



## Krishna Institute of Medical Sciences Ltd

Issue Opens	Wednesday, June 16, 2021
Issue Closes	Friday, June 18, 2021
Price Band (in Rs)	815/825
Bid Lot	18 shares and multiples thereafter

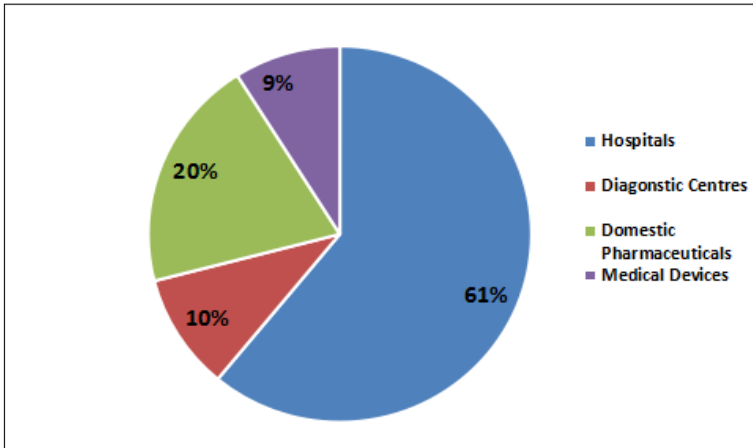
**IPO UPDATE**

**Krishna Institute of Medical Sciences Limited**

**Overview: Structure of Healthcare Industry**

According to Crisil estimates, the healthcare delivery market, consisting of hospitals and diagnostic centres, accounts for a major share of the healthcare pie (71%), followed by domestic pharmaceuticals (20%) and medical devices market (9%) as of FY20.

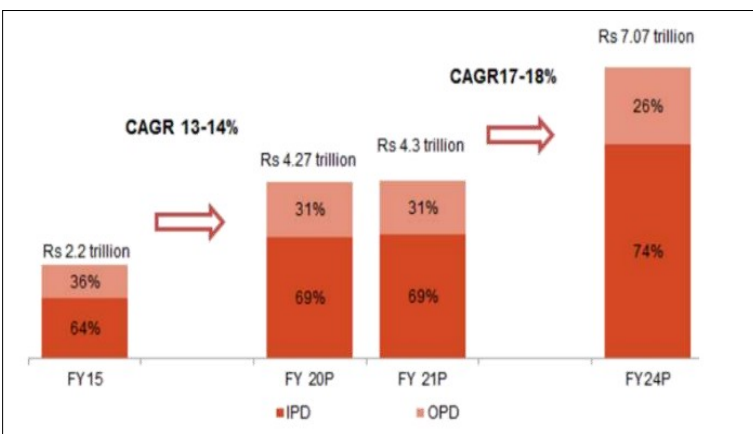
**Exhibit 01: Healthcare Delivery Market-FY20**



Source: Company RHP, Progressive Research

As per Crisil, the Indian healthcare delivery industry is anticipated to post a healthy 17-18% CAGR between FY21-24, driven by strong fundamentals, increasing affordability and Ayushman Bharat Yojana. The Indian healthcare delivery market came in at Rs4.3trn in value terms and 1.7bn treatments in volume terms (inclusive of both in-patient and out-patient) in FY21, 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.

**Exhibit 02: Overall Healthcare Delivery Market**



Source: Company RHP

In India, the healthcare services are provided by the government and private players, and these entities provide both In-patient department (IPD) and Out-patient Department (OPD) services. However, the provision of healthcare services in India is skewed towards the private players (both for IPD and OPD). This is mainly due to the lack of healthcare spending by the government and high burden on the existing state health infrastructure.

**SNAPSHOT**

Issue Opens	Wednesday, June 16, 2021	
Issue Closes	Friday, June 18, 2021	
Price Band (Rs)	815/825	
Bid Lot	18 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	2,000
	OFS	19,437
	Total	21,437
*Implied Market Cap (Rs Mn)	66,015	
P/E (based on FY21 Earnings)*	32.13	

