

### Capacity expansion to drive growth

- Krishna Institute of Medical Sciences (KIMS) delivered a strong Q2FY25 performance, surpassing our estimates on all fronts. It saw a 19% YoY growth in revenues driven by a 9%/12% YoY growth in IP/OP volumes, a 23% YoY growth in ARPOB, and a 10% YoY growth in ARPP in Q2FY25. However, occupancy saw a dip to 49.7% (but flattish QoQ) due to operationalisation of 625 new beds.
- KIMS has operationalised its Nashik unit (325-bed) and its recent acquisition, Queen's NRI at Vizag (300-bed) during the quarter taking its total bed capacity to 4,610 beds.
- EBITDA margin saw an expansion of 89bp YoY to 28.1% in Q2FY25 despite adding new units. The management expects to sustain EBITDA margins at 27-28% for FY25.
- The company also entered in Operations and Management (O&M) agreements with two hospitals; i) Kannur (200-beds) and ii) Guntur (200-beds) which are expected to start operations in Q3FY25. Including hospitals brought under O&M (400-beds), the total bed capacity of KIMS will reach ~5,000 beds in FY25 as compared to 3,975 in FY24.
- We raise our EBITDA estimates by 4%/8% for FY25/FY26 to factor in better EBITDA margins in mature hospitals and addition of beds under O&M. We also introduce estimates for FY27 and rollover the valuation to average EBITDA for FY26E/FY27E to deduce a price target of INR630, based on 22x EV/EBITDA (earlier INR512, based on 22x FY26 EV/EBITDA)

#### Strong growth seen in financial parameters:

KIMS' revenue grew 19% YoY and 13% QoQ to INR777cr on the back of a strong growth seen across all operating parameters. EBITDA was seen at INR218cr, up 23% YoY and 22% QoQ with an EBITDA margin expansion of 89bp YoY and 200bp QoQ to 28.1% on the back of better operating leverage. PAT grew 19% YoY and 27% QoQ to INR121cr. KIMS is on track to achieve our FY25 estimates with a revenue/EBITDA/PAT contribution of 49%/49%/51% during H1FY25. We have built in a revenue/EBITDA/PAT CAGR of 27%/27%/32% over FY24-27.

#### Healthy improvement across operating parameters:

The operating parameters witnessed a healthy improvement across all parameters. In-patient (IP) volumes grew 9.1% YoY to 55,741 patients, out-patient (OP) volumes grew 12.2% YoY to 4,73,989 patients, ARPOB grew 22.9% YoY to INR38,263, ARPP grew 9.7% YoY to INR1,40,316 and ALOS fell 11% YoY to 3.67 days. On a QoQ basis, the IP volumes/OP volumes/ARPP grew 12.2%/12.5%/0.7% respectively while ARPOB fell marginally by 0.5%. ALOS was up 1% QoQ. The occupancy rate saw dip during the quarter to 49.7%, vs. 49.8% in Q1FY25 and 57.4% in Q2FY24 due to commencing operations at the new units.

#### Margin likely to sustain:

KIMS saw a 89bp YoY and 200bp QoQ EBITDA margin expansion to 28.1% despite commencing operations at its new units. The margins are expected to sustain for the second half of FY25 and ramping up of the newly commenced units would help in margin expansion going forward.

#### Capacity expansions to drive growth:

KIMS has multiple capex plans in progress, to add ~1,800 beds in two years through various greenfield and brownfield plans. With some commencing operating later in FY25. Revenue for KIMS is likely to be boosted on the back of these expansions. The brownfield expansions include: i) Kondapur (~ 500 beds in a phased manner up to Q1FY27), ii) Anantapur (250 beds by Q4FY26), iii) Srikakulam (120 beds by Q4FY25) and iv) Ongole (50 beds by Q4FY25). Its greenfield plans include: i) Bangalore – Project 1 (415 beds by Q4FY25), ii) Bangalore – Project 2 (250 bed by Q4FY25) and iii) Thane (300 beds by Q4FY25). The company has also entered into O&M agreements for two hospitals, one in Kannur (200-beds) and one in Guntur (200-beds), which are likely to commence in Q3FY25. The capex requirements would be managed via internal accruals with minimal dependence of debt.

