

Date: 19th October, 2021

BSE Limited
Corporate Service Department,
1st Floor, P. J. Towers,
Dalal Street,
Mumbai 400 001

The National Stock Exchange of India Limited
Exchange Plaza, 3rd Floor,
Plot No. C/1, 'G' Block,
Bandra Kurla Complex, Bandra (E),
Mumbai 400 051

Scrip ID: KRSNAA
Scrip Code: 543328

Symbol: KRSNAA

Dear Sir / Madam,

Subject: Transcript of the Earning Call conducted on 12th October, 2021.

Please find enclosed the transcript of the Q2 and H1 FY22 Earnings Conference Call conducted on 12th October, 2021, for your information and records.

Request you to take the same on your records.

Thanking you,
Yours sincerely,

For Krsnaa Diagnostics Limited



Nikhil Deshpande
Company Secretary and Compliance Officer



“Krsnaa Diagnostic Limited Q2 and H1 FY22 Earnings
Conference Call”

October 12, 2021



**MANAGEMENT: MR. RAJENDRA MUTHA – CHAIRMAN AND WHOLE
TIME DIRECTOR**

MR. YASH MUTHA – WHOLE TIME DIRECTOR

MR. PAWAN DAGA – CHIEF FINANCIAL OFFICER

**MODERATOR: MR. BHARAT CELLY – EQUIRUS SECURITIES PRIVATE
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Krsnaa Diagnostics Limited Q2FY2022 and first half FY22 Earnings Conference call hosted by Equirus Securities Private Limited.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bharat Celly from Equirus Securities. Thank you. And over to you Mr. Celly.

Bharat Celly: Thank you. Good evening, everyone and a warm welcome to you all. My name is Bharat Celly from Equirus Securities Private Limited. We thank the management of Krsnaa Diagnostics for allowing us to host their Q2FY22 and first half FY22 concall. On behalf of the Equirus Securities I would like to thank you all for participating in Company’s earnings conference call. On the call from Krsnaa’s management, we have Mr. Rajendra Mutha, Chairman and Whole-time Director, Mr. Yash Mutha, Whole-time Director and Mr. Pawan Daga who is CFO at the organization.

We will start the call with opening remarks from the management followed by Q&A. Over to you Mr. Yash Mutha.

Yash Mutha: Good afternoon everyone and welcome to the Krsnaa Diagnostics first ever earnings call. I hope you and your loved ones are safe and healthy. The Company got recently listed on BSE and NSE on 16th of August 2021. I would like to thank all our employees, partners and shareholders who have showed confidence in our business model and joined us in fulfilling our mission to make a difference in the healthcare diagnostic industry.

On today's call, I would start with a brief overview of our Company, our growth drivers and the strategy going forward. Then I would pass on the call to our CFO Mr. Pawan Daga, to discuss the financial performance in more details.

We have already circulated our earnings presentations, which is available on our website, as well as the stock exchange's website. I hope you all have had the opportunity to go through the presentation and we would be happy to take any questions afterwards.

With regards to the Company's overview and journey, today Krsnaa, is one of the fastest growing and differentiated diagnostics service provider in India, providing specialized diagnostic Radiology, Pathology/Clinical Laboratory and Tele-Radiology services. We started our business operations in 2011, with a core mission to provide easily accessible and affordable services while maintaining focus on quality and highest standards. Over the years, we have expanded our footprint significantly from two Radiology centers to over 1800 plus diagnostic centers in 14 states today, with a CAGR of around 38%. Our workforce comprises of 186 Radiologists, 33 Pathologists, 7 Microbiologists and over 2700 qualified professionals, including clinicians,

technicians and operators, which is a remarkable achievement considering that we are just a 10-year-old Company.

Moving forward to our business model, I would like to highlight a few key important aspects of our business model:

First in the service offerings, we provide Radiology, Pathology and Tele-Radiology based services. In Radiology, we are having PAN India operations across 14 states with 1370 Radiology centers which are offering almost 1394 Radiology tests. Our principal diagnostics services include imaging modalities such as MRI, CT Scans, X-Rays, Mammography, Bone Densitometry, Ultrasound and Color Doppler. In Pathology, all the key disciplines of the conventional as well as specialized lab services are part of our offerings with almost 2544 pathological tests are provided through 487 centers.

Our Tele-radiology services which we operate from Pune, is also one of India's largest Tele-Radiology reporting hub. At this facility we have almost more than 190 plus team of radiologists from India and abroad, who examine digital images and prepare these reports. This is a unique value proposition which addresses the shortage of full-time of doctors and staff in the diagnostic industry, and considerably increases the turnaround time for the reports. In addition, it also allows us to serve patients in remote locations where diagnostic facilities are limited.

The second and important dimension of our business model is the Public-Private Partnerships. Today at Krsnaa, we have the largest presence in the diagnostics PPP segment. Diagnostic industry as everyone know is highly underpenetrated in large part of our country. And to address this gap, government engages with private partners to collaborate with public hospitals and expand the reach of essential diagnostic services. Krsnaa Diagnostics, with its high quality services and disruptive prices, has emerged as a preferred partner for public health agencies, and currently has 1797 dedicated centers under the PPP model.

