

Krishna Institute of Medical Sciences | BUY

In line 1Q; Expansion on track

KIMS delivered a solid performance this quarter, reporting revenue growth of 14% (2% beat) and EBITDA margins of 26.1%, which expanded by 90 bps YoY. This growth was driven primarily by a 9-10% increase in revenue from the core regions of Telangana and Andhra, while revenues from Sunshine Hospitals surged 20% and Nagpur Hospital saw a notable 33% revenue increase during the period. The company's performance was bolstered by a 7-10% YoY growth in IP & OP volumes, complemented by a reduction in ALOS. Additionally, ARPOB jumped by 21% this quarter. Despite these gains, overall occupancy across the hospital chains remains relatively low at ~ 50%. To address this, KIMS plans to add more doctors and specialties in many of their units. Price hikes, which are yet to be implemented, will also drive margins. However, improvement of margins in core regions will be offset by the planned opening of four new hospitals in Nashik, Thane and Bangalore for FY25. Looking ahead, we anticipate KIMS will continue to be the fastest-growing hospital chain in India, with projected revenue and EBITDA CAGRs of 26% and 27% over the next three years. The company's entry into high ARPOB regions and its strategies to enhance the case mix in Andhra and Telangana are expected to improve EBITDA per occupied bed, which should positively influence the valuation, which remain at 24% discount to peers. We maintain a BUY rating with a target price of INR 2,855, projected for June 2025.

- ARPOB led growth:** KIMS reported a strong quarter with 14%YoY growth. This was driven largely by ARPOB growth of 21% whilst volumes were steady – IP volume growth 7.5% and occupancy fell to 49.8% (vs. 52.9% YoY). The reduction in occupancy was primarily in their core geographies AP-Telangana. The company reported an improvement in ALOS at 3.62 (vs. 4.41 YoY), primarily through better management in the AP cluster, and slight improvement in case and payor mix. Management believes going ahead they can sustain these ALOS numbers. The growth in AP-Telangana will be supported by capacity additions, doctor hires and addition of new specialties such as Mother & Child and cancer.
- Margin outlook:** The current margins may sustain over the near-term as Nashik losses are offset by Sunshine and Nagpur ramp-up. The margin delta is expected once 4 new hospitals are commissioned and start contributing meaningfully from 2HFY26 or early FY27, in our view. Price hikes could be a key lever.
- Investment cycle in full-swing:** The company is aggressively expanding bed capacity. In Telangana, KIMS is adding 500 beds in Kondapur and plans to shift to a new facility for Secunderabad leading to net addition of ~200 beds over the next 3 years. In Andhra, KIMS is adding 50-100 beds in across key facilities over the next 24 months along with cancer and M&C specialties. Nagpur is trending at 17%+ margin and is improving, during this quarter there were certain one-off expenses, excluding these margins were ~21%. Nashik's doctor on-boarding is complete and the plan to commercialise with 70-80 beds in second half of August. They will scale up operations as occupancies rise.
- Insurance-led hikes to drive ARPOB growth:** Contracts are expected to get renewed this



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,855
Upside/(Downside)	30.3%
Previous Price Target	2,745
Change	4.0%

Key Data – KIMS IN

Current Market Price	INR2,192
Market cap (bn)	INR175.4/US\$2.1
Free Float	56%
Shares in issue (mn)	77.6
Diluted share (mn)	80.0
3-mon avg daily val (mn)	INR183.8/US\$2.2
52-week range	2,357/1,625
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	4.4	3.0	20.2
Relative*	6.4	-6.5	0.5

