

### Company Overview

Incorporated in 1973, Krishna Institute of Medical Sciences Limited (KIMS) is one of the largest healthcare groups in AP and Telangana. KIMS provides multi-disciplinary healthcare services with a key focus on primary, secondary, & tertiary care in tier 2-3 cities. The company offers a comprehensive range of healthcare services including oncology, cardiac sciences, neurosciences, gastric sciences, orthopaedics, renal sciences, organ transplantation, and mother & child care. As of March 31, 2021, it operates through 9 multi-speciality hospitals under the brand name of "KIMS Hospitals" with an aggregate bed capacity of 3,064 under the "KIMS Hospitals" brand, with an aggregate bed capacity of 3,064 including over 2,500 operational beds. KIMS operates and manage all of their hospitals, which provide them with greater control over their facilities and helps them to better deliver high quality and affordable healthcare services.

### Objects of the issue

The Net IPO proceeds will be utilized towards the following purposes;

1. To make repayment/prepayment of borrowings availed by the firm and subsidiaries i.e. KHKPL, SIMSPL, and KHEPL.
2. General corporate purposes.

### Investment Rationale

#### Regional leadership driven clinical excellence and affordable healthcare

KIMS has over 20 years of expertise in AP and Telangana since opening their first hospital in Nellore in 2000. They strategically focus on the southern India healthcare market where they have a robust knowledge of regional nuances, customer culture and the mind-set of medical professionals and wherein there may be widespread and developing need for quality and affordable healthcare services. KIMS deliver clinical excellence through quality healthcare services, supported by a combination of top medical talent, strong clinical and patient safety protocols and investments in new medical technology. The Company strives to offer their quality healthcare services at affordable prices, regardless of the markets, specialty or service type. They have successfully implemented their affordable pricing model in their hospitals in both Tier 1 and Tier 2-3 markets, even though hospitals in different markets face different competitive landscapes and pricing pressures, serve patients from different economic backgrounds and offer a different mix of specialty offerings.

#### Highly qualified and trained doctors and medical support staff.

KIMS's multi-disciplinary approach, blended with their affordable cost for treatment, a high-volume tertiary care model, and their focus on coaching and research, has helped them attract and retain high quality doctors and other healthcare professionals. KIMS has taken significant efforts to create a culture that nurtures their medical talents and encouraged their doctors to become stakeholders in the KIMS hospitals where they work. This culture of empowerment and ownership has encouraged learning and training in their hospitals, and led to good talent retention and allowed patients to create long-term relationships with their doctors. KIMS has accredited by the National Board of Examination to enroll students in a number of specialty specific DNB courses, which serves as a training ground for a number of their doctors and medical support staff and helps them contribute to the availability of skilled doctors for recruitment. As of March 31, 2021, they had 230 doctors in their DNB and post-doctoral fellowship programs.

### Valuation and Outlook

Krishna Institute of Medical Sciences Ltd. (KIMS) is one of the largest corporate healthcare groups in AP and Telangana. Moreover, the company's strong operational and financial performance, highly qualified and trained doctors and medical support staff are suitable for further growth of the healthcare group. As of March 31, 2021, the debt-to Adjusted EBITDA ratio was 0.95x and the gearing ratio was 0.37x compared to the industry range from 0.1 to 5.2. On the valuation front, at the upper price band, the company is valued at 31.1x P/E considering the diluted equity shares which is at a discount compared to its listed industry peers (i.e. Fortis Healthcare, Max Healthcare and Apollo Hospitals). Considering these factors we give a "SUBSCRIBE" rating on this issue for the long term.

### Issue Details

Offer Period	16th June to 18th June 2021
Price Band	INR.815 to INR.825
Bid Lot	18
Listing	BSE&NSE
Issue Size (no. of shares in mn)	25.99
Issue Size (INR. in bn)	21.44
Face Value	10