The government health agencies provide space for setting up the diagnostics centers and we need to invest and set up the equipment as per the contract requirements. These contracts typically range between 2 to 10 years whereas most of the contracts are in the 10-year horizon which provides us with services revenue visibility in terms of the tenure as well as gives us a high chance of renewal. Along with this, we have an efficient working capital management system, we have been able to keep our receivables in the range of 7 days to 90 days and I am happy to report that we have not incurred a single bad debt in our contracts till date.

With increasing government focus on providing high quality healthcare services, the rising prevalence of simple schemes like Ayushman Bharat, it is expected to boost the PPP model in the diagnostic industry and our business fundamentals are truly and fully aligned to tap in this growing opportunity.

In addition to the PPP model, we also have strategic tie-ups with 26 private hospitals present across in the two states. In this model as well, we also enter into a contract with private healthcare

companies, who provide us a space in their hospital, and we set up the Radiology and Pathology centers on a revenue sharing model. We have been very selective in our strategic tie-ups, and increasingly, we have been receiving a lot more partnership queries and requests, which our teams are carefully evaluating, and we can expect good expansion in the coming years.

Our competitive advantage lies in our clinical expertise, our IT based infrastructure and the disruptive pricing. Today, we employ the most advanced technologies with Cloud based support in our centers. Our focus is on providing patients with robust, evidence based treatment in any part of the country. Most of the process equipment deployed are fully automated and require very limited manual intervention to provide these high quality reports and an in-depth analysis.

We offer quality diagnostic services at disruptive prices, our Radiology tests are almost 45% to 60% lower, and the Pathology tests are 40% to 80% lower than the market rates giving delight to the customers. And despite these lower prices, the Company has been able to deliver one of the highest operating margins in FY20 due to its efficient operating cost structure.

I now take this opportunity to brief you about our strategic priorities. Today at Krsnaa Diagnostics, we follow a defined Six-Point Strategy to expand our business. We continue to expand our geographic presence across India under the PPP model and the strategic tie-ups that we have with hospitals. We also look to enhance our capabilities in specialized diagnostics like molecular and genomics. Krsnaa is equally focusing on growing our digital footprint and leveraging AI and other such technologies. And at the same time, we are equally focused on improving our operational efficiency and profitability.

In line with our growth strategy today, we have recently won five new Public-Private Partnerships and private contracts wherein we will be installing 29 CT scanners and 8 MRI machines, which will be commissioned at the center soon. Overall, the Indian diagnostic industry is expected to grow at a CAGR of around 15% for the next few years, which presents a huge opportunity size. The industry is expected to be supported by various fundamental growth drivers like the ageing population, rising awareness for healthcare, penetration in rural areas, as well as increasing investment by both government and private players.

I am confident of the ability and strength of Krsnaa Diagnostic's business models and our management team remains fully committed to grow its business and to remain fastest growing diagnostics Company in India.

I now hand over the call to Mr. Pawan Daga, our Chief Financial Officer to discuss the financial performance.

Pawan Daga:

Thank you Yash, A very good afternoon to all attendees. I will present a financial highlight for the half year ended September '21. Before we move to the recent performance, I would like to highlight that we are one of the fastest growing diagnostic service provider in India. Over FY2018 to 2021, Company posted a revenue CAGR growth of 64% and strong growth in

operating profits. Quality of our growth could be understood from the fact that the average operating EBITDA to cash flow convergence stood at 89% during the same period.

In H1 FY22, the Company registered a revenue of Rs. 241 crores, an increase of 19% on year-on-year basis from Rs. 203 crore in FY21H1. The revenue growth was supported by a growth in a core business, which is Radiology and Pathology together registered a revenue of Rs. 212 crores an increase of 143% on year-on-year basis from Rs. 87 crores and contributed 89% of total revenue. The overall revenue growth was partly offset due to decline in COVID revenues by around 75%.

Total number of 7.81 million tests were conducted in first half year FY22 registering a significant increase of 104% on year-on-year basis, out of which a core business tests were 7.5 million up by 120% whereas the COVID tests were 0.66 million up by 14%. It is a reflection that the core business backed by a strong fundamental is poised to grow even further with the normalized COVID situation.

Operating EBITDA stood at Rs. 74 Crore a growth of 76% on year-on-year basis. And margins improving significantly to 31% as compared to 21% in H1FY21. EBITDA margin improvement was driven by higher number of tests, increased contribution from core business and stabilizing of the cost of materials consumed as the supply chain stabilized.

We believe our differentiated business model will drive a growth and profitability, as we are genuinely engaged in a long term contract for maintaining a strong revenue visibility. And at the same time, since we are able to eliminate our rentals and incur lower marketing spends due to well established network, we are able to optimize our cost structure, maintain healthy margins and the profitability.

PAT excluding CCPS gain was Rs. 34 crores, a growth of 167% year-on-year basis from Rs. 13 crores in H1FY21. Kindly note that the reported PAT for H1FY21 was Rs. 166 crores due to one-time gain of Rs. 253 crores due to fair value movement of compulsory convertible preferential shares. H1 FY22 Profit After Tax margins were 13.8% as compared to 6.1% in H1FY21.