* To the BSE Sensex

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Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	21,977	24,981	29,150	38,100	49,872
Sales Growth (%)	33.1	13.7	16.7	30.7	30.9
EBITDA	6,040	6,404	7,433	10,135	13,166
EBITDA Margin (%)	27.5	25.6	25.5	26.6	26.4
Adjusted Net Profit	3,474	3,107	3,344	4,639	6,654
Diluted EPS (INR)	43.4	38.8	41.8	58.0	83.1
Diluted EPS Growth (%)	10.8	-10.6	7.6	38.7	43.4
ROIC (%)	19.4	13.5	12.1	14.3	18.2
ROE (%)	22.7	17.8	16.8	19.4	22.5
P/E (x)	50.5	56.5	52.5	37.8	26.4
P/B (x)	10.5	9.6	8.1	6.7	5.3
EV/EBITDA (x)	29.4	28.5	25.2	18.1	13.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

year and based on past experience, it is typically 10-12% higher. GIPSA was supposed to happen in Nov last year and the management is eagerly waiting for the same. It will be a good 20-30% price hike and it follows a 4-5y cycle. Once announced, it will take 6-9m for implementation due to bilateral negotiations. The company is adding cancer, M&C and rehab centres in many of their hospitals which should further improve case mix.

- **Gearing up for a Karnataka entry:** The company has roped in Mr. Sreenath Reddy, previously Group CFO of Aster DM to strengthen their roster for upcoming venture in the Karnataka (KA) cluster. The management announced that Dr. Nitish Shetty, former CEO Aster DM is set to join KIMS as the Head of the KA cluster. They will be awarded equity in the Karnataka business in the in exchange for a land parcel (valued at fair market price) in Sarjapur – where KIMS plan to build a large health city over time. The company is on track to operationalize the two hospitals in Karnataka in the next 2-3 quarters.
- **Expanding footprint in Vishakhapatnam:** The company has acquired the Queen’s NRI hospital located in a premium neighbourhood in Visakhapatnam. The hospital currently clocks revenue of INR 650-700mn and management is confident they can scale this up to INR 2.5-3bn over the next 3-4 years. Margins can meaningfully improve from current 8%. While no meaningful medical costs are to be incurred, the company will renovate the facility (INR 250-300mn) to upgrade facility. They plan to improve the payor mix and shift scheme patients to their existing facilities in Visakhapatnam.
- **Key Highlights:**
 - Revenue/EBITDA/PAT of INR 6.9bn/1.8bn/952mn grew 14%/18%/16% YoY and was 2%/in line/7% vs. our estimates
 - EBITDA margin expanded 100bps at 26.1% (JMFe: 26.5%) on higher gross profit;
 - Occupancy levels have declined to 49.8% (vs. 52.9%) due to lower occupancy in home markets of AP and Telangana;
 - ALOS reduced YoY to 3.34 (vs. 3.89);
 - **Debt** as of 30th Jun’24 was INR 11.5bn and management expect this to rise to INR 16-17bn by the end of the year. **D/E** will be maintained at or below 0.75x and Debt to EBITDA at 1.75x

Exhibit 1. Valuation

Valuation	INR mn
Jun’26 EBITDA	10,892
EV/EBITDA	23
Enterprise Value	2,50,527
Less: Net Debt (incl. lease)	12,233
Less: Fair value of NCI	9,714
Equity Value	2,28,580
No of shares	80
Jun’25 Price Target	2856
Jun’25 Price Target (rounded off)	2855

