Acquisition Update

Krishna Institute of Medical Sciences Ltd

Sunshine Hospitals Acquisition - accelerate the growth

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CMP: INR 1,116
Rating: BUY
Target Price INR: 1,651
Upside: 48%

Bloomberg:	KIMS:IN
52-week range (INR):	938 / 1,398
M cap (INR cr):	8,928
Promoter Holding (%)	38,84

Date: October 30, 2021

Krishna Institute of Medical Sciences (KIMS) has entered into definitive agreements with the shareholders of Sarvejara Healthcare Private Limited (Sunshine Hospitals) to acquire 51.07% stake in a cash deal (as a combination of 18.52% stake through equity shares and the remainder through partly paid-up equity shares, which shall be fully' paid up by April 2022). With the acquisition, KIMS reached to a network of 12 hospitals across 9 cities with 3,666 beds. We believe that KIMS will continue to benefit from its regional market leadership, strong cash flow generation and sustained focus on operational efficiency and capacity expansion. Maintain 'BUY' with revised target price of INR 1,651, valuing it at 20x FY24E EV/EBITDA.

Acquisition details

Sunshine Hospitals was started by **Dr. A.V. Gurava Reddy**, Joint Replacement Surgeon and Sunshine Hospitals is the second largest joint replacement centre in Southeast Asia with over 4,000 knee transplants a year. Sunshine Hospitals currently operates at three locations in Telangana. Out of which two are in Hyderabad (Secunderabad - 290 beds and Gachibowli - 237 beds) and the third is in Karimnagar (75 beds), with a total bed strength of over 600.

Acquisition Cost

- Total cost of acquisition is INR 362.78cr and the break-up is as follows: 1) For 64,16,666 fully paid-up equity shares and 1,22,32,890 partly paid-up equity shares: INR 230 cr, 2) Call money for partly paid shares to be paid to Sarvejara Healthcare Private Limited after completion of purchase of 1,22,32,890 partly paid-up equity shares: INR 132.78cr.
- Sarvejara Healthcare Private Limited is valued at an Enterprise Value of INR 730cr, subject to working capital adjustments on the closing date; thus, this acquisition valued at 1.8x sales and 9.7x EV/EBITDA (FY21).

Sunshine Hospitals to contribute significantly to KIMS top line

Sunshine Hospitals reported revenue growth of ~13% YoY to INR 412cr in FY21, which was ~31% of KIMS consolidated revenue for FY21. Sunshine Hospitals reported operating EBITDA of INR 75cr with 18% margin in FY21 (v/s 9% in FY20). Sunshine Hospitals posted PAT of INR 36cr in FY21 as against Net loss of INR 6cr in FY20. In FY21, Sunshine's PAT was ~18% of KIMS consolidated PAT. Sunshine's Secunderabad Hospital generated ARPOB of INR 43,683 in FY21 as against ARPOB of INR 33,651 in FY20. Sunshine's Secunderabad hospital generate higher ARPOB (~14% higher in FY21) than KIMS's Secunderabad facility.

Outlook and valuation: maintain 'BUY'

KIMS has communicated earlier for its inorganic expansion plans which will be adjacent to its core markets of AP and Telangana and this acquisition is fully in-line with the company's strategy, which will further strengthen its position in its core market (AP & Telangana). KIMS acquired 51% stake in Sunshine in similar line to its earlier acquisitions, to maintain a culture of ownership of doctors and also doctors' equity participation in the company keep the cost restricted. We believe that the acquisition was at reasonable valuation and will accelerate the growth momentum for the company. However, lower operating margins is cause of concern which we believe KIMS will improve in future with the consolidation. Overall, the acquisition deal is expected to be EPS accretive. We have consolidated Sunshine financials from FY23 onwards and also introduced FY24 estimates for KIMS. At CMP, the stock is trading at 19x/14x/13x FY22E/FY23E/FY24E EV/EBITDA. Maintain BUY.