Company generated cash from operation of Rs. 73 crores in H1FY22 and EBITDA to cash flow conversion remained strong with 98% of operating profit converting into the operating cash flows. We continue to strengthen our balance sheet and at the end of September '21 our net cash position was Rs. 326 crores.

During the period, we have repaid total debt of Rs. 178 crore. We have utilized Rs. 143 crores out of the IPO proceeds of Rs. 146 crores in line with the stated objective of debt reduction and remaining position is funded by internal accrual which is around Rs. 35 crores.

Second objective of IPO proceed was setting up a new diagnostic center and Company has incurred a CAPEX of Rs. 53 crores during the first half for the same objective. As highlighted

earlier in the call, we have won 5 PPP and private contracts to commission 29 CT scanners and 8 MRI machines in the states of Punjab, Himachal Pradesh, Karnataka, Maharashtra, and Company is fully geared up for expansion.

Thank you very much. And we are now ready to take any questions.

Moderator: Thank you very much. We begin the question and answer session. First question is from the line of Rahul Veera from Abakkus Asset Managers. Please go ahead.

Rahul Veera: Just a couple of questions. Since we are already sitting on cash plus, the EBITDA that we will accrue over the next couple of years, what is the total CAPEX outlay now?

Yash Mutha: So, if you consider the cash that we have in the books currently comprises of the IPO proceeds which are ear marked for the projects that we have already won. And in terms of the internal accruals that we will be generating, again we are looking at various opportunities both in terms of PPP projects or expanding our presence so we could utilize the internal accruals for such expansions. And the CAPEX that we typically look at from a horizon perspective would be anywhere between Rs. 100 to Rs. 200 crores to invest in the expansion.

Rahul Veera: Okay. So, till FY23 we have enough cash balance for the growth opportunities that we can see?

Yash Mutha: Yes.

Rahul Veera: Okay. And are we seeing any incremental pressure on the chemicals or agents on the pricing front, like are we expecting the EBITDA margins and everything to continue at 30% now over the next two years?

Yash Mutha: We certainly see no pressure in the pricing of reagents and consumables, and we will be able to maintain the EBITDA levels, in fact, the incremental revenue will also help improve the EBITDA margins and that is what we expect in the subsequent quarters to come.

Rahul Veera: Can you just throw some highlight of why would the Company Secretary immediately after the IPO move out of the firm?

Yash Mutha: So, the earlier Company Secretary, she had certain health problems and this is why she decided to quit. And we have got Nikhil Deshpande, who is a very senior and experienced gentleman comes with a strong experience of working in listed companies that is the reason why we had do this.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: If you could tell us what will be the total network expansion that you will have in 2022, 2023 and 2024, so, in terms of your capacity? Based on the CAPEX that you have outlined for the

next three years, what is the total network expansion that we will have, either you want to give it in the form of centers or MRI machines or whichever way you think, or the volume of business whichever way you think you are comfortable with.

Yash Mutha: In terms of expansion, we have ambitious plans to establish almost 150 plus CT scans and almost around 50 MRIs in the next coming years. I mean, the opportunities are there, which will be implemented over the next two to three years. Along with this there are various opportunities that we are also currently looking at especially after COVID governments are opening up for the PPP projects and tenders where Krsnaa would love to participate and further its growth.

Pritesh Chedda: 50 CT scans and how many X-Rays, or let's put it this way, how many centers or, so this Rs. 200 crores CAPEX means what kind of business volume addition?

Yash Mutha: Okay, so if you are considering this Rs. 200 crores first of all, from the IPO proceeds we have earmarked almost close to 150 odd crores which will be deployed for these various projects that we have already won, like 23 CT scans, 6 MRIs in Punjab, 30 labs and 120 collection centers in Punjab, and the rest of it will be your CT scans

So, these are all the centers that we will be installing through the IPO proceeds which in the next full fiscal year should add revenues of almost around to Rs. 200 crores. And along with this, given the various opportunities that we are seeing that is where I was mentioning about expanding our reach for additional CT scans, which might come through various PPP projects as well as private projects, where we would aspire to install these 150 CT scans, and 50 MRIs.

Pritesh Chedda: Sorry, I missed a second part now. And sir your line is not properly audible.

Yash Mutha: So, I was saying that along these existing new projects that we have in hand, given that there are various PPP projects that are also coming up and are in the pipeline, we will look forward to expand, installing additionally say around 150 CT scans and 50 MRIs in the next two to three years.

Pritesh Chedda: You said 150 CT scan and 50 MRIs out of the IPO and then another 150 and 50. That's how you have put it.

Yash Mutha: No, let me start again, out of the IPO proceeds, as we have mentioned in the RHP as well, there are new projects that we have recently won for CT scans and MRI and as per the contract we need to commission 29 CT scans and 8 MRI machines using the IPO proceeds. This along with the lab project that we have won, present active one, this would contribute around Rs. 200 crores of revenue in the next full fiscal year based on the deployment of these centers.

Pritesh Chedda: 29 CT scan and 8 MRIs, right?

Yash Mutha: Yes.

