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IPO note: Krishna Institute of Medical Sciences (KIMS) - "SUBSCRIBE for listing gains"

June 16, 2021

Strong healthcare player in Andhra Pradesh (AP) and Telangana..

Krishna Institute of Medical Sciences Limited ("KIMS") was incorporated as Jagjit Singh and Sons Private Limited on July 26, 1973. 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 operates 9 multi-specialty hospitals under the "KIMS Hospitals" brand, with an aggregate bed capacity of 3,064, including over 2,500 operational beds as of March 31, 2021, which are 2.2 times more beds than the 2nd largest provider in AP and Telangana. KIMS offers a comprehensive range of healthcare services across over 25 specialties and super specialties, including cardiac sciences, oncology, neurosciences, gastric sciences, orthopaedics, organ transplantation, renal sciences and mother & child care. The Company's flagship hospital at Secunderabad is one of the largest private hospitals in India at a single location (excluding medical colleges), with a capacity of 1,000 beds. The Company has significantly expanded their hospital network in recent years through their acquisitions of hospitals in Ongole in Fiscal Year 2017, Vizag and Anantapur in Fiscal Year 2019 and Kurnool in Fiscal Year 2020. KIMS has taken significant efforts to create a culture that nurtures their medical talent and encouraged their doctors to become stakeholders in the KIMS hospitals where they work. This culture of empowerment and ownership has led to good talent retention and allowed patients to create long-term relationships with their doctors. Since inception in 2000, KIMS has retained over 80% of their doctors.

Well equipped Hospitals..

KIMS hospitals are equipped with high-quality medical equipment and employ practices and policies which help them provide quality healthcare services to their patients. KIMS Secunderabad was the second hospital in Hyderabad to install the 4-Arm HD da Vinci robotic surgical system, which facilitates complex surgeries that are virtually scarless. KIMS Vizag was one of the first hospitals in AP to have (i) an Endoscopic Ultrasound System with Radial & Linear Scopes; (ii) a 2T scope to perform high end endoscopy procedures such as ESG & therapeutic procedures; and (iii) a Power Spiral Endoscopy for performing end to end enteroscope through motorized scope.

Strong operating metrics..

In Fiscal Year 2021, the Company's 9 hospitals recorded Average Revenue Per Operating Bed ("ARPOB") of ₹ 20,609, a bed occupancy rate of 78.60%, and an Average of length of stay ("ALOS") of 5.53 days, on an aggregate basis. In Fiscal Year 2021, ARPOB for their hospitals situated in Tier 1 cities was ₹ 39,571 and ARPOB for their hospitals situated in Tier 2-3 cities was ₹ 11,187.

Strong track record of operational and financial performance..

KIMS has achieved healthy profitability in both Tier 1 and Tier 2-3 markets by identifying markets with significant underserved healthcare demand and delivering quality healthcare services at affordable prices, which in turn drives patient volumes. KIMS hospitals in Tier 1 markets provide higher margin services such as organ transplants, oncology and neuro-critical care, resulting in higher ARPOB and EBITDA. Its multispecialty healthcare platform has resulted in diversified revenue streams, with no single specialty accounting for more than 25% of their total income in any of the last 3 years. As of March 31, 2021, the debt-to-Adjusted EBITDA ratio was 0.95x and the gearing ratio was 0.37x compared to the industry range from 0.1 to 5.2.

Disciplined approach to acquisitions resulting in successful inorganic growth.

KIMS has a successful history of sourcing, executing and integrating acquisitions. It has a disciplined, low-leverage approach to acquisitions that has enabled them to maintain their affordable pricing model as the Company has grown in both Tier 1 and Tier 2-3 markets. Since Fiscal Year 2017, they have expanded their hospital network primarily through acquisitions of other hospitals.