#### Valuation and View:

KIMS Hospitals has multiple expansion plans in place, few of them (Thane, Bangalore, Srikakulam and Ongole units) would be commencing operations in H2FY25. A 22% YoY growth in ARPOB in H1FY25 gives confidence of better-than-expected ARPOB for FY25. KIMS would be adding ~1,025 beds (including 400 beds under O&M) during FY25 and ~1,135 beds in FY26, which implies 26%/23% expansion in total bed capacity during FY25/FY26. We expect a revenue/EBITDA/PAT CAGR of 27%/27%/32% during FY24-27E. We retain our 'BUY' rating on the stock with TP of INR630.

#### Key financials

Particulars	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	FY25E	FY26E	FY27E
Revenue (INRcr)	777	652	19	688	13	3,011	4,203	5,137
EBITDA	218	177	23	179	22	804	1,079	1,317
EBITDA margin (%)	28	27	89bp	26	200bp	27	26	26
Net Profit	121	101	19	95	27	394	574	719
Diluted EPS	3	3	19	2	27	10	14	18
Diluted P/E (x)						57	39	31
EV/EBITDA (x)						29	22	18
ROCE(%)						18	22	23

CMP: INR563

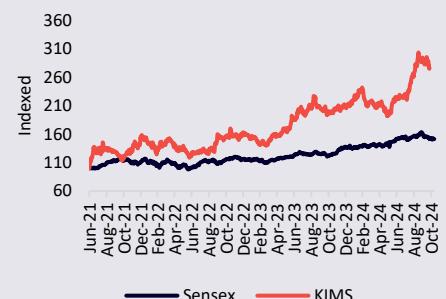
Rating: BUY

Target price: INR630

Upside: 11%

Date: November 12, 2024

Bloomberg:	KIMS:IN
52-week range (INR):	350 / 604
M-cap (INR cr):	22,687
Promoter holding (%)	38.82



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Capacity expansion to drive growth

### Q2FY25 result highlights

Particulars (INR cr)	Q2FY25	Q2FY24	YoY%	Q1FY25	QoQ%	H1FY25	H1FY24	% YoY	FY25E	FY26E	FY27E
Net Revenues	777	652	19.1	688	13	1,466	1,258	16.5	3,011	4,203	5,137
Cost of goods sold	156	140	11	143	9	298	270	10	632	883	1,079
Gross Profit	622	512	21	546	14	1,168	988	18	2,379	3,320	4,058
Operating expenses	404	335	21	366	10	770	654	18	1,574	2,241	2,742
EBITDA	218	177	23	179	22	398	334	19	804	1,079	1,317
<i>EBITDA margin</i>	<i>28</i>	<i>27</i>	<i>89bp</i>	<i>26</i>	<i>200bp</i>	<i>27</i>	<i>27</i>	<i>56bp</i>	<i>27</i>	<i>26</i>	<i>26</i>
Depreciation and amortization	41	33	26	39	5	80	65	23	180	210	257
EBIT	177	145	22	140	26	318	269	18	625	868	1,060
Interest expenses	20	9	123	18	11	38	18	107	77	79	75
Other income	5	3	73	5	9	10	6	60	20	22	24
PBT	162	139	17	127	28	289	257	12	568	811	1,009
Provision for tax	42	37	11	32	30	73	69	6	148	211	262
Core profit	121	101	19	95	27	216	188	15	420	601	747
Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-
Profit after tax	121	101	19	95	27	216	188	15	420	601	747
Adjusted PAT	121	101	19	95	27	216	188	15	394	574	719
EPS (INR)	3	3	19	2	27	5	5	15	10	14	18
<b>As % of net revenues</b>											
COGS	20	22	-151bp	21	-71bp	20	21	-115bp	21	21	21
Operating expenses	52	51	62bp	53	-129bp	53	52	59bp	52	53	53
EBITDA	28	27	89bp	26	200bp	27	27	56bp	27	26	26
Reported net profit	16	16	0bp	14	170bp	15	15	-21bp	14	14	15
Tax rate (%)	26	27	-133bp	25	49bp	25	27	-155bp	26	26	26