- Pritesh Chedda:** Okay. That is a Rs. 200 crore CAPEX, right.
- Yash Mutha:** Yes, it's a 29 CT scans, 8 MRIs and the pathology business.
- Pritesh Chedda:** Okay. And then you mentioned something like 150 scans and 50 MRIs.
- Yash Mutha:** Yes, so that is basically the opportunity size that I highlighted, considering that there are various states that are currently looking at opening up tenders, we believe that is an opportunity that can come Krsnaa's way in the next two to three years in terms of additional projects as well as the private partnership that we are currently working on.
- Pritesh Chedda:** This was clear sir, okay. The second and the last question, actually, when you look at the way you have presented the number of ex of COVID you have given the number. So, this quarter works out to about let's say about 100 odd crores and for the half year, you mentioned about 200 odd crores. Now, the way it is reported in the presentation, is it obvious that these numbers can be annualized for the number ex of COVID?
- Yash Mutha:** Yes, so if you see what we have demonstrated almost Rs. 240 crores of revenue in the first half year of FY22, in which the COVID business is very nominal. And as everyone knows, COVID has currently, gone down significantly which is a good sign. So, from that perspective, these looks to be normalized revenue for us, it's a steady state operation, which is a core business of Radiology and Pathology services.
- Pritesh Chedda:** Okay. And in the IPO discussions, there was this whole thought that incrementally, we would try to make our business a little bit more.
- Moderator:** The line got dropped, we now move to the next participant. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Yash you mentioned about the incremental PPP opportunities opening up post-COVID. Can you give us a sense of qualitatively what kind of opportunities are opening up versus what was the situation prior to the COVID, because our expansion that you have outlined now is more than literally doubling what you already have, by way of capacity.
- Yash Mutha:** Sure, so see currently there are almost around four to five states, which are looking to, some of the states have already published tenders where they would want to deploy the CT scan, MRI equipments. So, as of now, as we speak, there are close to four to five states which have already published their tenders. There are other, right from a municipal corporation level to a state level, at the NHM there are various tenders that have been published where we see this opportunity wherein they will require the centers to be upgraded and the infrastructure to be established in the next months or years to come.
- Nitin Agarwal:** And just to sort of take that little forward. In terms of the timeline for these impending tenders, so there are, if I were to break it up, you already got tender, you said you won tenders for 29 CT

and 8 MRI machines. Are there any more tenders where you are already L1 which can get finally closed out before the end of the year?

Yash Mutha: We have participated in few tenders; their results probably would be expected in the next couple of months. So, we hope to see you know, and given our strike ratio, we might be winning those tenders as well.

Nitin Agarwal: Okay. Just sort of going back to the 150 plus number that you talked about 150 plus CT and 50 plus MRI, I mean, obviously after you win the tender, it takes time for you to install these machine, by what time do you think you would be able to sort of, in your assessment, we win these contracts, have these contracts in your bag, literally in some sense?

Yash Mutha: No these 150 CT scans and 50 MRI that we spoke about this is from a two to three year horizon, that we are talking about. Today we see across various states we have discussion going on, so we believe there are around 25,000 public hospitals in the country today and we are just in handful. So, from that perspective, we believe these kinds of opportunities will come up in the way. Currently there are four or five states, who have published the tenders which Krsnaa is working on.

Nitin Agarwal: Secondly, on your quarterly numbers, where you have indicated the realization per test, there is a very sharp drop in realization for Radiology as well as Pathology on QoQ basis, even excluding COVID. Would you help us explain what drive that?

Yash Mutha: Yes, so if you see largely when you compare on the realization per test on a the basis of the last year quarter, it was an aberration, I mean the September last year was an aberration, because it was largely due to COVID which was the first wave and the test prices for COVID was also high. Coupled with this, there are various tests that were required to be done when people come for COVID test, there were ancillary tests or related test that were also required to be done. Whereas in this quarter, as I said earlier, our COVID revenues have been very minimal and what you see is our regular state of operations in terms of Radiology and Pathology tests.

And also, you have to note a point that today our prices are almost 40% to 80% lower than the market rate. And also, our prices across various centers are at almost **CGHS rates**

Nitin Agarwal: So, I just conclude that our realization for the Radiology tests this quarter is about 584 and 139 odd for the Pathology that's more like a sustainable normalized number for our business for these tests?

Yash Mutha: Yes. Also what I think when you look at it, both in terms of the test prices, it's a combination of various tests for example, our prices across different states vary. So, when you just do a simple mathematics you might see these lower prices, but typically, as I mentioned earlier, our prices for a CT scan or MRI test are almost 40% to 80% lower compared to the market rate. So, that's normally the realization that we achieve, both across the CT scans, MRI and Pathology tests, but on a blended rate, it might look at it which is again a sustainable model for us.

Moderator: Thank you. The next question is from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta: So, the first question I had was, what is the current MRI and CT scan machine count as of the end of the second quarter?

Yash Mutha: The total CT scans machines that we have will be around 65 CT scan equipment and MRI would be around close to 30 MRI machines.

Krish Mehta: And my second question was on vendor financing. So, what portion of the finance costs and liabilities we are seeing for this quarter was due to vendor financing if you could provide more light on that.

Yash Mutha: Sure, I will just have Pawan to answer that question.