Issue date	June 16 - June 18, 2021
Listing date	June 28, 2021
Price Band	₹ 815 - 825 (Face value: Rs. 10)
Bid lot	18 shares and in multiple thereof
Issue size and type	Total issue size: ₹2,144 crores Fresh issue: ₹200 crores Offer for sale: ₹ 1,944 crores (Upto 23,560,538 equity shares)
Issue structure	QIB - 75%, NIB-15%, Retail - 10%
Post issue shares	8.00 crore equity shares
Promoter holding	Pre IPO: 46.81%/Post IPO: 38.84 %
Post issue market cap	₹ 6,602 crores
BRLMs	Axis Capital, Kotak Mahindra, Credit Suisse IIFL Securities
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (₹ crores)	FY21	FY20	FY19
Topline	1,330	1,123	918
EBITDA	381	251	174
EBITDA (%)	28.43	22.24	18.83
Profit after tax	205	115	(49)
PAT margin (%)	15.45	10.25	(5.32)
Equity share cap.	77.59	74.49	74.49
Networth	864	598	541
Post IPO EPS (₹)	25.63	14.37	-
P/E (x)	32	57	-
RoNW (%)	23.30	19.93	(8.84)

Source: RHP, # denotes P/E on annualised 9MFY21 numbers

Investment recommendation and rationale

At the upper end of the price band of ₹825, the Company's IPO is valued at P/E multiple of 32x on FY21 earnings which is decent as compared to peers like Apollo Hospitals trading at a P/E of 101x, Shalby trading at a P/E of 41x, Narayana Hrudayalaya (Net Loss in FY21) and Healthcare Global (Net Loss in FY21). KIMS is one of the few hospital chains which has reported Profit after Tax and enjoys good ROEs in the listed space. KIMS is also one of the only 3 hospitals in India that are rated AA by CRISIL. We recommend to "SUBSCRIBE for listing gains" the issue due to the following factors: a) strong player in Andhra Pradesh and Telangana, b) regional leadership driven clinical excellence and affordable healthcare, c) well positioned to consolidate in India's large, unorganized yet rapidly growing and underserved affordable healthcare market, d) ability to attract, train and retain high quality doctors, consultants and medical support staff, e) diversified revenues across specialties and their doctors, f) strong operating metrics like Average Revenue Per Operating Bed ("ARPOB") and an Average of length of stay ("ALOS"), g) successful history of sourcing, executing and integrating acquisitions, h) good track record of operational and financial performance, i) strong balance sheet with ability to generate free cashflows, i) net debt free and enjoys good ROE of 23.3 percent in FY21 which is a rare sight in Indian Hospital industry. However, through the IPO, the Company will raise only Rs. 200 crores against Offer for sale from Promoters and big private equity player of whopping Rs. 1,944 crores which will not enhance the Networth of the Company. In addition, the strong performance in FY21 is during COVID-19 crisis. However, for longer term outlook, we will need to watch out for the Company's performance in post COVID-19 scenario.

Operating metrics

Particulars	CAGR (2019-21)	FY21	FY20	FY19
Bed capacity	4.53%	3,064	3,004	2,804
Bed occupancy rate	-	78.60%	80.49%	71.83%
Inpatient volume	2.31%	116,592	140,676	111,382
Outpatient volume	(3.96)%	830,211	1,137,560	900,043
ALOS	-	5.53	4.34	4.47
ARPOB	-	20,609	18,307	18,334

Source: RHP

Objects of the issue

The net proceeds of the fresh issue of Rs. 150 crores will be utilised for Repayment/pre-payment, in full or part, of certain borrowings availed by the company and by their subsidiaries viz. KIMS Hospital Kurnool Pvt. Ltd. (“KHKPL”), Saveera Institute of Medical Science Pvt. Ltd. (“SIMSPL”) and KIMS Hospital Enterprises Pvt.Ltd. (“KHEPL”).

The objects of the Offer are to (i) to carry out the **Offer for Sale of up to 23,560,538 Equity Shares by the Selling Shareholders**; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges The Company expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its shareholders and will also provide a public market for the equity shares in India.

Selling shareholders:

Name of the shareholder	
Dr Bhaskara Rao Bollineni– The Promoter Selling Shareholder	Up to 387,966 Equity Shares
Rajyasri Bollineni – The Promoter Selling Shareholder	Up to 775,933 Equity Shares
Bollineni ramanaiah Memorial Hospital Pvt Ltd – The Promoter Selling S/h	Up to 387,966 Equity Shares
Seenaiah Bollineni – The Promoter Group Selling Shareholder	Up to 1,163,899 Equity Shares
Bollineni Aishwarya – The Promoter Group Selling Shareholder	Up to 2,521,782 Equity Shares
General Atlantic Singapore KH Pte Ltd- The Investor Selling Shareholder	Up to 16,003,615 Equity Shares
Other Investor Selling Shareholder	Up to 2,319,377 Equity Shares
Total	Up to 23,560,538 Equity Shares

