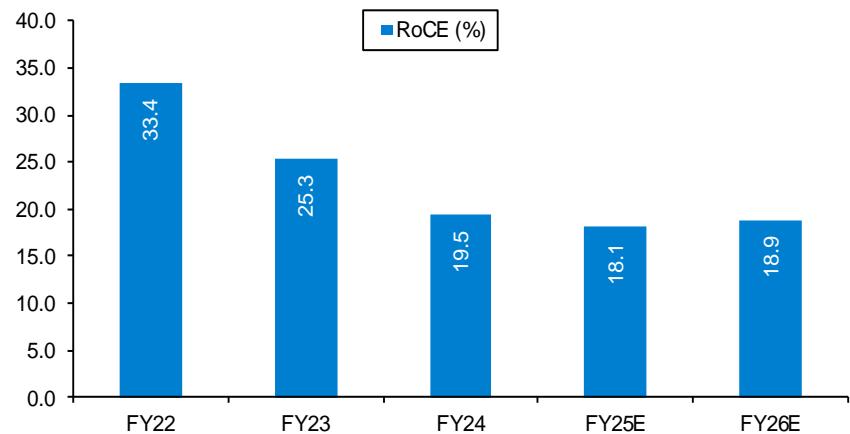


Source: Company, PL

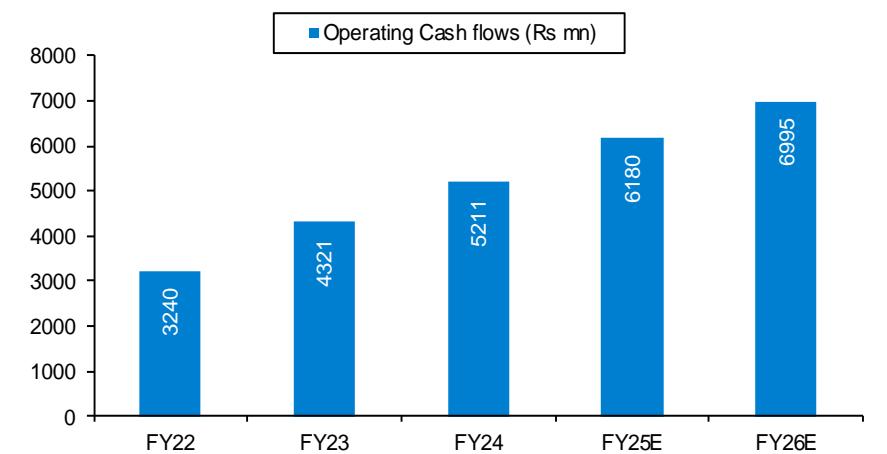
Exhibit 6: Healthy RoE despite capex intensity going up



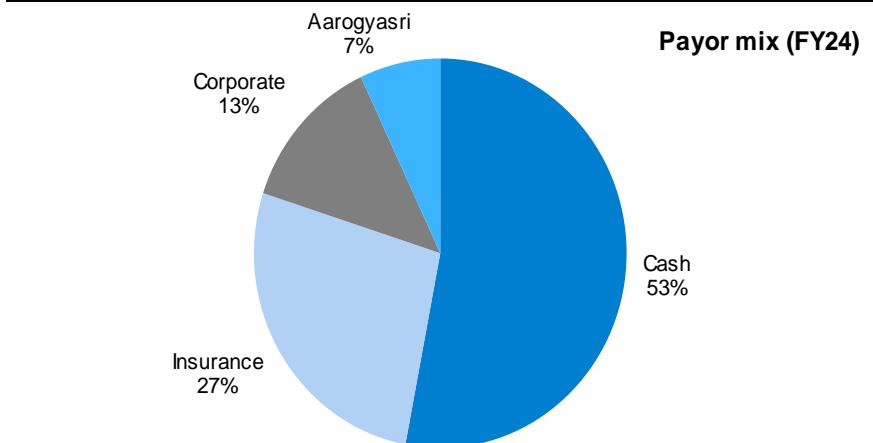
Source: Company, PL

Exhibit 7: Healthy RoCE profile

Source: Company, PL

Exhibit 8: Strong operating cash flow generation

Source: Company, PL

Exhibit 9: Cash + insurance constitute 80% of business

Source: Company, PL

Exhibit 10: Cluster-wise bed expansion plan

Cluster-wise Expansion Plan	FY24 (Existing Bed Capacity)	Locations	FY25	FY26	FY27
Maharashtra	334	Nashik + Thane	600		
Bengaluru	- (Project- Electronic City & Marathahalli)		765		
AP	1,914	Anantapur + Srikakulam + Ongole	120	200	
Telangana	1,200	Kondapur + Secunderabad		750	
Sunshine	527				
Total Bed Capacity	3,975		1,485	200	750