\*Note: Implied Market Cap & P/E are calculated at upper price band of Rs825

**Issue Allocation**

Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
<b>Total</b>	<b>100</b>

Employee Reservation: Upto Rs200mn

**Object of the Offer**

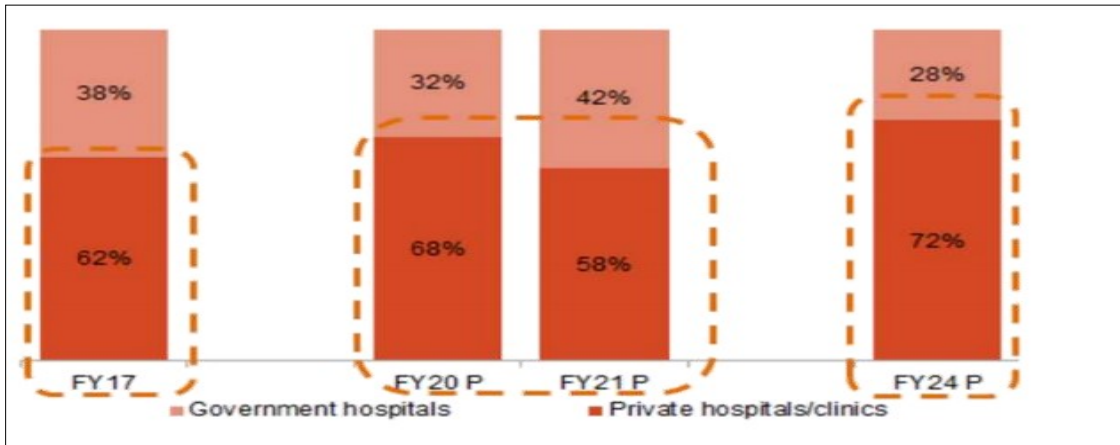
- Repayment and/or pre-payment, in full or part, of certain borrowings availed by company and its subsidiaries
- General corporate purposes

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**Industry (contd.):**

As of FY20, around 68% of the treatments in value terms were carried out by private hospitals/clinics in the country. The skew is more towards the private players owing to the expansion plans of private players being centered on it, further supported by coverage of hospitalisations under the PMJAY scheme. However, going forward, the share of private hospitals/clinics in treatments (in value terms) is expected to increase to nearly 72% by FY24.

**Exhibit 03: Share of treatments in value terms (government hospitals versus private hospitals/clinics)**



Source: Company RHP

**Covid-19 Impact on Healthcare Industry:**

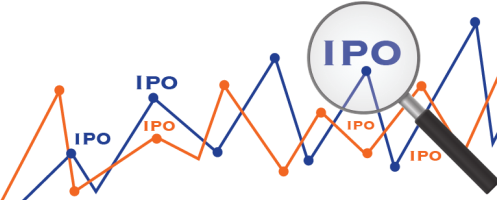
The healthcare delivery market saw reduced footfalls during the pandemic-induced lockdown. Surgeries were deferred, too. This impacted cash flow of players. However, the market is driven by strong fundamentals, conducive government policies, improving affordability and geographical diversification of hospital players. The pace of the sector’s growth in the medium term remains robust. As Covid has curved downwards, return to normalcy has begun in most parts of the country during the second half of the fiscal. Even as private hospitals find it difficult to set course to their erstwhile growth levels, hospitals focused on critical specialties are expected to be able to recoup their lost revenues faster, making them relatively lesser vulnerable to the pandemic at the end of the fiscal.

**Healthcare Industry Growth Drivers:**

- ⇒ Conducive government policies
- ⇒ Change in demographics and rising income levels
- ⇒ Increasing health awareness
- ⇒ Health insurance coverage
- ⇒ Medical tourism

**About the Company:**

Krishna Institute of Medical Sciences Ltd (KIMS) is one of the largest corporate healthcare groups in Andhra Pradesh (AP) and Telangana in terms of the number of patients treated and treatments offered, according to Crisil Report. KIMS provides multi-disciplinary integrated healthcare services, with a focus on primary secondary & tertiary care in Tier 2-3 cities and primary, secondary, tertiary and quaternary healthcare in Tier 1 cities. The company operates 9 multi-speciality hospitals under the KIMS Hospitals brand, with an aggregate bed capacity of 3,064, including over 2,500 operational beds as of 31st March, 2021, which is 2.2x more beds than the second-largest provider in AP and Telangana, according to Crisil Report. The company offers a comprehensive range of healthcare services across over 25 specialities and super specialities, including cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother & child care. It has grown from a single hospital to a chain of multi-speciality hospitals through organic growth and strategic acquisitions. Its first hospital in the network was established in Nellore (AP) in 2000 and has a capacity of approximately 200 beds. According to Crisil Report, the company’s flagship hospital at Secunderabad (Telangana) is one of the largest private hospitals in India at a single location (excluding medical colleges) with a capacity of 1,000 beds as of 31st March, 2021. It has significantly expanded its hospital network in recent years through acquisitions of hospitals in Ongole (AP) in FY17, Vizag (AP) and Anantapur (AP) in FY19 and Kurnool (AP) in FY20.