Year to March (INR Cr)	FY20	FY21	FY22E	FY23E	FY23E
Revenue	1123	1330	1640	2323	2423
YoY growth (%)	22.3	18.5	23.3	41.6	4.3
EBITDA	249	371	458	590	635
EBITDA margin (%)	22.2	27.9	27.9	25.4	26.2
Profit after tax	116	209	278	356	367
YoY growth (%)	NA	80.1	33.2	27.8	3.3
EPS (INR)	16.1	26.4	34.4	43.1	44.3
ROACE (%)	18.2	28.4	30.2	28.2	23.1
P/E (x)	69.2	42.3	32.5	25.9	25.2
EV/EBITDA (x)	34.6	23.2	18.6	14.3	13.2

Exhibit 1: KIMS successful track record of its inorganic expansion strategy - 6 acquisitions in 7 years

Acquired Companies	Year of acquisition	Location	Stake (%)	Revenue for FY21	EBITDA margin	Bed Capacity	Occupancy	ARPOB	ALOS	Acquisition Cost (INR cr)
Arunodaya Hospitals Private Limited	2014	Srikakulam	58%	36.0	14.5%	200	63.78%	11,445	4.9	NA
KIMS Ongole	2017	Ongole	100%	72.7	31.6%	350	96.68%	8,915	8.2	52.8
Iconkrishi Institute of Medical Science Limited - KIMS Vizag	2019	Vizag	51%	82.4	16.7%	434	88.64%	11,897	6.2	7.0
Saveera Institute of Medical Science Private Limited - KIMS Anantapur	2019	Anantapur	80%	69.2	8.7%	250	97.65%	10,785	6.0	19.7
KIMS Hospital Kurnool Private Limited - KIMS Kurnool	2020	Kurnool	55%	52.1	7.4%	200	64.01%	12,380	4.6	8.2
Sunshine Hospitals (Sarvejana Healthcare private Limited)	2021	Hyderabad & Karimnagar	51%	411.8	18.3%	602	NA	NA	NA	362.8

Exhibit 2: Acquisition of Sunshine Hospitals details

Number of Hospitals	Three
Locations	Hyderabad (Secunderabad and Gachibowli) and Karimnagar
Beds	602
Revenue (FY21) (INR cr)	412
Time line to complete	Apr-22
Stake acquisition	51.07%
Cash deal (INR cr)	363
Incorporated (year)	2008
EV	730
EV/Sales	1.8
EV/EBITDA	9.7
Debt	70
Net Debt	20
Asset	236

Source: Company, Edelweiss Wealth Research

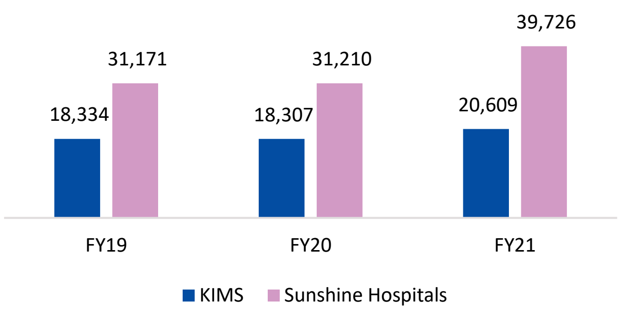
Exhibit 3: Change in Estimates

(INR cr)	FY22E			FY23E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	1,669	1,640	-1.7	1,897	2,323	22.5
%growth	25.5	23.3		13.6	41.6	
EBITDA	466	458	-1.7	542	590	8.9
EBITDA margin (%)	*27.9*	*27.9*	*0*	*28.6*	*25.4*	*-315*
PBT	371	372	0.3	429	475	10.8
PBT margin	*22.2*	*22.7*		*22.6*	*20.5*	
Net profit	277	278	0.3	321	356	10.8
Adj EPS (Rs)	34.3	34.4	0.3	39.6	43.07	8.8

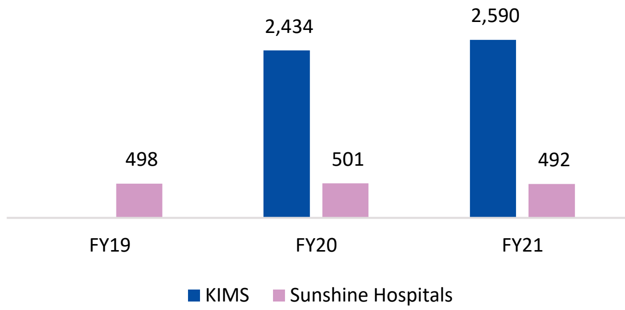
Source: Company, Edelweiss Wealth Research

Exhibit 4: Comparison between KIMS and Sunshine

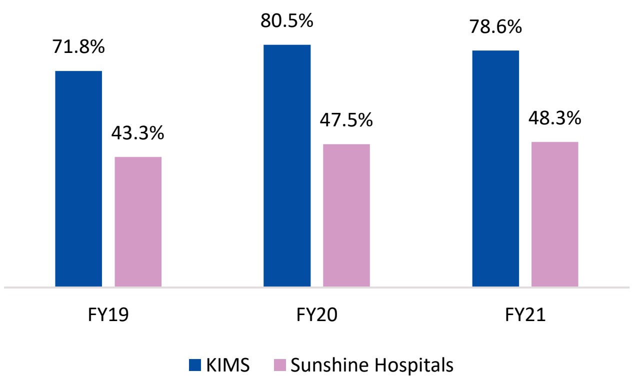
ARPOB (INR)