### Operational Matrix

Particulars	Q2FY25	Q2FY24	% YoY	Q1FY25	QoQ%	H1FY25	H1FY24	% YoY	FY25E	FY26E	FY27E
Occupied Beds	2,292	2,283	0.4	1,979	16	2,188	2,194	-0.3	2,440	2,869	3,412
Occupancy Rate %	49.7	57.4	-770bp	49.8	-10bp	47.5	55.2	-770bp	59.5	61.7	62.6
ARPOB (INR)	38,263	31,140	23	38,458	-1	38,400	31,400	22.3	33,520	39,613	40,640
ARPP (INR)	1,40,316	1,27,959	10	1,39,398	1	1,39,884	1,29,575	8.0	1,28,570	1,52,633	1,56,886
IP volume	55,741	51,115	9	49,674	12	1,05,000	97,000	9.1	2,34,188	2,75,342	3,27,443
OP volume	4,73,989	4,22,499	12	4,21,367	12	8,95,000	8,05,000	12.2	19,96,177	23,46,962	27,91,058
ALOS (days)	3.7	4.1	-11	3.6	1.4	3.7	4.1	-10.7	3.8	3.5	3.5

Revised Estimates	FY25E			FY26E			FY27E		
	Previous	Revised	% changes	Previous	Revised	% changes	New		
Sales	2,971	3,011	1	4,001	4,203	5	5,137		
EBITDA	771	804	4	995	1,079	8	1,317		
EBITDA margin (%)	26	27	77bp	25	26	80bp	26		
Adjusted PAT	353	394	12	476	574	21	719		
Basic EPS	44	10	-78	59	14	-76	18		

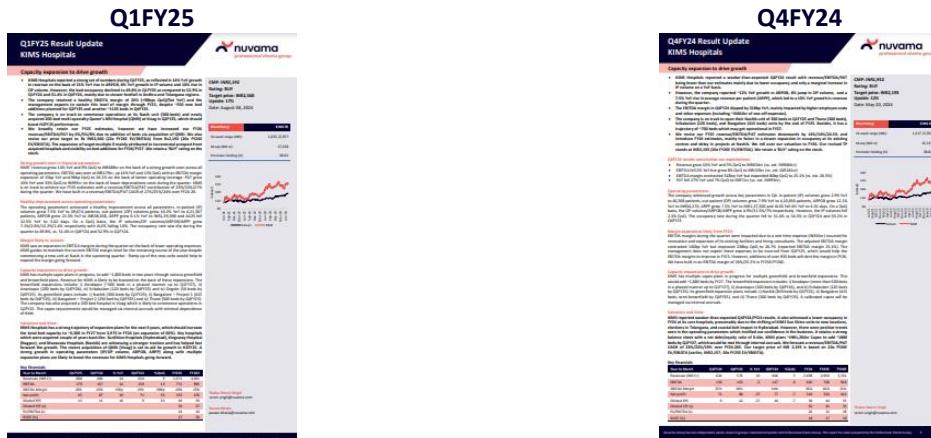
\*The EPS reflects a split of equity shares from a FV of ₹10 to FV of ₹2 per share.

