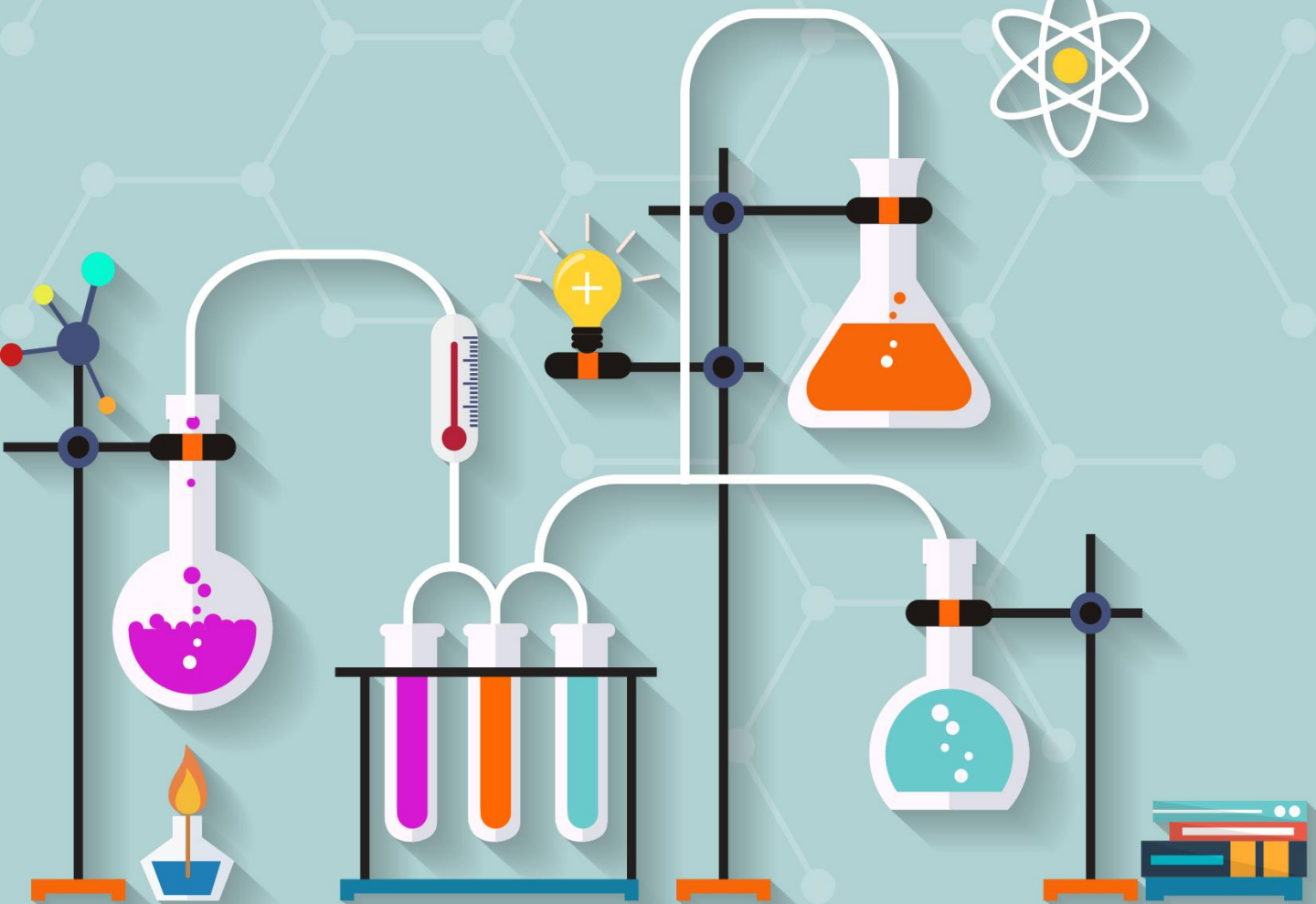
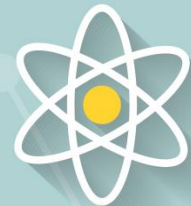


Krsnaa Diagnostics Limited

Visit Note

25-03-2022



Krsnaa Diagnostics Ltd

“Foray into B2C and new tender wins to drive the growth”