Pawan Daga: During this Quarter 2, we paid all the debt which is mentioned in the offer document and out of that, the foreclosing charges and the processing fee, which we paid earlier, which is like, extends out during this quarter. So, that's why in the Quarter 2 we can see an incremental finance costs, which is a one-time.

Yash Mutha: If you could just repeat the question.

Krish Mehta: No, my question was on vendor financing. So, I wanted to know what portion of the finance costs and liabilities are attributable to vendor financing?

Yash Mutha: See from a vendor financing today, we are tying up with these vendors, the OEM suppliers to provide us the vendors like total credit where they get the equipment, typically, the vendor financing works anywhere between your banks rate around 8% to 12% because they also have their internal cost of capital. But we are working on this how we could further leverage our relationships and increase the portion of vendor financing.

Krish Mehta: So, do we have any of these partnerships existing?

Yash Mutha: Yes, we already have partnerships with GE, Philips, and Fujifilm where they have offered us vendor financing.

Krish Mehta: Could you give us like a ballpark number on what this vendor financing number would be like in your finance cost?

Yash Mutha: So, currently, we have in terms of the limits if you are asking, the limits that we have earmarked for this vendor financing is in the range of around Rs. 80 to Rs. 100 crores where these OEM vendors have given us this line of credit, which we can utilize. Of course, when we look at our expansion plans, we will be looking at a combination of such vendor financing, a combination of debt and our existing equity to decide how we go ahead with expansion plans.

- Moderator:** Next question is from the line of Bhaumik, from Aditya Birla. Please go ahead.
- Bhaumik:** A couple of questions, one is when you say there is a potential Rs. 200 crores of revenue that would come in FY23, from the recently won five contracts, so what's the kind of CAPEX on these five contracts that we are talking of? And did I get the number right of Rs. 200 crores expected revenue from these five contracts in FY23?
- Yash Mutha:** Correct. So, that is what once the centers are fully operational, we expect these additional centers to generate almost close to Rs. 200 crores of annualized revenue. I missed out the part of your question, if you could repeat that please.
- Bhaumik:** What's the kind of CAPEX that would be required for these size tenders contracts?
- Yash Mutha:** So, currently, we have earmarked almost close to Rs. 150 crores of CAPEX for these projects.
- Bhaumik:** Okay, so Rs. 150 odd can generate about Rs. 200 crores of revenue?
- Yash Mutha:** Which is like the first-year revenues, of course, as the business grows and volume grows, the revenue will grow.
- Bhaumik:** And then you ramp up, Yes sure. And secondly, when you are talking of a medium-term opportunity of 150 CT and 50 MRI, so from a capital allocation standpoint, how are you guys looking at it, obviously, the opportunity could be big, but that would also entail a large CAPEX number as well, right. So, how are you looking at the entire piece? Would you restrict yourself to a certain amount of CAPEX per annum? Or how do all these things add up for you?
- Yash Mutha:** See this opportunity that we discussed about today, both in terms of expansion, it will be funded through a combination of our internal accruals, vendor financing, and if required a debt. The overall cost of investment that we believe will help us to expand and encash or leverage these opportunities that will come along the way. Typically, as a ballpark, we normally look to invest around 100 to 200 crores that has been our trend as well, investing in these various opportunities or centers that will come in the near future.
- Bhaumik:** Yes, I got that actually, from the initial part. But could that number of 100 to 200 crores accelerate, given the opportunities that are coming up? Yes, I actually wanted to understand that a bit more. When you are talking of a 150 CT, so what I am trying to understand is that, while I understand that, you are talking about 100 to 200 crores of CAPEX per annum. Could that number accelerate over the next two, three years in terms of the CAPEX amount being larger given the opportunities that are coming up? And how does that to sort of have an impact overall, on the metrics like our ROC and free cash flows and so on and so forth?
- Yash Mutha:** See, as I said, these are opportunities that we believe will come away, number one. Number two, in terms of the investments plan and today Krsnaa is, I mean, if you see from a Company standpoint, the amount of internal accruals that we will be generating, it's close to Rs. 100 crores

plus that we will be generating on an annualized basis today, that along with a combination of vendor financing and our equity, I think that should give us a good leverage to grow and expand. I don't see that should be impacting our cash flows, because again, as we invest in these centers they we will be generating additional revenues which again goes into the cycle of creating additional internal accruals. And again given our past experience of establishing our centers in so many states, I think we will be putting our experience to test there and see how we can again, leverage these opportunities.

Krish Mehta: Sure, just to round it up, so this 65 CT and 30 MRI, say over the next two to three years, what should that number look like?

Yash Mutha: So, this 65 CT scans is what we expect to make it up to, say 100 by next year and maybe 150, the year after that is the ambition and plan that we have. And likewise for the MRIs, I think by the end of next two year, we should have close to these 50 plus MRIs.

Moderator: Thank you. The next question is from the line of Dushyant Mishra, from SageOne Investments. Please go ahead.

Dushyant Mishra: Question was, in your presentation, you have mentioned that you have a 128 CT scan and MRI centers, which is on Slide #6. But you just said you have 65 CT machines and 30 MRI machines so I was just wondering where the discrepancy is coming from?