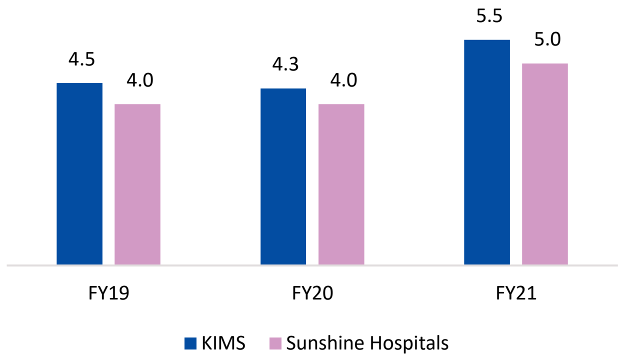
Operating Beds



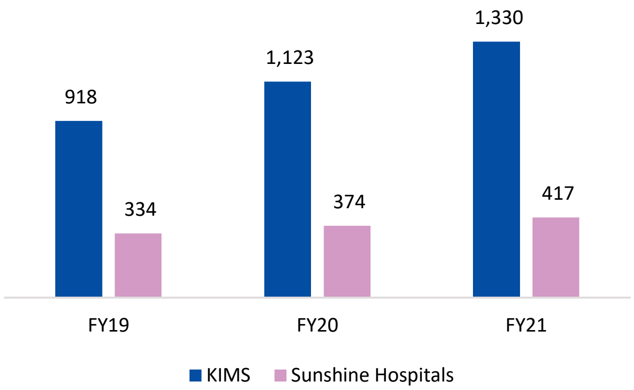
Bed Occupancy (%)



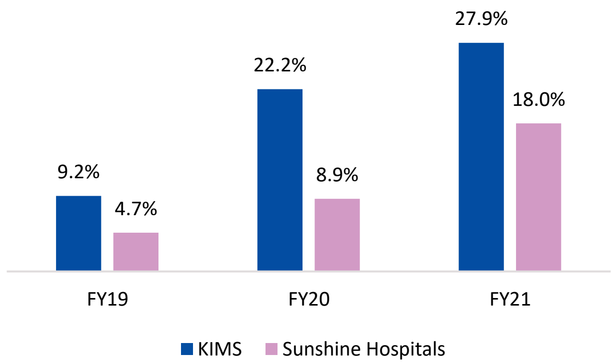
ALOS (days)



Revenue (INR cr)



EBITDA margin (%)



Source: Company, Edelweiss Wealth Research

Income statement (Consolidated)

(INR cr.)	FY20	FY21	FY22E	FY23E	FY24E
Income from operations	1123	1330	1640	2323	2423
Direct costs	278	289	371	525	548
Employee costs	198	220	271	395	412
Other expenses	595	670	812	1208	1241
Total operating expenses	873	959	1183	1733	1788
EBITDA	249	371	458	590	635
Depreciation and amortisation	71	70	72	95	115
EBIT	179	301	386	495	520
Interest expenses	44	32	20	31	49
Other income	6	10	6	11	20
Profit before tax	141	279	372	475	491
Provision for tax	25	70	94	120	124
Core profit	115	209	278	356	367
Extraordinary items	1	0	0	0	0
Profit after tax	116	209	278	356	367
Minority Interest	4	-4	-3	-11	-13
Share from associates	0	0	0	0	0
Adjusted net profit	120	205	275	345	354
Equity shares outstanding (mn)	7	8	8	8	8
EPS (INR) basic	16	26	34	43	44
Diluted shares (Cr)	7	8	8	8	8
EPS (INR) fully diluted	16	26	34	43	44
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues (INR crs)

Year to March	FY20	FY21	FY22E	FY23E	FY24E
Operating expenses	77.8	72.1	72.1	74.6	73.8
Depreciation	6.3	5.2	4.4	4.1	4.7
Interest expenditure	4.0	2.4	1.2	1.3	2.0
EBITDA margins	22.2	27.9	27.9	25.4	26.2
Net profit margins	10.7	15.4	16.8	14.8	14.6

Growth metrics (%)

Year to March	FY20	FY21	FY22E	FY23E	FY24E
Revenues	22.3	18.5	23.3	41.6	4.3
EBITDA	194.9	48.7	23.4	28.9	7.6
PBT	-1033.8	98.5	33.2	27.8	3.3
Net profit	-336.8	81.4	33.2	27.8	3.3
EPS	-351.9	63.5	30.4	25.3	2.8