Source: Company, PL

Exhibit 11: Peer Valuation

	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	EV/EBITDA (x)		PE (x)		ROE (%)		PB (x)		EBITDA CAGR (%)
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	
APHS	893	6,208	7,050	BUY	25.0	21.2	58.4	43.1	20.2	22.6	10.8	8.9	17.5
ASTERDM	179	358	400	BUY	24.5	19.4	46.6	32.8	19.4	23.7	8.5	7.1	27.7
FORH	379	502	515	BUY	26.0	22.0	46.4	36.5	10.2	12.0	4.6	4.2	20.9
HCG	48	347	420	BUY	14.7	12.5	59.6	39.7	10.5	13.9	5.9	5.2	18.8
KIMS	162	2,027	2,200	BUY	25.8	22.1	48.7	39.9	16.8	17.6	7.6	6.5	16.2
MAXHEALT	901	928	925	BUY	40.6	31.1	57.6	42.9	15.7	18.2	8.5	7.2	23.3
NARH	253	1,238	1,335	BUY	19.5	16.4	31.7	26.6	24.6	23.8	6.8	5.5	13.8
JLHL	811	1,240	1,360	BUY	24.5	19.8	34.2	27.5	17.4	18.3	5.5	4.6	24.5
RAINBOW	133	1,309	NA	NA	27.4	22.7	50.6	40.6	18.7	19.6	9.0	7.6	19.1
MEDANTA	368	1,356	NA	NA	35.7	29.5	58.6	47.2	19.1	19.6	10.3	8.6	21.5

Source: Company, PL

*Fortis and KIMs EV/ EBITDA is adjusted for minority stake

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	21,977	24,981	27,554	33,572
YoY gr. (%)	33.1	13.7	10.3	21.8
Cost of Goods Sold	4,806	5,303	6,062	7,386
Gross Profit	17,170	19,679	21,492	26,186
Margin (%)	78.1	78.8	78.0	78.0
Employee Cost	3,464	4,224	4,646	5,111
Other Expenses	7,666	9,051	9,456	12,387
EBITDA	6,040	6,404	7,390	8,689
YoY gr. (%)	17.1	6.0	15.4	17.6
Margin (%)	27.5	25.6	26.8	25.9
Depreciation and Amortization	1,293	1,465	1,860	2,196
EBIT	4,748	4,939	5,530	6,493
Margin (%)	21.6	19.8	20.1	19.3
Net Interest	305	470	650	700
Other Income	259	131	150	200
Profit Before Tax	4,701	4,599	5,030	5,993
Margin (%)	21.4	18.4	18.3	17.9
Total Tax	1,191	1,236	1,258	1,498
Effective tax rate (%)	25.3	26.9	25.0	25.0
Profit after tax	3,510	3,363	3,773	4,495
Minority interest	295	259	377	449
Share Profit from Associate	-	(3)	-	-
Adjusted PAT	3,215	3,101	3,395	4,045
YoY gr. (%)	(3.4)	(3.5)	9.5	19.1
Margin (%)	14.6	12.4	12.3	12.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,215	3,101	3,395	4,045
YoY gr. (%)	(3.4)	(3.5)	9.5	19.1
Margin (%)	14.6	12.4	12.3	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,215	3,101	3,395	4,045
Equity Shares O/s (m)	80	80	80	80
EPS (Rs)	40.2	38.8	42.4	50.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	17,463	23,998	29,998	35,998
Tangibles	17,463	23,998	29,998	35,998
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,586	6,051	7,911	10,107
Tangibles	4,586	6,051	7,911	10,107
Intangibles	-	-	-	-
Net fixed assets	12,878	17,947	22,087	25,891
Tangibles	12,878	17,947	22,087	25,891
Intangibles	-	-	-	-
Capital Work In Progress	6,475	9,313	9,313	9,313
Goodwill	3,080	3,080	3,080	3,080
Non-Current Investments	679	1,574	1,574	1,574
Net Deferred tax assets	(90)	(144)	(144)	(144)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	429	494	604	736
Trade receivables	2,527	2,944	3,171	3,863
Cash & Bank Balance	664	490	241	572
Other Current Assets	1,917	1,740	1,914	2,105
Total Assets	29,413	38,520	42,921	48,072
Equity				
Equity Share Capital	800	800	800	800
Other Equity	15,895	17,483	20,600	24,181
Total Networth	16,695	18,284	21,400	24,981
Non-Current Liabilities				
Long Term borrowings	4,974	9,276	9,776	10,276
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	358	1,186	1,186	1,186
Trade payables	1,743	1,972	2,265	2,759
Other current liabilities	1,017	1,600	1,714	1,840
Total Equity & Liabilities	29,413	38,520	42,921	48,072