Yash Mutha: That does not include the 29 CTs that we have won and are implementing, right. So, if you add that up, including the new projects that we have won.

Dushyant Mishra: Got it, the Punjab center is what this was.

Yash Mutha: Yes.

Dushyant Mishra: Okay. Second question is when we bid for a tender that is not statewide, I know Punjab was anomaly, but when we bid for these tenders, what kind of a competition do we see, do we see five or six other players or do we see only two or three regional players.

Yash Mutha: See, of course, after COVID, we are seeing an increased competition for these tenders. Where again, earlier what used to be around five to six players, we have seen almost 10 to 15 players also who are coming and participating in this tender. But again, there are two levels of filtration that happens, one is of course, the technical rounds, and eventually coming to the, quoting the prices for these tests. And even our experience and expertise in this area and our past track record that we stand a better chance in winning these tenders with a strike ratio of almost around 80%.

Dushyant Mishra: Second, somebody asked earlier about the realization per tests, and I just wanted some clarification on that too. So, Radiology, if I look at that, you did 1.05 million tests in Q2FY22. Out of this, how many of them were CT/MRI, and how many were X-Ray? Could you help me with that?

- Yash Mutha:** Could you just repeat that question please?
- Dushyant Mishra:** Out of the 1.05 million Radiology tests that you did, what, how many were CT scan and MRI. And how many were X-ray, because X-ray realizations would be what would be dragging this down, right, otherwise a simple brain and CT scan is 800 bucks. I am assuming that's what's dragging down the realization of this Radiology test.
- Yash Mutha:** Correct. So, just bear with me for a moment. I think the overall CT scans and MRI tests should be in the range of around, it would be close to almost around 1.5 lakhs CT scan and MRI test
- Dushyant Mishra:** Sorry, you said 1.5 lakh CT scan and MRI, out of the 1.45 million, so out of 10 lakh, one lakh were CT.
- Yash Mutha:** We would have done around 181,000 CT scans and around 62,000 MRI in this quarter, in September 2021. X-ray would be 8 lakh tests.
- Dushyant Mishra:** Yes, the rest would be X-rays, understood. Next question was on our machines that we buy from GE and Wipro. Compared to some of these regional guys that we might be competing with, in the tenders, how much cheaper are these machine for us? A CT scan machine let's say on the 65. If we are paying Rs. 1.5 crores, what is somebody who is a regional guy, who only buys maybe one machine in several years paying.
- Yash Mutha:** So, when you compare us versus these local regional players, the price variation which is what Krsnaa gets versus what others would get again it depends case-to-case basis but on average it will at least be around 15% lower compared to the others.
- Dushyant Mishra:** 15% cheaper, you said.
- Yash Mutha:** Yes, 15% lower again a combination of, even the CMC cost negotiated better, given we have a large fleet of these CT scan and MRI equipment. So, that also further brings down the cost of maintaining these assets.
- Dushyant Mishra:** Understood, so that's a 15% lower tender amount, we can bid right off the bat, other than anybody else, right, compared to others, okay. And just one quick question, so you said you have about 2000 plus employees including operators, technicians and lab assistants.
- Yash Mutha:** Yes.
- Dushyant Mishra:** But then why is your employee cost this low or are those not permanent employees and on contractual basis.
- Yash Mutha:** So, there are two facts of this, one is of course our employee base large comprises of these technicians and support staff across these 14 states out of and the balance is in the head office. So, part of these employees are also on off payroll, but if I have to just give you very kind of

generic answer, most of these staff are in the lower salary range, as a result of which our cost of employees is also lower.

Dushyant Mishra: Sorry, could you repeat that, I lost you there at the end.

Yash Mutha: So, your question was, why our employee cost is lower, right.

Dushyant Mishra: Yes, extremely low.

Yash Mutha: Yes, see today most of the centers if you consider, these are at remote locations, and most of the staff that we have to deploy at these centers are generally your technicians, your center managers, and of course then we have the management level employees working at the head office. So, because of a combination of these different elements, and also the price that some of the employees are also to third-party payrolls like especially the housekeeping staff, the maintenance, that is the reason why our cost is lower.

Moderator: Thank you. The next question is from the line of Kamlesh from Max Life Insurance. Please go ahead.

Kamlesh: My question is largely on the capacity utilization of the existing centers. Could you just tell us what is the capacity utilization and how much it can be utilized in the next two to three years.

Yash Mutha: So, if you currently see the capacity utilization normally between CT scan and MRIs is in the range of 40%. There is a certain theoretical capacity but again given these volumes it's at 40% and we have scope for improve the utilization ahead.

Kamlesh: And what about CT scan?

Yash Mutha: Both for CT and MRI, it's around 40% utilization.

Kamlesh: In next two to three years, how much this utilization could reach to?

Yash Mutha: So, we are, of course we have plans to increase this utilization to around 60% to 70%, which again would probably be one of the kind of good utilization across the industry.