Source: RHP

Company background

The company was incorporated as ‘Jagjit Singh and Sons Private Limited’, on July 26, 1973 at Mumbai. Until the year 2003, the company was owned, managed and controlled by Jagjit Singh and certain of his family members, who together owned the entire shareholding of the company. On February 15, 2003, acting in pursuance of the Takeover MoU, certain of their Promoters, namely Dr. Bhaskara Rao Bollineni and BRMH, along with certain other individuals and entities, acquired the entire equity share capital of the company (then ‘Jagjit Singh and Sons Private Limited’).

Promoter and Management background

Dr. Bhaskara Rao Bollineni is a renowned cardiothoracic surgeon in India. He has over 27 years of experience in cardiothoracic surgery and has worked in several other leading medical institutions in the country. He started KIMS with the vision to create a hospital system for his home state of AP that is capable of attracting top medical talent and providing high-quality care at affordable prices. Under his leadership, and that of Dr. Abhinay Bollineni, who joined KIMS in 2014, they have expanded into 9 cities across AP and Telangana through a combination of greenfield, brownfield and acquisition-led expansion. Dr. Abhinay assumed CEO position in 2019 and played a leadership role in expanding the KIMS’ network over the last 5 years, including in the launch of KIMS Kondapur and the acquisitions of their hospitals in Ongole, Vizag, Anantapur and Kurnool.

Dr. Bhaskara Rao Bollineni, Dr. Abhinay Bollineni, Adwik Bollineni, Rajyasri Bollineni, and Bollineni Ramanaiah Memorial Hospitals Pvt. Ltd. are the promoters of the company. Currently, the Promoters in aggregate hold 28,841,886 Equity Shares in the company, representing 37.17% of the paid-up Equity Share capital of the company.

KIMS’s largest shareholder, General Atlantic, is a leading global growth investor with a track record of providing strategic, practical, and impactful support to high-growth companies in India and globally. General Atlantic has a 40 year history of identifying emerging companies with strong fundamental performance and organic growth that can accelerate their expansion and scale. General Atlantic has more than \$40 billion in assets under management across five global sectors: healthcare, life sciences, technology, consumer and financial services.

Brief Biographies of Directors

Dr. Bhaskara Rao Bollineni is the Promoter and Managing Director of the company. He has over 27 years of experience in cardiothoracic surgery and has in the past held various positions with Apollo Hospitals, Austin Hospital, University of Melbourne and Mahavir Hospital and Research Centre.

Anitha Dandamudi is the Whole-time Director of the company. She has over 16 years of experience in the hospital industry, having held various positions with the company, and has also served as vice president of administration at e-Talent Software Ltd.

Dr. Abhinay Bollineni is the Promoter and Executive Director of the company. He played a key role in establishing KIMS Kondapur in 2014.

Sandeep Naik is the Non-executive Director of the company. He is the Managing Director and head of General Atlantic's business in India and Asia-Pacific and a member of the management committee at General Atlantic. He was previously associated with Apax Partners LP, Apax Partners India Advisers Pvt. Ltd., Medtronic Inc. and McKinsey & Company.

Shantanu Rastogi is the Non-executive Director of the company. He is the Managing Director at General Atlantic. He was previously associated with Apax Partners India Advisers Pvt. Ltd. and McKinsey & Company.

Pankaj Vaish is the Independent Director of the company. He has over 35 years of experience in various fields, including 28 years of experience with Accenture Services Pvt. Ltd.

