

Lower Occupancies; Higher ARPOB

Est. Vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q2FY25

FY25E/FY26E: Revenue: 1.0%/2.8%; **EBITDA Abs:** 3.6%/3.9%; **PAT:** 5.6%/5.5%

Recommendation Rationale

- **Consolidated occupancies** exhibited a decline of 770 bps/10 bps YoY/QoQ, reaching 49.7%.
- **ARPOB increased by 22.9% YoY** but reported a sequential decline of 0.5% to Rs 38,263 during Q2FY25, driven by a reduction in ALOs to 3.67, a change in case mix, revised prices, and TPA negotiations.
- **EBITDA margins** stood at 28.1%, up 88 bps/200 bps YoY/QoQ, supported by lower employee expenses. The reported PAT was Rs 121 Cr, increasing by 19.4% YoY due to improved operating profitability.
- **Telangana and Andhra Cluster** have shown a declining trend in occupancies but there is impressive growth in ARPOB of 22.4% and 29.4% in the respective regions, which are two major hospitals and comprise the majority of beds in the Group. Matured assets in Telangana and Andhra Pradesh reported an increase in ARPOB to Rs 61,561 and Rs 20,028, led by a change in case mix and lower ALOs.

Sector Outlook: Positive

Company Outlook & Guidance: The hospital industry is showing strong growth in ARPOB, which is expected to grow by 6% annually. However, occupancy levels remain flat due to an oversupply of hospital beds in recent years, which has increased operational capacity. Speciality areas such as cardiology and oncology are experiencing significant growth, with rates of 12% and 17%, respectively. To capitalize on this trend, KIMS plans to add 2,000 new beds. We believe that with a 100bps increase in occupancy, KIMS can maintain its profitability despite current industry challenges. Expanding services in speciality therapies and improving operational efficiency will be crucial for maximizing growth potential while addressing the flat occupancy situation.

Current Valuation: EV/EBITDA 21x for Sep FY27E EBITDA (Earlier Valuation:EV/EBITDA 18x FY26E)

Current TP: Rs 615/share (Earlier TP: Rs 500/share)

Recommendation: BUY

Financial Performance

KIMS reported a strong set of results for Q2FY25, primarily driven by higher ARPOB growth YoY despite flat occupancy levels. Consolidated occupancies fell by 770 bps/10 bps YoY/QoQ, reaching 49.7%. Additionally, there was a 22.9% YoY rise in ARPOB, although there was a sequential decline of 0.5% to Rs 38,263 during Q2FY25. This improvement was supported by a reduction in ALOs to 3.67, changes in the case mix, and revised pricing and TPA negotiations.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	777	12.9%	19.1%	737	5.5%
EBITDA	218	21.6%	23.0%	192	13.6%
EBITDA Margin	28.1%	200	88	26.1%	-
Net Profit	121	26.9%	19.4%	102	18.3%
EPS (Rs)	3.0	26.9%	19.4%	2.6	18.3%

Source: Company, Axis Securities Research

(CMP as of 11th November 2024)

CMP (Rs)	558
Upside /Downside (%)	10%
High/Low (Rs)	603/350
Market cap (Cr)	23,000
Avg. daily vol. (6m) Shrs.	45,000
No. of shares (Cr)	40.0

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	38.8	38.8	38.8
FIIs	16.7	17.8	15.9
MFs / UTI	26.3	25.3	25.8
Banks	18.1	0.0	0.0
Others	18.1	18.0	19.6

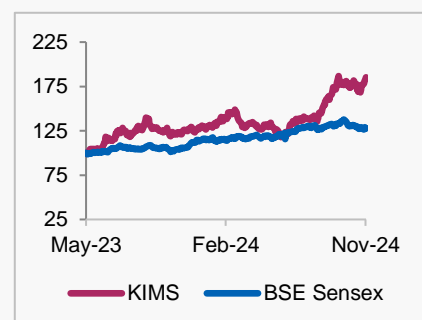
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,498	2,974	3,856
EBITDA	640	800	1,038
Net Profit	336	397	563
EPS (Rs)	8	10	14
PER (x)	68.4	57.9	40.8
P/BV (x)	38.0	30.4	23.0
EV/EBITDA (x)	11.0	9.2	7.5
ROE (%)	16.1	15.9	18.4

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	1.0%	2.8%
EBITDA	3.6%	3.9%
PAT	5.6%	5.5%

Relative Performance



Source: Ace Equity

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Financial Performance (Cont'd)

The company's topline grew by 19.1% YoY, while realizations grew by 22.9%. Occupancies declined by 770 bps on a YoY basis (as Vizag's Queen Hospital, with 300 beds, is now part of the group). On a like-to-like basis, occupancy levels are approximately 53%. KIMS reported EBITDA margins of 28.1%, up 88 bps/200 bps YoY/QoQ, aided by lower employee expenses. Reported PAT stood at Rs 121 Cr, up 19.4% YoY due to increased operating profitability.