Kamlesh: My question is, if we were to take first half, topline around Rs. 240 crore and of course some part of it is of COVID, even if I reduce that in the second half, on the current run-rate it's 200+240 around 450 approximately, the topline of this year. And we are talking about Punjab where we are investing approximately the Rs. 200 crores of IPO proceeds, can fetch us topline of Rs. 200 crores, if I understand right. So, 450+200 is 650 and then we are talking about the utilization also improving of the existing centers, that itself is going to contribute, and plus we are talking about some of the additional CAPEX in the MRI machines, because I see there is some gap in the next year and MRI machine which you are talking about 50, and 30 is already the existing capacity, plus 8 MRI machines in Punjab and 12, I guess would be in some other

states maybe Himachal Pradesh and others. So, effectively is it fair to assume that put together all of that could fetch us approximately Rs. 700 crore of topline at least in FY23. And this is just a rough estimate, I am just trying to figure out, is it, is my calculation adding up to the right number.

Yash Mutha: Yes, so I think, back of the envelope calculation that you have done, I think this is, it would be fair to assume that this is a kind of revenue we would expect in FY23, after all these Punjab, Maharashtra, Karnataka and other centers are implemented. Yes, this is the kind of numbers we are also looking forward to achieve.

Kamlesh: I am saying FY24, the numbers of MRI and CT scans, the number which you have given by FY24 is even higher. So, by that rule, FY24 effectively should be even higher growth.

Yash Mutha: So, the MRI numbers that you are referring to, these are the number of equipment that would be installed.

Kamlesh: Yes, MRI and CT scans.

Yash Mutha: So, see the numbers that I said FY23 is based on a certain assumptions with the number of equipment that we have plan to install. And of course, based on additional opportunity that will come along with our way, centers also maturing, of course we see growth in FY24 as well.

Kamlesh: And sir with respect to the new centers and I am talking about Punjab first, when is it going to commercialize and what kind of returns one should expect from the new project?

Yash Mutha: So, Punjab, we expect to operationalize from the Q4 of this year and Q1 of FY23 is where we expect the Punjab to ramp up and operationalize. In terms of the overall margins, it will be consistent with our existing margins that we are generating. Of course initially it is going to ramp up, but overall, I think, towards the end of the year, we will see the margins stabilizing and at the same level that currently we are achieving.

Kamlesh: And we are expecting the similar level of margins to be achieved within a year span from Punjab, is my understanding right?

Yash Mutha: Yes, 100%.

Kamlesh: For Punjab, earlier the understanding was that Punjab would get commercialized or the operations would start coming from the Q3, now we are giving a timeline of Q4. So, is there, what is the reason of delay, if you could just help us understand?

Yash Mutha: So, the reason only is because there are various operational aspects, like getting the centers ready from, the site getting ready. Whatever we have committed in the RHP we are trying to achieve that. I am just saying the revenues, the implementation will happen by Q3 and the revenues will come from Q4 of this year, and the full-scale operation will begin from the next fiscal year.

Kamlesh: And my last question would be in terms of overall payment timeline for PPP is government taking any initiative to bring it down or anything of that sort, in terms of further enhancing the fund allocation to the diagnostics services.

Yash Mutha: See, I think overall government has taken various initiatives to strengthen the healthcare infrastructure in the country. If you see from a policy level there is a Free Diagnostics Team, there is Essential Diagnostics List, there is Atmanirbhar Abhiyaan, so I think government is looking at this, again in the Punjab tender, we spoke about government is establishing Escrow account. So, all this point towards where government wants to support the private partners in terms of building its infrastructure for the country. And we expect that to also support us in getting receivables in time.

Moderator: The next question is from the line of Anmol Ganjoo from JM Financial Service. Please go ahead.

Anmol Ganjoo: My first question is straightforward. If you look at the headline variables right Radiology versus Pathology, COVID, non-COVID, EBITDA margins, how representative is 2QFY22, in terms of the overall business stands. This is assuming that obviously not a lot of new Greenfield Initiatives and what is the impact they will have. But if you look at the second quarter headline numbers, how representative is it off the steady state business?

Yash Mutha: So, if you consider Q2 of FY21, and how representative it is of the business. If you refer to the September quarter numbers, I mean these are the normalized revenue, given that COVID revenues are marginal and numbers are lower in our business. And we expect this to continue also the fact that the revenues do not include any new centers as implemented in the last couple of months. So, in our opinion, these are our normalized revenue and as additional centers get implemented that will further improve the revenues and the profitability as well.

Anmol Ganjoo: Second question is that, if you know our exit rate for this year, and looking at the margin trajectory it's going to be close to 30% on EBITDA, then the risks to the margins next year given that your Punjab will come on stream and so on and so forth, should be on the upside, is that a fair understanding ?

Yash Mutha: Yes.

Anmol Ganjoo: Okay. And which then brings me to the next question which is that there is a slide which you have put, which says that our test are priced 45% to 55% cheaper, we are still doing 30% to 31% margins, with upside risks. And we were also seeing incremental competition on the number of players competing for a tender, which you said were five, have now gone up to 15, 20. So, two questions on that one is that what is the nature of these incremental 10 players which you have seen in competition? And second, is there room for significant downward pricing revision, therefore given that at reasonable, we have discounts to the market also, we are pretty healthy on EBITDA margins.

Moderator: Participants, please stay connected, the line for the management of Anmol, if I may requested to repeat your question, once again for the management.

