



**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

### Issue Highlights

Industry	Hospital
Offer for sale (Shares)	23,560,538
Fresh Issue (Shares)	2,424,242
Net Offer to the Public	25,984,780
Employee reservation	242,424
Issue Size (Rs. Cr.)	2117-2144
Price Band (Rs.)	815-825
Discount offered to Retail & Employee investors	40
Offer Date	16-Jun-21
Close Date	18-Jun-21
Face Value	10
Lot Size	18

### Issue Composition

	In shares
Net Issue for Sale	25,742,356
QIB	19,306,767
NIB	3,861,353
Retail	2,574,236

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	46.81%	43.46%
QIB	53.19%	48.20%
NIB	0.00%	4.83%
Employee reservation	0.00%	0.30%
Retail	0.00%	3.22%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

To make repayment/prepayment of borrowings available by the firm and subsidiaries i.e. KHKPL, SIMSPL, and KHEPL.  
To meet general corporate purposes.

### Book Running Lead Manager

- Axis Capital Limited
- Credit Suisse Securities (India) Private Limited
- IIFL Holdings Limited
- Kotak Mahindra Capital Company Limited

### Name of the registrar

- Link Intime India Private Ltd

### About the company

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.

### Strength

**Regional leadership driven clinical excellence and affordable healthcare:** KIMS is one of the largest corporate healthcare groups in AP and Telangana in terms of number of patients treated and treatments. It has 3,064 beds across nine multi-specialty hospitals in AP and Telangana as of December 31, 2020, which is 2.2 times more beds than the second largest provider in AP and Telangana. It has over 20 years of expertise in AP and Telangana since opening our first hospital in Nellore (AP) in 2000. It strategically focuses on the southern India healthcare market where we have a strong understanding of regional nuances, customer culture and the mind-set of medical professionals and where there is significant and growing need for quality and affordable healthcare services. The management believes that the "KIMS Hospitals" brand is well recognized in the region among patients, doctors, other healthcare professionals and vendors.

**Clinical excellence:** 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. It had the largest cardiac and cardiothoracic surgery and cardiology treatments programs in AP (in terms of patients treated in 2018), with an 18.20% share of cardiology treatments. It also ranked first in genito urinary surgeries performed, neurosurgery and poly trauma treatments and first among private hospitals (second overall) in nephrology treatments in AP in 2018. Also it has one of the largest neurosciences programs for epilepsy among private hospitals in India.

**Affordable pricing:** KIMS strive to offer quality healthcare services at affordable prices, regardless of the markets, specialty or service type. It has successfully implemented its affordable pricing model in its 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. In Fiscal Year 2021, its capital expenditure per bed was Rs 6.91 million for hospitals in Tier1 cities and Rs 2.21 million for hospitals in Tier 2-3 cities. In Tier 1 cities, its prices across medical procedures are on average 20% to 30% lower than other private hospitals in India.

**Ability to attract, train and retain high quality doctors, consultants and medical support staff:** KIMS maintains its standard of high quality healthcare by consistently employing a diverse pool of talented doctors, nurses and paramedical professionals. Its multi-disciplinary approach, combined with affordable cost for treatment, a high-volume tertiary care model, and its focus on teaching and research, has helped to attract and retain high quality doctors and other healthcare professionals. Since inception in 2000, it has retained over 80% of its doctors. As of March 31, 2021, KIMS had 230 doctors in its DNB and postdoctoral fellowship programs. It continuously endeavors to undertake initiatives to ensure that the attrition rates for its doctors remain low. It has also taken certain premises on lease for the purpose of allotting residential accommodation to its nurses.

**Track record of strong operational and financial performance:** KIMS have grown from

a single, approximately 200-bed hospital at Nellore (AP) in 2000 to a leading multi-disciplinary integrated private healthcare service provider with nine multi-specialty hospitals and over 3,000 beds today. As of December 31, 2020, its debt-to-Adjusted EBITDA ratio was 0.95x and its gearing ratio was 0.37x compared to the industry range of 0.1 to 5.2. It has achieved strong free cash flow levels, in terms of its cash flows from operations relative to its capital expenditures, by effectively managing its capital expenditures as its business and hospital network have grown, resulting in attractive cash flow conversion, in terms of free cash flow compared to Adjusted EBITDA. KIMS is one of only three hospitals in India that are rated AA by CRISIL.