Balance sheet

(₹ cr.)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	74	78	80	80	80
Preference Share Capital	0	0	0	0	0
Reserves & surplus	523	786	1261	1606	1960
Shareholders funds	598	864	1341	1686	2040
Borrowings (including lease)	369	240	90	380	380
Minority interest	13	12	12	12	12
Sources of funds	**980**	**1116**	**1443**	**2078**	**2433**
Gross block	1103	1188	1188	1538	1988
Depreciation	187	257	329	424	539
Net block	916	931	859	1114	1449
Capital work in progress	2	9	82	50	50
Total fixed assets	918	940	941	1164	1499
Unrealised profit	0	0	0	0	0
Investments	0	0	0	0	0
Inventories	30	24	44	95	100
Sundry debtors	132	110	225	318	332
Cash and equivalents	46	284	506	886	904
Loans and advances	11	19	19	19	19
Other current assets	0	0	0	0	0
Total current assets	220	437	794	1319	1354
Sundry creditors and others	157	231	270	382	398
Provisions	7	27	27	27	27
Total CL & provisions	164	258	296	408	425
Net current assets	55	179	498	910	929
Net Deferred tax	-34	5	5	5	5
Misc expenditure	41	-8	0	0	0
Uses of funds	**980**	**1116**	**1443**	**2078**	**2433**
Book value per share (INR)	80	111	168	211	255

Cash flow statement

(INR crs)

Year to March	FY20	FY21	FY22E	FY23E	FY24E
Net profit	114	209	278	356	367
Add: Depreciation	71	70	72	95	115
Add: Misc expenses written off	24	49	-8	0	0
Add: Deferred tax	-12	-39	0	0	0
Add: Others	4	-4	-3	-11	-13
Gross cash flow	200	284	339	440	469
Less: Changes in W. C.	-1	-115	97	32	1
Operating cash flow	**202**	**399**	**242**	**408**	**468**
Less: Capex	126	92	73	318	450
Free cash flow	**76**	**307**	**170**	**90**	**18**

Ratios

Year to March	FY20	FY21	FY22E	FY23E	FY24E
ROAE (%)	21	28	25	23	19
ROACE (%)	18.2	28.4	30.2	28.2	23
Debtors (days)	43	30	50	50	50
Current ratio	1.3	1.7	2.7	3.2	3
Debt/Equity	0.6	0.3	0.1	0.2	0
Inventory (days)	10	7	10	15	15
Payable (days)	51	63	60	60	60
Cash conversion cycle (days)	2	-27	0	5	5
Debt/EBITDA	1	1	0	1	1
Adjusted debt/Equity	1	0	0	0	0

Valuation parameters

Year to March	FY20	FY21	FY22E	FY23E	FY24E
Diluted EPS (INR)	16	26	34	43	44
Y-o-Y growth (%)	-352	64	30	25	3
CEPS (INR)	25	35	43	55	59
Diluted P/E (x)	69	42	32	26	25
Price/BV(x)	14	10	7	5	4
EV/Sales (x)	8	6	5	4	3
EV/EBITDA (x)	35	23	19	14	13
Diluted shares O/S	7	8	8	8	8
Basic EPS	16	26	34	43	44
Basic PE (x)	69.2	42.3	32.5	25.9	25
Dividend yield (%)	0	0	0	0	0

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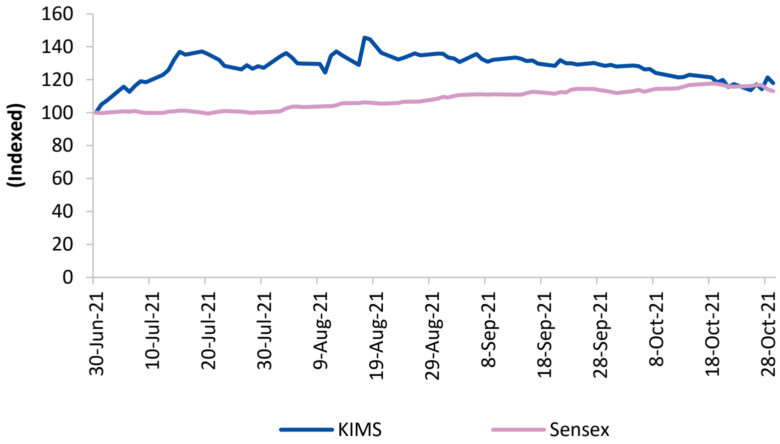
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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