Anmol Ganjoo: So, basically two questions, one is that given that we are still at fairly high, healthy EBITDA margins. And we are cheaper than the market, 45% to 55%, plus there is greater competition. Do you see pricing pressure in your further contract wins or downward pressure from various state governments for revision of prices?

Yash Mutha: No, as we see in our model the prices are contractually embedded as part of the contract. In fact in most of our contracts we have a price escalation ranging from 2% to 5%. So, we don't see any pricing pressures in the years to come.

Anmol Ganjoo: And also you alluded to greater competition, a tender which would be contested by five people, now that number is going to 15, and 20, what is the nature of these new 10 players, and what are the variables on which they are competing?

Yash Mutha: So, see these new players that are entering of course some of them are localized regional, diagnostic chains or setup. Some of them are also established players. So, we are seeing tractions from all these. Now in terms of again variables and size they are from someone like having just a couple of centers to larger chains as well.

Anmol Ganjoo: If so, it's fairly widespread is what you are saying, right.

Yash Mutha: Correct.

Anmol Ganjoo: So, two more questions, one is that if you look at capital allocations, going forward it looks like you are fairly well covered for revenue growth, the number that you kind of thought the maths, adds up to is fairly impressive. And we are going to incur around Rs. 150 crores for Punjab. Organizationally the focus for next 12 to 18 months is going to be to consolidate or try to win further tenders to kind of up this number, because in that case, there will be implications for the balance sheet. If you could just outline for next 12 to 18 months, from a CAPEX and return standpoint, how are you guys thinking about getting the organization, is it about delivering on whatever is existing or focusing on trying to win the new business, because I would tend to think that from, our hands are pretty full at this point in time.

Yash Mutha: So, if you see from a strategy perspective, so of course our priority will be to establish a center that we have won. You know given that these are centers and some big project. So, the priority would be establishing these centers. Having said that, if you see Krsnaa's track records, we have been able to bid for projects, win them and successfully implement and install these projects and delivering them. So, whilst looking at this new opportunity that will come our way, we will continue that trend. But yes, priority wise is getting these centers up and running and activating them at the earliest.

Anmol Ganjoo: Lastly, how do you want us to think about depreciation on a full year basis and also the quarterly variation, should we be thinking about depreciation on a full year basis and then how to break it quarterly? How do you guys want us to think about depreciation, next year?

Yash Mutha: So, typically the asset life normally on the Radiology side is around 10 to 15 years, and Pathology it varies. Initially whenever these centers are being installed and some of these are essential services, so equipment also have accelerated depreciation. So, of course it will depend on when the investment happen, when the centers get up and running. It will be difficult to give an average to be exact, but I think it all ties up to the various projects that we have and in the installation plan.

Anmol Ganjoo: So, basically it shouldn't be significant quarterly variations, right.

Yash Mutha: No, of course not.

Moderator: Thank you. The next question is from the line of Anubhav Sahu from 3M Global Research. Please go ahead.

Anubhav Sahu: Couple of questions, first question is regarding the timeline of five PPP contracts, so one you mentioned for Punjab, I think it will commercialized by Q4. And for the rest of the contracts, you can just mention what timeline you are looking at for the operationalization of those contracts.

Yash Mutha: So, for the balance of the contracts some of the centers, the machines have already been implemented. So, I think we are targeting to have the implementation done by Q3, end of Q3 where all these centers should be activated so that we start seeing revenues coming from Q4 of this financial year.

Anubhav Sahu: Okay. And I think 150 CR CAPEX you mentioned, I think this is for all the five contracts.

Yash Mutha: Yes.

Anubhav Sahu: I think somewhere you mentioned, I think the CAPEX intensity for the coming year you are looking at the range of 150 to 200 CR for the coming years?

Yash Mutha: Yes, plan that we have given the opportunity that we believe will come our way, so that would be as estimate of the CAPEX that might happen in the subsequent years.

Anubhav Sahu: And for these five PPP projects, Rs. 200 CR you mentioned as the incremental revenue opportunity. And will it be fair understanding that within the year of operation probably we can reach that kind of number.

Yash Mutha: Yes the revenue can be achieved on an annualized basis, if all these centers are up and running, this is the kind of revenue that we can expect on a full year basis.

Anubhav Sahu: Okay. So, I mean like I am just trying to understand that as per your internal targets so probably by fiscal year '24 probably this could be a number which we may be getting from this five centers.

Yash Mutha: Yes.

Moderator: Thank you. Ladies and gentleman that would be the last question for today. I will now hand the conference over to the Management for closing comments.

Yash Mutha: Thank you, everyone for joining for our H1FY22 Earnings Call. We are certainly excited to start our journey as a listed Company and look forward to having more such interactions going forward. If any questions remain unanswered or if you have any further questions, please feel free to connect with us and our investor relationship teams. Thank you so much. Thanks everyone.

Moderator: Thank you very much. On behalf of Equirus Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Notes:

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For further information, please contact

Nikhil Deshpande
Company Secretary
Krsnaa Diagnostics Limited

+91 20 29780210 /11/12
investors@krsnadiagnostics.com

Ravi Gothwal / Vikas Luhach
Churchgate Partners

+91 22 6169 5988
krsnaa@churchgatepartners.com