The Telangana and Andhra clusters have shown a declining trend in occupancies, but there has been impressive growth in ARPOB, with increases of 22.4% and 29.4% in the respective regions. These two major hospitals account for the majority of beds in the group. Matured assets in Telangana and Andhra Pradesh reported ARPOB increases to Rs 61,561 and Rs 20,028, driven by a change in case mix and lower ALOs. Other listed players in the region, such as Apollo and Aster DM, have shown moderate ARPOB growth and slight improvements in occupancies.

Furthermore, Sunshine and Nagpur have shown increasing occupancies along with growing ARPOB on a YoY basis. Sunshine, the listed subsidiary, has operating margins of 31%. However, the management is cautious in the long term, as these margins may normalize to the industry level. Additionally, Nashik Hospitals began operations in Q2FY25, and operations in Thane and Bangalore are expected to commence by the end of FY25 as planned. Management has indicated plans to foray into the Kerala region, with a target of 2,000 beds in the next 6-8 years, given the immense opportunity to develop a listed chain hospital network in the state.

Notably, revenue in significant therapeutic areas such as cardiac, ortho, and gastric surged by 6%, 20%, and 34% YoY, respectively. In comparison, neurotherapies also registered a 34% growth QoQ. However, a bit of concern for KIMS is its higher-than-industry operating margins of approximately 25%, which may be difficult to sustain, as its ARPOB is lower than the industry average of Rs 54,000.

Outlook

The hospital industry is showing strong growth in Average Revenue Per Occupied Bed (ARPOB), expected to increase by 6% annually. However, occupancy levels remain flat due to an oversupply of hospital beds in recent years, leading to higher operational capacity. Speciality areas such as cardiology and oncology are seeing significant growth, with rates of 12% and 17%, respectively. We believe that with a 100 basis points increase in occupancy, KIMS can maintain its profitability despite the current industry challenges. Focusing on expanding services in speciality therapies and improving operational efficiency will be crucial to fully capitalize on this growth potential while addressing the flat occupancy situation.

In the Telangana and Andhra clusters, margins stand at 31% and 25%, respectively, and we believe KIMS can sustain these margins moving forward. KIMS has pursued organic growth through the acquisition of assets in neighbouring areas, although the stabilization of EBITDA margins for these newly acquired assets is expected to take some time in the upcoming quarters. However, the company maintains a robust standalone Return on Capital Employed (RoCE) of approximately 30% and demonstrates strong operating cash flow generation. As a result, KIMS remains an attractive choice for long-term investment despite the potential challenges ahead.

Valuation & Recommendation

In light of increasing ARPOB and the incremental supply of beds, which is expected to lead to stronger cash flow, **we maintain a BUY rating with a target price of Rs 615/share with a valuation of 21x EV/EBITDA for Sep 27E. The TP implies an upside potential of 10% from the CMP.**

Key Risks to Our Estimates and TP

- The overall revenue growth of the company could be affected by the economic slowdown.
- The company's revenue growth might be hindered by a high attrition rate of doctors.
- Unplanned Capex has the potential to weaken the company's balance sheet.

Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,974	3,856	2,945	3,751	1.0%	2.8%
EBITDA	800	1,038	772	999	3.6%	3.9%
PAT	397	563	376	534	5.6%	5.5%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ(%)
Net Sales	652	606	634	688	777	19.1%	12.9%
Growth (YoY%)	15.7%	7.8%	10.0%	13.6%	19.1%		
Total Expenditure	475	459	475	509	559	17.7%	9.9%
Raw Material Consumed	143	124	135	145	157		
Purchase of stock in trade	-2	1	-1	-2	-1		
Stock Adjustment	0	0	0	0	0		
Gross Profits	512	480	499	546	622		
% of sales	21.5%	20.7%	21.2%	20.7%	20.0%		
Gross margins (%)	78.5%	79.3%	78.8%	79.3%	80.0%	152	71
Employee Expenses	106	104	109	119	119	12.9%	0.5%
% of sales	16.2%	17.2%	17.1%	17.2%	15.3%		
Other Expenses	229	229	232	248	285	24.2%	14.8%
% of sales	35.1%	37.8%	36.6%	36.0%	36.6%		
EBITDA	177	147	159	179	218	23.0%	21.6%
EBITDAM (%)	27.2%	24.3%	25.1%	26.1%	28.1%	88	200
Interest	9	12	16	18	20		
Depreciation	33	35	46	39	41		
Other Income	3	3	4	5	5		
PBT	138	102	100	127	162	17.2%	27.7%
Tax	37	26	29	32	42		
Tax (%)	27.0%	25.2%	28.5%	25.1%	25.6%		
Reported PAT	101	77	72	95	121	19.4%	26.9%

Source: Company, Axis Securities Research

Revenue Breakup

Particulars (Rs crore)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ(%)
IP Volumes (Nos)	51,115	47,479	46,368	49,674	55,741	9.1%	12.2%
ALOS (Days)	4.1	4.2	4.0	3.6	3.7		
ARPOB (Rs)	31,140	30,741	34,270	38,458	38,263	22.9%	-0.5%
Occupancy %	57.4%	54.3%	51.4%	49.8%	49.7%	-770	-10

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net sales	2,498	2,974	3,856	4,370
Other operating income	0	0	0	0
Net Revenue	2,498	2,974	3,856	4,370
Cost of goods sold	530	642	840	947
Contribution (%)	21.23%	21.60%	21.78%	21.67%
Other operating costs	1,327	1,531	1,978	2,233
EBITDA	640	800	1,038	1,190
Other income	13	14	16	16
PBIDT	653	814	1,054	1,206
Depreciation	147	211	237	244
Interest & Fin Chg.	47	70	61	52
E/o income / (Expense)	0	0	0	0
Pre-tax profit	460	533	756	910
Tax provision	124	136	193	232
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	336	397	563	678
Other Comprehensive Income	0	0	0	0
Reported PAT	336	397	563	678

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
Share Capital	80	80	80	80
Reserves & Surplus	2,013	2,410	2,973	3,652
Net Worth	2,093	2,490	3,053	3,732
Total Loan funds	1,355	1,555	1,355	1,155
Deferred Tax Liability	46	46	46	46
Long Term Provisions	27	27	27	27
Other Long Term Liability	6	6	6	6
Capital Employed	3,852	4,497	4,942	5,474
Gross Block	2,247	3,247	3,647	3,747
Less: Depreciation	517	728	965	1,209
Net Block	1,730	2,519	2,682	2,538
Investments	83	83	83	83
Sundry Debtors	294	350	454	515
Cash & Bank Bal	49	240	447	1,011
Loans & Advances	0	0	0	0
Inventory	49	36	36	36
Other Current Assets	72	86	103	124
Total Current Assets	452	501	582	636
CurrLiab&Prov	547	795	1,124	1,769
Net Current Assets	95	295	542	1,133
Total Assets	3,852	4,497	4,942	5,473

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
PBT	460	533	756	910
Add: Depreciation	147	211	237	244
Add: Interest	47	70	61	52
Cash flow from operations	653	814	1,054	1,206
Change in working capital.	(59)	17	93	58
Taxes	124	136	193	232
Miscellaneous expenses	0	0	0	0
Net cash from operations	589	661	769	915
Capital expenditure	(937)	(600)	(300)	(100)
Change in Investments	(90)	(0)	(0)	(0)
Net cash from investing	(1,027)	(600)	(300)	(100)
Increase/Decrease in debt	677	200	(200)	(200)
Dividends	0	0	0	0
Proceedings from equity	0	0	0	0
Interest	(47)	(70)	(61)	(52)
Others	(210)	(0)	0	0
Net cash from financing	420	130	(261)	(252)
Net Inc./ (Dec.) in Cash	(17)	191	208	563
Opening cash balance	66	49	240	447
Closing cash balance	49	240	447	1,011