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**Exhibit 04: Synopsis of Capacities**

	As of and for the year ended March 31,			2019-2021 CAGR
	2021	2020	2019	
<b>Bed Capacity</b>	3,064	3,004	2,804	4.53%
<b>Bed occupancy rate<sup>(1)</sup> (%)</b>	78.60%	80.49%	71.83%	-
<b>Inpatient Volume</b>	116,592	140,676	111,382	2.31%
<b>Outpatient Volume</b>	830,211	1,137,560	900,043	(3.96)%
<b>Total Income (₹ in millions)</b>	13,401.02	11,287.28	9,238.69	20.44%
<b>Profit/(loss) before tax expense (₹ in millions)</b>	2,790.15	1,405.26	(153.81)	-
<b>Adjusted Profit Before Tax Expense (₹ in millions)<sup>(2)</sup></b>	2,790.15	1,405.26	837.47	82.53%
<b>Profit/(loss) for the year (₹ in millions)</b>	2,054.79	1,150.72	(488.07)	-
<b>Adjusted EBITDA (₹ in millions)<sup>(2)</sup></b>	3,810.48	2,510.79	1,739.51	48.00%
<b>Adjusted EBITDA Margin<sup>(2)</sup></b>	28.43%	22.24%	18.83%	-

Source: Company RHP

**Competitive Strengths:**

**(i) 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 offered. The company has over 20 years of expertise in AP and Telangana since opening of its first hospital in Nellore (AP) in 2000. They strategically focus on the Southern India healthcare market where it has 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.

**(ii) Diverse Talent Pool:** The company maintains the standard of high quality healthcare by consistently employing a diverse pool of talented doctors, nurses and paramedical professionals. Its multi-disciplinary approach, combined with the affordable cost for treatment, a high-volume tertiary care model, and focus on teaching and research, has helped them attract and retain high quality doctors and other healthcare professionals.

**(iii) Strong operational track record:** KIMS has grown from a single to 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 as on date. The company has consistent strong patient volumes, cost efficiency and diversified revenue streams across medical specialties. Its Tier-1 markets provide higher margin services such as organ transplants, oncology and neuro-critical care, resulting in higher Average Revenue Per Operating Bed (ARPOB) and EBITDA.

**Exhibit 05: Synopsis of Tier Markets**

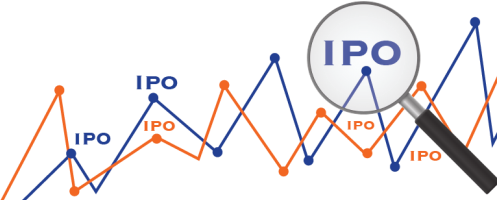
	ARPOB (₹. per day)		EBITDA <sup>(2)</sup> (₹ in millions)	
	hospitals in Tier 1 markets <sup>(1)</sup>	hospitals in Tier 2-3 markets	hospitals in Tier 1 markets	hospitals in Tier 2-3 markets
Fiscal Year 2021	39,571	11,187	2,852.41	994.30

Source: Company RHP

**Strategies:**

**(i) Strengthen the existing hospitals and specialties:** The company intends to strengthen its existing hospitals base by further balancing the specialty mix and deepening the expertise in select specialties. KIMS has identified cardiac sciences, neurosciences, gastric sciences, orthopaedics, renal sciences, interventional pulmonology, palliative care, immunology and palliative care as specialties under its radar to strengthen and grow it further.

**(ii) Implementation of initiatives to improve existing operational efficiencies:** The company aims to improve its occupancy rates and the utilization of key equipment and operating theatres by expanding delivery of tertiary care services, growing the preventive healthcare and health screening programs and increasing community outreach programs. It further monitors the costs of pharmacy and consumables, human resources costs and other administrative costs very closely. KIMS has a dedicated business intelligence team that works closely with key departments to monitor and optimize its operational costs.



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**Strategies (contd.):**

**(iii) Invest in digital health care and technology:** The company lays its focus 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. The company is of the belief that incorporating new technologies into its operations and expanding the digital capabilities will improve patient care, expand the scope of treatments that they offer and lead to greater affordability, efficiency and cost savings.