### Issue Structure

QIB	75%
Retail	10%
HNI	25%

BRLM	IIFL Securities Ltd, Axis Capital Ltd, Credit Suisse Securities Pvt. Ltd., Kotak Mahindra Capital Company Ltd
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	46.81	38.84
Public	53.19	61.16
<b>Total</b>	<b>100</b>	<b>100</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue from operations	9,180	11,226	13,299
<b>Total revenue</b>	<b>9,180</b>	<b>11,226</b>	<b>13,299</b>
<b>Expenses</b>			
Raw Materials Consumed	2,169	2,572	2,826
Changes in inventories of finished goods and work in progress	(67)	(30)	63
Purchase of Stock in Trade	-	-	-
Excise Duty	-	-	-
Employee benefit expenses	1,630	1,980	2,202
Other expenses	4,638	4,254	4,499
<b>Total Operating expenses</b>	<b>8,370</b>	<b>8,776</b>	<b>9,591</b>
<b>EBITDA</b>	<b>810</b>	<b>2,450</b>	<b>3,709</b>
Depreciation and amortisation expense	565	706	695
Other income	59	61	102
<b>EBIT</b>	<b>304</b>	<b>1,805</b>	<b>3,115</b>
Finance costs	457	399	325
Share in Profit/(Loss) of Joint Ventures	-	-	-
<b>PBT</b>	<b>(154)</b>	<b>1,405</b>	<b>2,790</b>
Current tax	386	433	778
Deferred Tax charge	(52)	(178)	(43)
<b>Total tax</b>	<b>334</b>	<b>255</b>	<b>735</b>
<b>PAT</b>	<b>(488)</b>	<b>1,151</b>	<b>2,055</b>
<b>Diluted EPS</b>	<b>(6.6)</b>	<b>15.4</b>	<b>26.5</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	1,339	2,015	3,560
Cash flow from investing activities	(1,098)	(1,247)	(3,542)
Cash flow from financing activities	(270)	(443)	98
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(29)</b>	<b>325</b>	<b>116</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>110</b>	<b>81</b>	<b>405</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>81</b>	<b>405</b>	<b>521</b>

Source: RHP, BP Equities Research

## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Liabilities</b>			
Share Capital	745	745	776
Other Equity	4,662	5,236	7,861
Non-Controlling Interest	263	133	125
<b>Net worth</b>	<b>5,669</b>	<b>6,114</b>	<b>8,762</b>
Long-Term Borrowings	2,888	3,150	2,285
Long-Term Provisions	102	137	161
Other Non Current Liabilities	13	13	12
<b>Total Non Current Liabilities</b>	<b>3,004</b>	<b>3,300</b>	<b>2,458</b>
Trade payables	1,041	1,234	1,319
current tax liability	95	-	87
Deferred Tax Liabilities	516	357	358
Borrowings	176	101	553
Other Financial Liabilities	477	628	467
Lease Liabilities	28	24	26
Other current liabilities	132	127	227
Short Term Provisions	61	73	105
<b>Total Current Liabilities</b>	<b>2,524</b>	<b>2,545</b>	<b>3,142</b>
<b>Total liabilities</b>	<b>11,197</b>	<b>11,959</b>	<b>14,362</b>
<b>Assets</b>			
Tangible Assets	7,080	7,489	7,706
Right of Use Assets	556	561	509
Capital work in Progress	2	22	92
Good will	752	848	848
Intangible Assets	264	262	247
Equity Accounted Investment	40	47	164
Other Financial Assets	24	1	28
Income tax assets (net)	366	401	133
Other non-current assets	374	129	121
<b>Total Non current assets</b>	<b>9,459</b>	<b>9,761</b>	<b>9,850</b>
Investment	15	18	23
Trade Receivables	1,233	1,323	1,098
Cash and Bank Balances	81	405	521
Other current assets	32	43	71
Bank Balances	21	52	2,323
Other Financial Assets	88	54	235
Inventories	269	304	241
<b>Total Current Asset</b>	<b>1,739</b>	<b>2,198</b>	<b>4,512</b>
Net Current Assets	(786)	(347)	1,370
<b>Total Assets</b>	<b>11,197</b>	<b>11,959</b>	<b>14,362</b>

Source: RHP, BP Equities Research

## Key Risks

- ⇒ The company faces intense competition from other healthcare service providers. If they are unable to compete effectively, their business, results of operations and cash flows may be materially and adversely affected.
- ⇒ The COVID-19 pandemic has affected their regular business operations and may continue to do so, depending on the severity and duration of the COVID-19 pandemic.
- ⇒ The business is highly dependent on their healthcare professionals, including doctors that they engage on a consultancy basis, and their business and financial results could be impacted if they are not able to attract and retain such healthcare professionals.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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