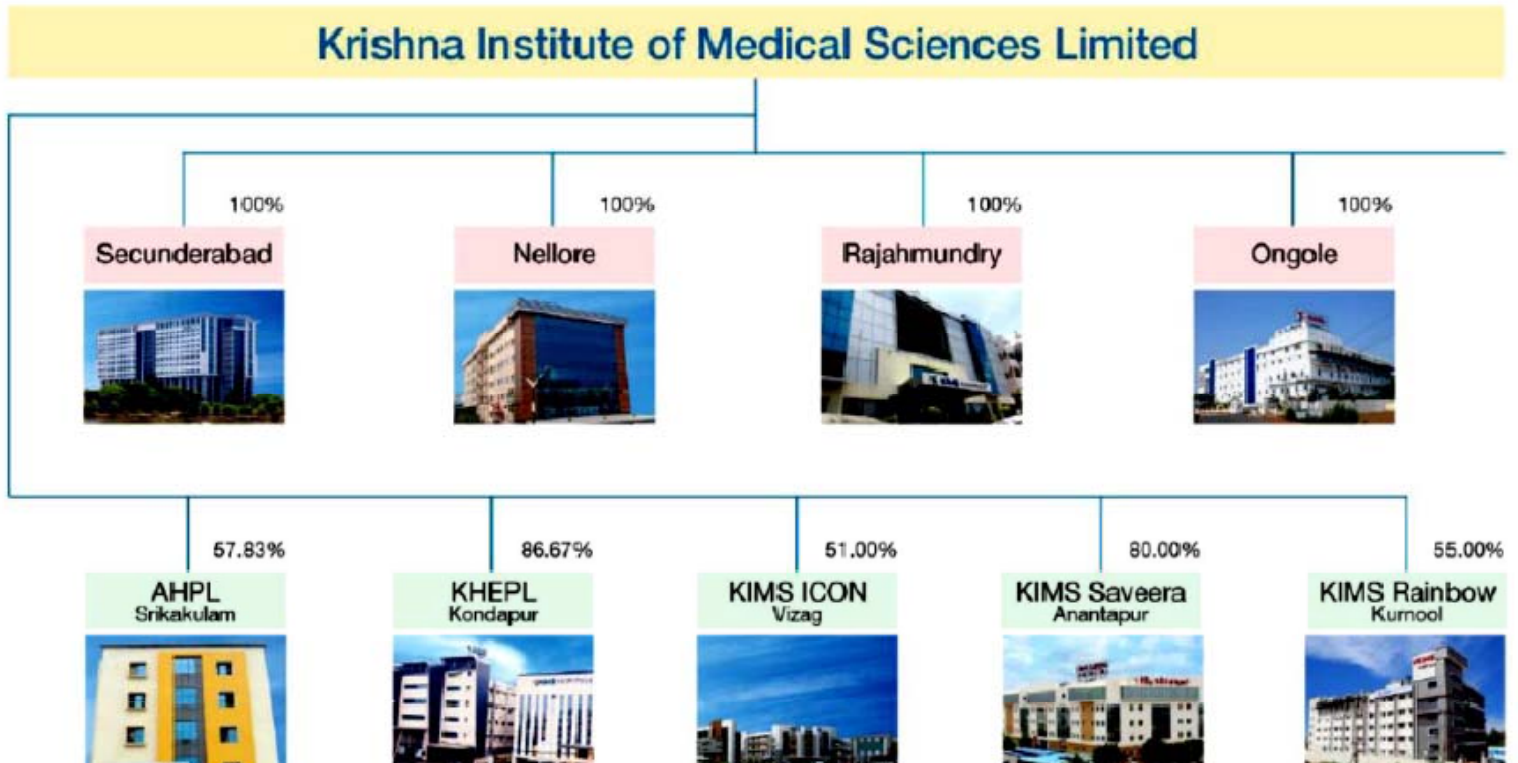
Rajeswara Rao Gandu is the Independent Director of the company. He has over 37 years of experience as a civil servant and has worked in the Department of Supply, Gol in the past.

Ratna Kishore Kaza is the Independent Director of the company. He has held the position of Principal Secretary (health, medical and family welfare) to the Government of Andhra Pradesh and has served as an Administrative Member on the Andhra Pradesh Administrative Tribunal.

Saumen Chakraborty is the Independent Director of the company. He has more than 36 years of experience across various strategic and operational aspects of management. He was previously employed with Dr. Reddy's Laboratories Ltd for over 19 years. He currently continues to serve as an advisor to Dr. Reddy's Laboratories Ltd.

Venkata Ramudu Jasthi is the Independent Director of the company. He worked in the Indian Revenue Service (Income Tax) from 1979 to 1981 (1979 batch). He is the member of batch of 1981 of the Indian Police Service cadre of Andhra Pradesh.

Corporate Structure



Source: RHP

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