**Well positioned to consolidate in India's large, unorganized yet rapidly growing and underserved affordable healthcare market:** The healthcare industry in India is poised for growth. There is a significant and growing need for quality and affordable healthcare services across the country, particularly in AP and Telangana where KIMS hospital network is concentrated. AP and Telangana also ranked among the top three in terms of overall health index score. Given KIMS leading position in AP and Telangana as a provider of quality and affordable healthcare services, as well as its track record of growth, it is well positioned to be a consolidator in the region. It has grown from a single, approximately 200-bed hospital at Nellore (AP) in 2000 to a leading multi-disciplinary integrated private healthcare services provider with nine multi-specialty hospitals and over 3,000 beds today. Between Fiscal Year 2017 and Fiscal Year 2020, KIMS completed four significant hospital acquisitions, namely KIMS Ongole, KIMS Vizag, KIMS Anantapur and KIMS Kurnool, to consolidate the healthcare market in AP, growing at a pace much faster than its competing brands, in terms of year -on-year revenue growth in Fiscal Year 2020 and operating margin from Fiscal Years 2017-2020.

**Disciplined approach to acquisitions resulting in successful inorganic growth:** KIMS has a disciplined, low-leverage approach to acquisitions that has enabled to maintain its affordable pricing model as it has grown in both Tier 1 and Tier 2-3 markets. Since Fiscal Year 2017, it has expanded its hospital network primarily through acquisitions of other hospitals.

## Strategy

**Strengthen existing hospitals and specialties:** KIMS intends to strengthen its existing hospitals by further balancing its specialty mix and deepening expertise in select specialties. In the area of organ transplantation, it has recently expanded its clinical team in Secunderabad (Telangana) to provide heart and lung transplants in addition to other organ transplant services (liver and kidney, among others). It intends to offer organ transplantation services in more of its hospitals in the future. It also aims to strengthen its oncology services by adding radiation and surgical services and introducing oncology services at more of its hospitals. KIMS plans to continue to focus on, and expand its ability to provide, complex and advanced quaternary healthcare in various specialties, and to launch mother & child care services in more of its hospitals. It also plans to focus on developing complicated specialist-skill driven clinical areas of organ transplant, mother & child care and oncology, to enhance its brand name particularly at hospitals where it observe strong growth inpatient volumes. As demand for healthcare services in AP and Telangana grows in the future, the company will also periodically evaluate whether to increase the bed capacity of its existing hospitals. As part of its hospital development and acquisition strategy, it selects sites for its hospitals that have sufficient land area and basic infrastructure to support a flagship-sized hospital, even if it has more limited development plans for the hospital in the short term.

**Strategically grow presence in adjacent markets:** KIMS plans to expand its hospital network into markets that are adjacent to its core markets of AP and Telangana, initially focusing on Karnataka (Bangalore and greater Karnataka, Odisha (Bhubaneswar), Tamil Nadu (Chennai) and Central India (Indore, Aurangabad, Nagpur and Raipur). It also intends to explore opportunities for expansion via asset-light models or models involving no ownership of assets.

**Implementation of initiatives to improve existing operational efficiencies:** The KIMS believes maximizing operating efficiencies across its network is critical to maintaining and improving the affordability of healthcare services and, ultimately, profitability. It aims to improve its occupancy rates and the utilization of key equipment and operating theatres by expanding delivery of tertiary care services, growing preventive healthcare and health screening programs and increasing community outreach programs. It intends to undertake initiatives that help to improve daily ARPOB (Average Revenue Per Operating Bed) and minimize ALOS (Average of length of stay) at its hospitals. It

focuses on reducing ALOS at its hospitals and increasing patient turnover rate in order to drive revenue growth because a significant portion of in-patient revenues are derived from medical services provided in the initial two to three days of a patient's stay in the hospital. To do this, it plans to improve its patient management and discharge processes, expand home care offerings, implement time- and cost-saving medical technologies and perform more minimally-invasive surgeries.