Source: JM Financial

Exhibit 2. 1QFY25 review sheet

KIMS (INR mn)	P&L	1Q24A	1Q25A	% YoY	1Q25E	% Delta vs. JMFe	1Q25E (cons)	% Delta vs cons	4Q24A	% QoQ
Revenue		6,060	6,884	13.6%	6,727	2.3%	6,788	1.4%	6,338	8.6%
Raw Material/FG		1,347	1,426	5.9%	1,413	0.9%			1,343	6.2%
Gross Profit		4,713	5,458	15.8%	5,314	2.7%			4,995	9.3%
- % of revenue		77.8%	79.3%	151 bps	79.0%	29 bps			78.8%	47.83626
Staff Cost		1,039	1,186	14.1%	1,110	6.9%			1,085	9.3%
Other expenses		2,151	2,478	15.2%	2,422	2.3%			2,320	6.8%
EBITDA		1,523	1,794	17.8%	1,783	0.6%	1,755	2.2%	1,590	12.9%
EBITDA (%)		25.1%	26.1%	92 bps	26.5%	-44 bps	25.9%	21 bps	25.1%	97.82665
Other Income		31	46		42				38	
Interest		93	179		180				164	
Depreciation		323	390		450				463	
Add: Share of profit/(loss) of Associates										
Exceptional items		0	0		0				0	
PBT		1,139	1,271	11.6%	1,195	6.4%			1,001	26.9%
Tax		319	319		305				285	
Tax Rate (%)		28.0%	25.1%		25.5%				28.5%	
PAT (Reported)		820	952	16.2%	890	7.0%	821	16.0%	716	32.9%
PAT Margin (%)		13.5%	13.8%		13.2%				11.3%	
EPS (Reported)		10.2	11.9	16.2%	11.1	7.0%			8.9	32.9%
KIMS - Cost margins		1Q24A	1Q25A	% YoY	4Q24A	% Delta vs. JMFe			4Q24A	% QoQ
Raw material cost/sales		22.2%	20.7%	-151 bps	21.0%	-29 bps			21.2%	-48 bps
Staff cost/sales		17.1%	17.2%	8 bps	16.5%	73 bps			17.1%	10 bps
Other expenditure/sales		35.5%	36.0%	51 bps	36.0%	0 bps			36.6%	-60 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	21,977	24,981	29,150	38,100	49,872
Sales Growth	33.1%	13.7%	16.7%	30.7%	30.9%
Other Operating Income	0	0	0	0	0
Total Revenue	21,977	24,981	29,150	38,100	49,872
Cost of Goods Sold/Op. Exp	4,806	5,303	6,238	8,306	10,872
Personnel Cost	7,596	9,058	10,523	13,106	17,256
Other Expenses	3,534	4,217	4,956	6,553	8,578
EBITDA	6,040	6,404	7,433	10,135	13,166
EBITDA Margin	27.5%	25.6%	25.5%	26.6%	26.4%
EBITDA Growth	17.1%	6.0%	16.1%	36.3%	29.9%
Depn. & Amort.	1,293	1,465	1,894	2,730	3,120
EBIT	4,748	4,939	5,539	7,404	10,046
Other Income	259	131	200	300	550
Finance Cost	305	470	869	1,057	1,139
PBT before Excep. & Forex	4,701	4,599	4,871	6,647	9,457
Excep. & Forex Inc./Loss(-)	148	0	0	0	0
PBT	4,849	4,599	4,871	6,647	9,457
Taxes	1,191	1,236	1,242	1,695	2,459
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	295	256	284	313	344
Reported Net Profit	3,363	3,107	3,344	4,639	6,654
Adjusted Net Profit	3,474	3,107	3,344	4,639	6,654
Net Margin	15.8%	12.4%	11.5%	12.2%	13.3%
Diluted Share Cap. (mn)	80.0	80.0	80.0	80.0	80.0
Diluted EPS (INR)	43.4	38.8	41.8	58.0	83.1
Diluted EPS Growth	10.8%	-10.6%	7.6%	38.7%	43.4%
Total Dividend + Tax	0	0	1	2	3
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	4,849	4,596	4,871	6,647	9,457
Depn. & Amort.	1,293	1,465	1,894	2,730	3,120
Net Interest Exp. / Inc. (-)	210	447	669	757	589
Inc (-) / Dec in WCap.	-693	154	762	598	775
Others	-384	-51	0	0	0
Taxes Paid	-954	-1,402	-1,242	-1,695	-2,459
Operating Cash Flow	4,321	5,211	6,954	9,037	11,482
Capex	-5,745	-6,473	-10,549	-4,500	-7,500
Free Cash Flow	-1,425	-1,263	-3,595	4,537	3,982
Inc (-) / Dec in Investments	-649	-3,649	0	0	0
Others	238	2,597	200	300	550
Investing Cash Flow	-6,156	-7,526	-10,349	-4,200	-6,950
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	0	-1	-2	-3
Inc / Dec (-) in Loans	1,483	5,130	5,801	1	1
Others	-600	-2,963	-1,152	-1,368	-1,480
Financing Cash Flow	883	2,168	4,648	-1,369	-1,482
Inc / Dec (-) in Cash	-952	-147	1,253	3,468	3,051
Opening Cash Balance	1,568	1,343	1,320	2,573	6,041
Closing Cash Balance	616	1,195	2,573	6,041	9,091