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	4,701	4,599	5,030	5,993
Add. Depreciation	1,293	1,465	1,860	2,196
Add. Interest	305	470	650	700
Less Financial Other Income	259	131	150	200
Add. Other	(81)	(174)	-	-
Op. profit before WC changes	6,218	6,361	7,540	8,889
Net Changes-WC	(943)	251	(103)	(396)
Direct tax	(954)	(1,402)	(1,258)	(1,498)
Net cash from Op. activities	4,321	5,211	6,180	6,995
Capital expenditures	(7,883)	(9,011)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,883)	(9,011)	(6,000)	(6,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,483	5,130	500	500
Dividend paid	-	-	(278)	(464)
Interest paid	(305)	(470)	(650)	(700)
Others	2,744	(1,007)	-	-
Net cash from Fin. activities	3,922	3,653	(428)	(664)
Net change in cash	360	(147)	(249)	331
Free Cash Flow	(3,562)	(3,800)	180	995

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	40.2	38.8	42.4	50.5
CEPS	56.3	57.1	65.7	78.0
BVPS	208.6	228.5	267.4	312.2
FCF	(44.5)	(47.5)	2.2	12.4
DPS	-	-	3.5	5.8
Return Ratio(%)				
RoCE	25.3	19.5	18.1	18.9
ROIC	16.5	13.0	13.0	13.7
RoE	21.0	17.7	17.1	17.4
Balance Sheet				
Net Debt : Equity (x)	0.3	0.5	0.5	0.4
Net Working Capital (Days)	20	21	20	20
Valuation(x)				
PER	50.5	52.3	47.8	40.1
P/B	9.7	8.9	7.6	6.5
P/CEPS	36.0	35.5	30.9	26.0
EV/EBITDA	27.6	26.9	23.4	19.9
EV/Sales	7.6	6.9	6.3	5.2
Dividend Yield (%)	-	-	0.2	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	6,060	6,525	6,058	6,338
YoY gr. (%)	22.3	15.7	7.8	10.0
Raw Material Expenses	1,300	1,404	1,256	1,343
Gross Profit	4,760	5,121	4,803	4,995
Margin (%)	78.5	78.5	79.3	78.8
EBITDA	1,571	1,773	1,471	1,590
YoY gr. (%)	14.5	16.3	(2.7)	(2.6)
Margin (%)	25.9	27.2	24.3	25.1
Depreciation / Depletion	323	326	354	463
EBIT	1,248	1,447	1,117	1,127
Margin (%)	20.6	22.2	18.4	17.8
Net Interest	93	89	124	164
Other Income	31	29	33	38
Profit before Tax	1,186	1,386	1,026	1,001
Margin (%)	19.6	21.2	16.9	15.8
Total Tax	319	373	259	285
Effective tax rate (%)	26.9	26.9	25.2	28.5
Profit after Tax	867	1,013	767	716
Minority interest	59	93	48	61
Share Profit from Associates	-	-	-	-
Adjusted PAT	808	920	718	655
YoY gr. (%)	15.5	11.8	(5.4)	(29.8)
Margin (%)	13.3	14.1	11.9	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	808	920	718	655
YoY gr. (%)	15.5	11.8	(5.4)	(29.8)
Margin (%)	13.3	14.1	11.9	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	808	920	718	655
Avg. Shares O/s (m)	80	80	80	80
EPS (Rs)	10.1	11.5	9.0	8.2

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-May-24	BUY	2,100	1,950
2	08-Apr-24	BUY	2,200	2,038
3	05-Feb-24	BUY	2,200	2,078
4	08-Jan-24	BUY	2,000	2,000
5	08-Nov-23	BUY	2,000	1,870
6	07-Oct-23	BUY	2,000	1,918
7	09-Aug-23	BUY	2,000	1,831
8	06-Jul-23	BUY	1,660	1,782

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	5,839
2	Aster DM Healthcare	BUY	400	365
3	Aurobindo Pharma	Accumulate	1,300	1,196
4	Cipla	Accumulate	1,405	1,340
5	Divi's Laboratories	Accumulate	4,350	4,122
6	Dr. Reddy's Laboratories	Reduce	5,700	6,258
7	Eris Lifesciences	BUY	1,100	908
8	Fortis Healthcare	BUY	515	462
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	358
11	Indoco Remedies	Accumulate	335	320
12	Ipca Laboratories	Reduce	1,150	1,250
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,774
14	Jupiter Life Line Hospitals	BUY	1,360	1,275
15	Krishna Institute of Medical Sciences	BUY	2,100	1,950
16	Lupin	Hold	1,675	1,611
17	Max Healthcare Institute	BUY	925	803
18	Narayana Hrudayalaya	BUY	1,335	1,237
19	Sun Pharmaceutical Industries	BUY	1,710	1,539
20	Sunteck Realty	BUY	600	471
21	Torrent Pharmaceuticals	BUY	2,900	2,613
22	Zydus Lifesciences	Accumulate	1,130	1,104

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

ANALYST CERTIFICATION

(Indian Clients)

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