**Invest in digital health care and technology:** KIMS is focused on developing a healthcare ecosystem that utilizes digital healthcare technologies to offer patients a fully integrated approach to manage their journey towards health and wellness. It believes that incorporating new technologies into its operations and expanding its digital capabilities will improve patient care, expand the scope of treatments that it offers and leads to greater affordability, efficiency and cost savings. It also intends to invest in the infrastructure and technology necessary to perform technology-enabled operating procedures in its hospitals.

### Risk factors

- It is highly dependent on its healthcare professionals including doctors with whom they engage on consultancy basis. If it is unable to attract and retain such health care professionals, it can impact company's business.
- KIMS major revenues are from hospitals in Hyderabad (Telangana) region. Any effect on location hospitals for various reasons can affect company financials.
- KIMS has ceased operations at some of the locations in the past and may continue in future too which can impact company financial performance.

### Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Max Healthcare	2504.67	-137.55	0.52	489.33	4.36	58.37	10	254.45	24578.47
Fortis Health.	4030.12	-109.76	0.00	0.00	2.89	81.06	10	234.20	17681.12
Narayana Hrudaya	2582.35	-14.30	0.00	0.00	9.82	49.40	10	485.25	9916.61
Krishna Institute of Medical Sciences Ltd	1773.25	273.97	25.68	32.13	6.21	132.94	10	825.00	6601.45

\*\* Financials are estimated annualised Fy21

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.825, the stock is priced at pre issue P/E of 31.15x on its FY21 EPS of Rs. 26.48. Post issue, the stock is priced at a P/E of 32.13x on its EPS of Rs. 25.68. Looking at the P/B ratio at Rs. 825 the stock is priced at P/B ratio of 27.41x on the pre issue book value of Rs.111.32 and on the post issue book value of Rs. 132.94 the P/B comes out to 6.21x.

On the lower end of the price band of Rs.815 the stock is priced at pre issue P/E of 30.78x on its FY21 EPS of Rs. 26.48. Post issue, the stock is priced at a P/E of 31.74x on its EPS of Rs. 25.68. Looking at the P/B ratio at Rs.815, the stock is priced at P/B ratio of 7.32x on the pre issue book value of Rs. 111.32 and on the post issue book value of Rs. 132.94, the P/B comes out to 6.13x.

### Industry overview

CRISIL Research estimates the Indian healthcare delivery market at Rs. 4.3 trillion in value terms and 1.7 billion treatments in volume terms (inclusive of both in-patient and out-patient) in fiscal 2021, with the growth being contributed by the increased government expenditure onto the sector to combat Covid-19 as private hospitals are expected to witness a decline in revenues. In value terms, the IPD is expected to account for nearly 69%, while OPD is likely to account for the remaining. Though in terms of volumes, OPD is estimated to outweigh IPD volumes, with the latter contributing the bulk of the revenues to healthcare facilities. The share of IPD (in value terms) is expected to grow from 69% in the current fiscal year to nearly 74% in fiscal 2024. With renewed impetus from the PMJAY, the healthcare delivery market is expected to log a CAGR of 17-18% and reach Rs. 7.07 trillion in fiscal 2024. Over the last four years, major hospital chains have added supply (~67% of their incremental supply during the period) in Tier-2 and -3 locations, to create a referral network into their main centre by tapping into the under-served creamy Tier-2 areas. The other contributors to demand are more

structural in nature, such as increase in lifestyle-related ailments, growing medical tourism, rising incomes and changing demographics.