**Financials:**

The company's revenue is diversified across specialties and doctors. In FY21, the total income mix was 17.82% from cardiac sciences, 12.55% from neuro sciences, 9.30% from renal sciences, 4.64% from orthopaedics, 5.25% from gastric sciences, 5.71% from oncology, 6.11% from mother & child care, 1.86% from organ transplant, 35.28% from other specialties and 1.48% from other income. In the same year, top 10 doctors contributed 21.80% of the total income and the top 25 doctors contributed 36.10% of total income. The revenues came in at Rs13,299mn in FY21 as against Rs11,226mn in FY20. The margins on the other hand stood at 27.9% in FY21 as against 21.8% in FY20.

In FY20, KIMs capital expenditure per bed was Rs6.35mn for hospitals in Tier 1 cities and Rs2.21mn for hospitals in Tier 2-3 cities, compared to the industry average of Rs5-8mn in Tier 1 cities and Rs1-5mn in Tier 2-3 cities, according to the Crisil Report. In FY21, the capital expenditure per bed stood as Rs6.91mn for hospitals in Tier 1 cities and Rs2.21mn for hospitals in Tier 2-3 cities. The company's ability to keep the capex / bed at these levels has been important for its model of providing quality and affordable healthcare services.

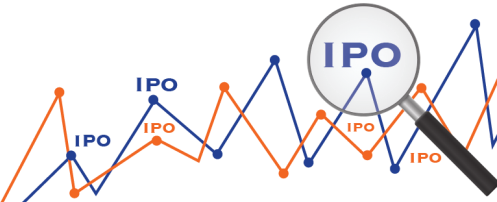
**Exhibit 6: Financials Snapshot**

Revenues (Rs mn)	FY19	FY20	FY21
Sales	9,180	11,226	13,299
EBITDA	810	2,450	3,709
EBITDA Margin %	8.8	21.8	27.9
Net Profit After Tax	(488)	1,151	2,055
Net Profit Margin %	(5.3)	10.3	15.5
Earning Per Share	(6.9)	16.0	26.9
RoNW (%)	(8.8)	19.9	23.3

Source: Company RHP, Progressive Research

**Risks & Concerns:**

- The company is highly dependent on the healthcare professionals, including doctors that they engage on a consultancy basis; business and financial results could be impacted if the company is not able to attract and retain such healthcare professionals.
- Covid-19 impact and deterioration in general economic conditions impacted the regular business and operations in the past; the future implications if any are difficult to predict.
- The revenues are highly dependent on the hospitals in Hyderabad (Telangana). KIMs is also significantly dependent on certain specialties for a majority of its revenues. Any impact on the revenues from these hospitals or earnings from top specialties could materially affect the business, financial condition.
- Certain lands on which the hospital buildings and ancillary facilities are operating are not owned by the company and not leased on a perpetual basis. Any adverse impact on the title or ownership rights of the owner or breach of the terms or non-renewal of the license agreement may lead to disruptions and affect the business operations.
- The company faces intense competition from other healthcare service providers. If unable to compete effectively, the business, results of operations and cash flows may be materially and adversely affected.



## IPO UPDATE

### Krishna Institute of Medical Sciences Limited

#### Outlook and Recommendations:

The company is one of the largest corporate healthcare groups in the southern region (AP and Telangana). It provides multi-disciplinary integrated healthcare services, with a focus on primary secondary & tertiary care in Tier 2-3 cities and primary, secondary, tertiary and quaternary healthcare in Tier 1 cities. With regard to the IPO, it is yet another where the OFS portion is a little over 90%. If we attribute FY21 earnings on post-issue fully diluted equity, then the asking price is at a P/E of around 32.13. The issue is fully priced in terms of P/E in comparison with listed peers that are trading at a negative P/E. The company plans to expand markets adjacent to its existing core markets, including Chennai and Bengaluru. Apart from Tamil Nadu and Karnataka, it is also exploring its prospects of entering into some parts of central India as well as in Bhubaneswar (Odisha). However, a high concentration of revenue could hamper the company's prospects if it cannot expand and diversify in a meaningful manner. The company is taking initiatives to improve the existing operational efficiencies. Major positives, which drive the growth of the company comprise of the track record of strong operational and financial performance, disciplined approach to acquisitions resulting in successful inorganic growth coupled with ability to attract, train & retain high-quality doctors, consultants, and medical support staff. The IPO can be seen from a long term investment perspective but purely as per the investors risk appetite. **We do not have any rating on the IPO and maintain the document for information purpose only.**





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