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### Previous outlook

**Q1FY25:** KIMS Hospitals has a strong trajectory of expansion plans for the next 3 years, which should increase the total bed capacity to ~6,300 in FY27 from 3,975 in FY24 (an expansion of 60%). Key hospitals which were acquired couple of years back like- SunShine Hospitals (Hyderabad), Kingsway Hospital (Nagpur), and Manavata Hospitals (Nashik) are witnessing a stronger traction and has helped fast forward the growth. The recent acquisition of QNRI (Vizag) is set to aid the growth in H2FY25. A strong growth in operating parameters (IP/OP volume, ARPOB, ARPP) along with multiple expansion plans are likely to boost the revenues for KIMS Hospitals going forward.

**Q4FY24:** KIMS reported weaker-than-expected Q4FY24/FY24 results. It also witnessed a lower occupancy in FY24 at its core hospitals, presumably due to the shifting of KIMS Sun Shine units to new locations, elections in Telangana, and coastal belt impact in Hyderabad. However, there were positive trends seen in the operating parameters which instilled our confidence in the business. It retains a strong balance sheet with a net debt/equity ratio of 0.44x. KIMS plans ~INR1,200cr Capex to add ~1880 beds by Q1FY27, which would be met through internal accruals. We forecast a revenue/EBITDA/PAT CAGR of 23%/22%/19% over FY24-26E. Our target price of INR 2,193 is based on 20x FY26E EV/EBIDTA (earlier, INR2,157; 20x FY25E EV/EBIDTA).



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### Financials

Income statement (Consolidated)							(INR cr)
Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E	
Income from operations	1,651	2,198	2,498	3,011	4,203	5,137	
Direct costs	355	481	530	632	883	1,079	
Employee costs	262	346	422	482	672	822	
Other expenses	780	1,113	1,327	1,574	2,241	2,742	
Total operating expenses	1,135	1,594	1,858	2,207	3,124	3,821	
EBITDA	516	604	640	804	1,079	1,317	
Depreciation and amortisation	73	129	147	180	210	257	
EBIT	443	475	494	625	868	1,060	
Interest expenses	16	31	47	77	79	75	
Other income	20	26	13	20	22	24	
Profit before tax	447	470	460	568	811	1,009	
Provision for tax	113	119	124	148	211	262	
Core profit	334	351	336	420	601	747	
Extraordinary items	-	15	-	-	-	-	
Profit after tax	334	366	336	420	601	747	
Minority Interest	-11	-29	-26	-26	-27	-27	
Share from associates	10	-	-0	-	-	-	
Adjusted net profit	333	336	310	394	574	719	
Equity shares outstanding (cr)	8	8	8	40	40	40	
EPS (INR) basic	42	42	39	10	14	18	
Diluted shares (Cr)	40	40	40	40	40	40	
EPS (INR) fully diluted	8	8	8	10	14	18	

#### Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating expenses	68.8	72.5	74.4	73.3	74.3	74.4
Depreciation	4.4	5.9	5.9	6.0	5.0	5.0
Interest expenditure	1.0	1.4	1.9	2.5	1.9	1.5
EBITDA margins	31.2	27.5	25.6	26.7	25.7	25.6
Net profit margins	20.2	15.3	12.4	13.1	13.6	14.0

#### Growth metrics (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	24.1	33.1	13.7	20.5	39.6	22.2
EBITDA	39.1	17.1	6.0	25.6	34.1	22.0
PBT	60.3	5.1	-2.2	23.5	42.8	24.3
Net profit	65.3	1.1	-7.8	27.1	45.6	25.4
EPS	65.3	1.1	-7.8	27.1	45.6	25.4