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	16,695	18,284	21,628	26,267	32,921
Share Capital	800	800	800	800	800
Reserves & Surplus	15,895	17,483	20,827	25,466	32,121
Preference Share Capital	0	0	0	0	0
Minority Interest	2,684	2,649	2,649	2,649	2,649
Total Loans	5,332	10,462	16,263	16,265	16,266
Def. Tax Liab. / Assets (-)	90	144	144	144	144
Total - Equity & Liab.	24,802	31,538	40,684	45,324	51,979
Net Fixed Assets	22,433	30,340	38,995	40,764	45,144
Gross Fixed Assets	18,434	26,707	39,757	44,257	51,757
Intangible Assets	3,857	3,727	3,727	3,727	3,727
Less: Depn. & Amort.	4,629	6,094	7,988	10,719	13,839
Capital WIP	4,769	6,001	3,500	3,500	3,500
Investments	0	0	0	0	0
Current Assets	6,579	7,861	9,568	14,202	18,628
Inventories	429	494	598	796	1,043
Sundry Debtors	2,527	2,944	3,035	3,653	4,372
Cash & Bank Balances	1,343	1,320	2,573	6,041	9,091
Loans & Advances	0	0	0	0	0
Other Current Assets	2,281	3,103	3,363	3,711	4,122
Current Liab. & Prov.	4,209	6,663	7,879	9,642	11,793
Current Liabilities	3,108	5,023	5,920	7,128	8,589
Provisions & Others	1,101	1,640	1,959	2,514	3,204
Net Current Assets	2,370	1,198	1,689	4,559	6,835
Total - Assets	24,802	31,538	40,684	45,324	51,979

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	15.8%	12.4%	11.5%	12.2%	13.3%
Asset Turnover (x)	1.0	0.8	0.7	0.8	0.9
Leverage Factor (x)	1.4	1.8	2.0	2.0	1.8
RoE	22.7%	17.8%	16.8%	19.4%	22.5%

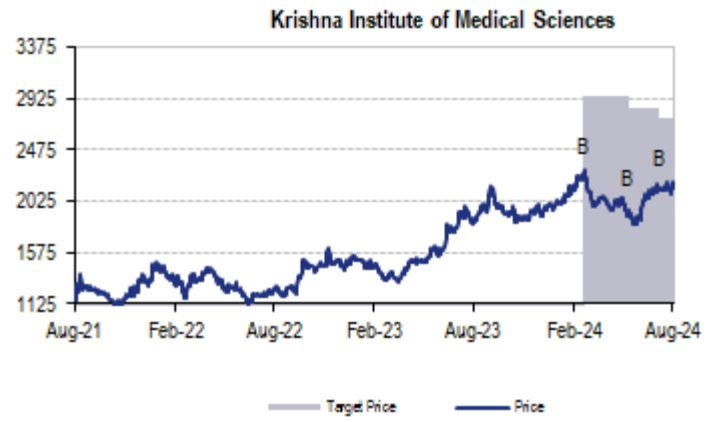
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	208.6	228.5	270.3	328.2	411.4
ROIC	19.4%	13.5%	12.1%	14.3%	18.2%
ROE	22.7%	17.8%	16.8%	19.4%	22.5%
Net Debt/Equity (x)	0.2	0.5	0.6	0.4	0.2
P/E (x)	50.5	56.5	52.5	37.8	26.4
P/B (x)	10.5	9.6	8.1	6.7	5.3
EV/EBITDA (x)	29.4	28.5	25.2	18.1	13.7
EV/Sales (x)	8.1	7.3	6.4	4.8	3.6
Debtor days	42	43	38	35	32
Inventory days	7	7	7	8	8
Creditor days	40	39	43	45	45

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
25-Feb-24	Buy	2,950	
18-May-24	Buy	2,840	-3.7
13-Jul-24	Buy	2,745	-3.3

Recommendation History



APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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