### Outlook

KIMS is one of the largest healthcare service providers in Andhra Pradesh and Telangana states. It has grown from a single hospital to a chain of multi-speciality hospitals through organic growth and strategic acquisitions. Besides Tamil Nadu and Karnataka, it is exploring prospects of foraying into some parts of central India as well as Bhubaneswar in Odisha. However, KIMS major revenues are from hospitals in Hyderabad (Telangana) region. Any effect on location hospitals for various reasons can affect company financials. Moreover the issue is largely offer for sale. A long term investor may opt the issue.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	June 16, 2021
Bid/Offer Closing Date	June 18, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about June 23, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about June 24, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about June 25, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about June 28, 2021

## Consolidated Financials

### Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	1,329.94	1,122.65	918.01
Total expenditure	959.05	877.65	837.05
<b>Operating Profit</b>	<b>370.88</b>	<b>245.00</b>	<b>80.96</b>
OPM%	27.89	21.82	8.82
Other Income	10.17	6.08	5.86
<b>PBDIT</b>	<b>381.05</b>	<b>251.08</b>	<b>86.82</b>
Interest	32.50	39.94	45.75
<b>PBDT</b>	<b>348.55</b>	<b>211.14</b>	<b>41.07</b>
Depreciation	69.54	70.61	56.46
<b>PBT</b>	<b>279.02</b>	<b>140.53</b>	<b>-15.38</b>
Tax	73.54	25.45	33.43
<b>Profit After Tax</b>	<b>205.48</b>	<b>115.07</b>	<b>-48.81</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-21	As on 31-Mar-20	As on 31-Mar-19
<b>Asset</b>			
<b>Non-current assets</b>			
Property, plant and equipment	770.63	748.88	707.99
Capital Work-in-Progress	9.24	2.23	0.23
Goodwill	84.78	84.78	75.19
Other intangible assets	24.74	26.24	26.41
Right-Of-Use Assets	50.93	56.08	55.61
<b>Financial Assets</b>	0.00	0.00	0.00
Loans	16.37	4.72	3.98
Other financial assets	2.85	0.11	2.44
Deferred tax assets (net)	2.94	1.42	3.80
Non-current tax assets (net)	10.37	38.66	32.80
Other Non-Current Assets	12.11	12.95	37.41
<b>Total non-current assets</b>	<b>984.96</b>	<b>976.06</b>	<b>945.86</b>
<b>Current assets</b>			
Inventories	24.09	30.38	26.86
<b>Financial assets</b>	0.00	0.00	0.00
Trade receivables	109.82	132.27	123.27
Cash and cash equivalents	52.13	40.51	8.06
Bank balances other than (ii) above	232.31	5.21	2.14
Loans	2.26	1.75	1.52
Other financial assets	23.50	5.43	8.76
Other current assets	7.09	4.28	3.24
<b>Total current assets</b>	<b>451.20</b>	<b>219.83</b>	<b>173.85</b>
<b>Total Assets</b>	<b>1436.15</b>	<b>1195.89</b>	<b>1119.71</b>
<b>Non-current liabilities</b>			
Borrowings	184.60	268.72	242.73
Lease liabilities	43.34	45.55	45.52
Other Financial Liabilities	0.56	0.71	0.58
Provisions	16.06	13.71	10.19
Deferred Tax liabilities (Net)	35.83	35.67	51.57
Other non-current liabilities	1.237	1.29	1.35
<b>Total Non-Current Liabilities</b>	<b>281.63</b>	<b>365.65</b>	<b>351.93</b>
<b>Current liabilities</b>			
Borrowings	55.27	10.11	17.55
Lease Liabilities	2.56	2.40	2.83
Trade Payables – MSME	1.79	2.51	0.14
Trade Payables – Other than MSME	130.08	120.93	103.92
Other financial liabilities	46.73	62.81	47.67
Provisions	10.49	7.35	6.05
Other current liabilities	22.71	12.71	13.19
Current tax liabilities (net)	8.70	0.00	9.53
<b>Total current liabilities</b>	<b>278.33</b>	<b>218.81</b>	<b>200.87</b>
<b>Total</b>	<b>559.96</b>	<b>584.46</b>	<b>552.80</b>
<b>NET Worth</b>	<b>876.20</b>	<b>611.43</b>	<b>566.91</b>
Net worth represented by:			
Share capital	77.59	74.49	74.49
Other equity	786.14	523.64	466.17
<b>Total equity attributable to owners of the Company</b>	<b>863.73</b>	<b>598.13</b>	<b>540.66</b>
Non-controlling interests	12.461	13.305	26.251
<b>Total NET Worth</b>	<b>876.20</b>	<b>611.43</b>	<b>566.91</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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