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Balance sheet						
as on 31st March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity share capital	80	80	80	80	80	80
Preference Share Capital	-	-	-	-	-	-
Reserves & surplus	1,307	1,590	1,748	2,142	2,716	3,435
Shareholders' funds	1,387	1,670	1,828	2,222	2,796	3,515
Secured loans	161	533	1,046	1,222	1,329	1,179
Unsecured loans (including lease)	96	145	309	207	107	107
Borrowings (including lease)	257	678	1,355	1,429	1,436	1,286
Minority interest	23	27	26	26	26	26
<b>Sources of funds</b>	<b>1,667</b>	<b>2,375</b>	<b>3,210</b>	<b>3,678</b>	<b>4,258</b>	<b>4,828</b>
Gross block	1,329	2,220	3,034	3,384	4,269	5,069
Depreciation	324	453	600	780	990	1,247
Net block	1,005	1,766	2,434	2,604	3,279	3,822
Capital work in progress	21	477	600	600	600	600
Total fixed assets	1,026	2,243	3,034	3,204	3,879	4,422
Unrealised profit	-	-	-	-	-	-
Investments	332	-	74	74	74	74
Inventories	36	43	49	60	83	102
Sundry debtors	129	253	294	330	461	563
Cash and equivalents	190	134	132	236	82	61
Loans and advances	38	48	72	72	72	72
Other current assets	-	-	-	-	-	-
<b>Total current assets</b>	<b>393</b>	<b>478</b>	<b>547</b>	<b>697</b>	<b>697</b>	<b>797</b>
Sundry creditors and others	174	174	197	238	332	405
Provisions	11	38	46	46	46	46
Total CL & provisions	185	212	243	284	378	451
<b>Net current assets</b>	<b>208</b>	<b>266</b>	<b>304</b>	<b>414</b>	<b>320</b>	<b>346</b>
Net Deferred tax	-35	-9	-14	-14	-14	-14
Misc expenditure	135	-125	-188	-	-	-
<b>Uses of funds</b>	<b>1,667</b>	<b>2,375</b>	<b>3,210</b>	<b>3,678</b>	<b>4,258</b>	<b>4,828</b>
<b>Book value per share (INR)</b>	<b>173</b>	<b>209</b>	<b>228</b>	<b>56</b>	<b>70</b>	<b>88</b>

Cash flow statement						
Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net profit	344	336	336	420	601	747
Add: Depreciation	73	129	147	180	210	257
Add: Misc expenses written off	-132	294	63	-188	0	0
Add: Deferred tax	39	-26	5	0	0	0
Less: Minority Interest	11	29	26	26	27	27
<b>Gross cash flow</b>	<b>313</b>	<b>704</b>	<b>525</b>	<b>386</b>	<b>784</b>	<b>976</b>
Less: Changes in W. C.	124	113	41	5	60	47
<b>Operating cash flow</b>	<b>189</b>	<b>591</b>	<b>484</b>	<b>381</b>	<b>724</b>	<b>929</b>
Less: Capex	158	1347	937	350	885	800
<b>Free cash flow</b>	<b>31</b>	<b>-755</b>	<b>-453</b>	<b>31</b>	<b>-161</b>	<b>129</b>

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**Ratios**

<b>Year to March</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
ROAE (%)	30	21	18	19	23	23
ROACE (%)	32	23	18	18	22	23
Debtors (days)	28	42	43	40	40	40
Current ratio	2.1	2.3	2.3	2.5	1.8	1.8
Debt/Equity	0.2	0.4	0.7	0.6	0.5	0.4
Inventory (days)	8	7	7	7	7	7
Payable (days)	39	29	29	29	29	29
Cash conversion cycle (days)	-2	20	21	18	18	18
Debt/EBITDA	0.5	1.1	2.1	1.8	1.3	1.0
Adjusted debt/Equity	0.0	0.3	0.7	0.5	0.5	0.3

**Valuation parameters**

<b>Year to March</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Diluted EPS (INR)	8	8	8	10	14	18
Y-o-Y growth (%)	65	1	-8	27	46	25
CEPS (INR)	51	56	57	14	20	24
Diluted P/E (x)	67	67	72	57	39	31
Price/BV(x)	3	3	2	10	8	6
EV/Sales (x)	3	2	2	8	6	5
EV/EBITDA (x)	9	8	9	29	22	18
Diluted shares O/S	8	8	8	40	40	40
Basic EPS	42	42	39	10	14	18
Basic PE (x)	13	13	14	57	39	31

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