Source: Company, Axis Securities Research

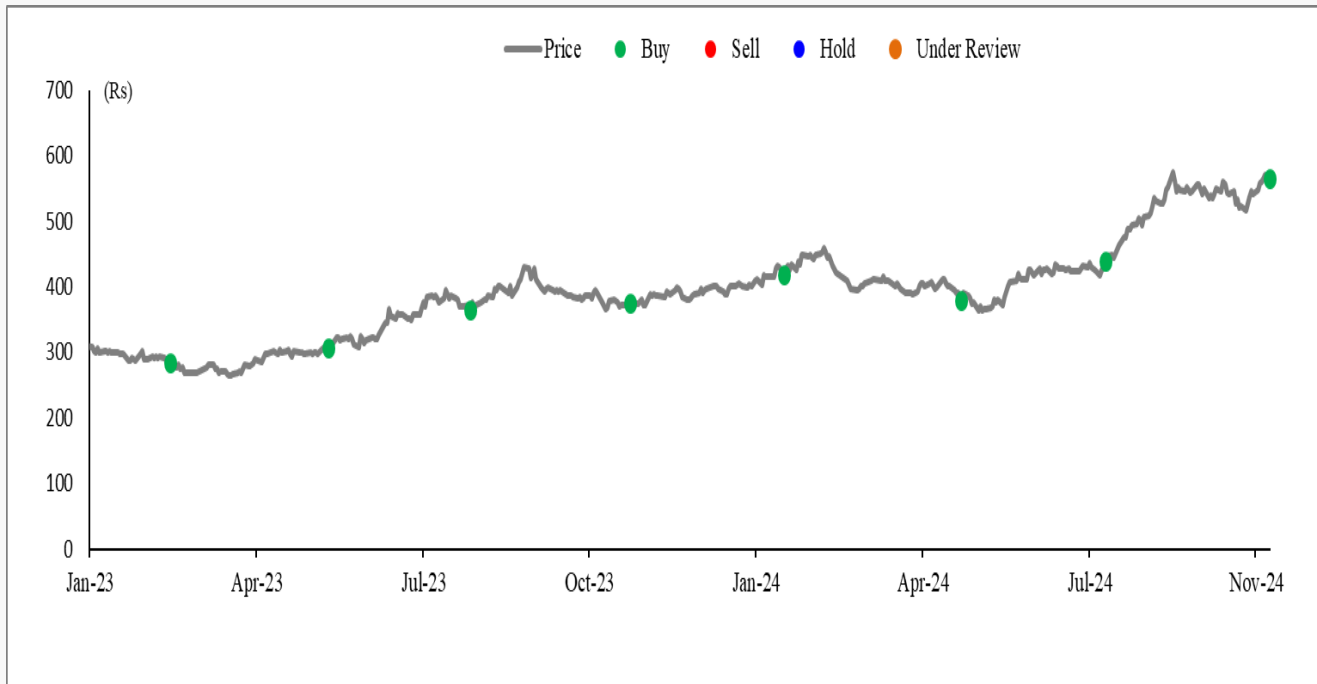
Ratio Analysis

(%)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
Sales growth	13.7	19.0	29.7	13.3
OPM	25.6	26.9	26.9	27.2
Oper. profit growth	6.0	24.9	29.8	14.6
COGS / Net sales	21.2	21.5	21.7	21.6
Overheads/Net sales	53.1	51.5	51.3	51.1
Depreciation / G. block	6.5	6.5	6.5	6.5
Effective interest rate	26.9	25.5	25.5	25.5
Net kg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	1.1	0.9	1.1	1.2
RoCE	15.5	16.5	21.8	26.7
Debt/equity (x)	0.6	0.6	0.4	0.3
Effective tax rate	26.9	25.5	25.5	25.5
RoE	16.1	15.9	18.4	18.2
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	8.4	9.9	14.1	17.0
EPS Growth	(8.2)	18.1	41.9	20.4
CEPS (Rs.)	12.1	15.2	20.0	23.0
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities Research

Krishna Institute of Medical Sciences Price Chart and Recommendation History



Date	Reco	TP	Research
17-Feb-23	Buy	334	Result Update
19-May-23	Buy	334	Result Update
09-Aug-23	Buy	403	Result Update
09-Nov-23	Buy	420	Result Update
06-Feb-24	Buy	460	Result Update
18-May-24	Buy	420	Result Update
09-Aug-24	Buy	500	Result Update
12-Nov-24	Buy	615	Result Update

Source: Axis Securities Research

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