CMP
INR 509.8

Market Cap (INR Mn)
16,006

Sector
Diagnostics

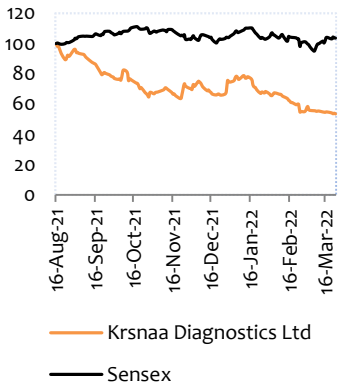
Krsnaa Diagnostics Ltd. or “Krsnaa”, incorporated in 2011, is one of the fastest growing and differentiated diagnostic service provider with focus on Public Private Partnership (PPP). Krsnaa provides diagnostics services at disruptive rates (at ~50% discount to the private players in the diagnostics sector) across various segments including radiology, pathology and tele-radiology. The company has presence across 14 states in India with 1900+ centers and the company has served 29 Mn patients since inception. Krsnaa has strong workforce of 186 radiologists, 34 pathologists, 7 microbiologists and more than 2,700 qualified professionals including clinicians, technicians and operators.

We recently visited two diagnostics centers (situated in Sutar and Kamla Nehru Hospital, Pune) and tele-reporting hub of Krsnaa Diagnostics at Pune. During the visit we interacted with company's top management team including Mr. Rajendra Mutha – Executive Chairman, Ms Pallavi Bhatevara – MD and Yash Mutha – Executive Director. Along with the management team we also interacted with Mr. Ravinder Sethi - COO and Mr. Pawan Daga – CFO.

MARKET DATA

Shares outs (Mn)	13
Equity Cap (INR Mn)	65
Mkt Cap (INR Mn)	16,006
52 Wk H/L (INR)	1099.5/509.25
Volume Avg (3m K)	6480
Face Value (INR)	5
Bloomberg Code	KRSNAA IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,362
NIFTY	17,153

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21
Promoters	27.38	27.38
FIIs	4.44	6.01
DIIIs	30.14	30.16
Public	38.04	36.45
Total	100.00	100.00

Following are the key takeaways of the visit:

Long term contracts to provide revenue visibility

Under the PPP model, the contracts are awarded for 10+2 years with 3-7% price escalation clause built-in. The customer acquisition cost is minimal as these centers are opened in existing hospitals which caters to the mass. The customer base is driven by both patient's visiting government hospitals and direct walk-ins. Krsnaa manages to attract customers from the day of establishment of centers as the rates are relatively cheaper and they have best-in class infrastructure and timely reporting.

New tender wins to provide additional runway for growth

The company is currently evaluating 6 tenders and it in different stage of talks with relative authorities. The company expects these tenders to be awarded by end of CY2022. Krsnaa has a strong bid-win rate of ~78% in the past and if the company manages to continue the trend then these tenders will provide revenue visibility from FY24E onwards.

Growing Private Hospital Partnership

Krsnaa has managed to expand its relationship with Private hospitals and now they have presence in 26 private hospitals which was 12 in FY18. The company is seeing good traction and will continue to add more hospital in the network. These private centers help the company in creating brand visibility which in-turn will lead to more revenue. Currently 33% of the revenue comes from private hospital partnership.

Foray into B2C segment is a big positive

The company's strength lies in providing quality health care at affordable rate and they have best-in-class infrastructure. The management is willing to leverage their strength and plans to enter into B2C segment in FY23 by opening 1,000 collection centers mainly Maharashtra, Punjab, Himachal Pradesh and Jammu & Kashmir. These centers would not only service pathology customers but also make appointment for radiology patients at Krsnaa centers at 20% premium to the company's prices as convenience fee.

Tele-Radiology – to provide additional growth opportunity

Krsnaa has built India's largest Tele-Radiology reporting hub which is helping the company to penetrate in remote locations and provide quality services in relatively lesser time as the company has created strong infrastructure and network of radiologists which are available 24x7. Krsnaa has build the technology in-house and 190 dedicated team of in-house Tele-Reporting radiologists from India and abroad. The company's hub and spoke model radiology facility is capable to process large volumes. Currently Tele-Radiology accounts for 10-12% of company's revenue.

Test	Monthly Capacity	FY21 Annual Volumes	Headroom
CT-Scans	1,26,000	4,79,233	3.2x
MRIs	31,500	1,45,116	2.6x
X-Rays	15,00,000	24,29,683	7.4x

Source: Company, KRChoksey Research

Krsnaa Diagnostics Ltd

Capacity created during FY18-21 will help to drive revenue growth

Krsnaa has invested in creating capacity in recent past and taken total centers' count under PPP model to 1,905 in 9MFY22 as against 670 in FY18, a CAGR of 39%. During the same period, the company also taken total centers' count under Private Hospital Partnership to 26 from 12 in FY18, a CAGR of 19%. Many of these new centers are young and yet to reach their full potential. These existing centers and new tender wins will provide growth opportunity to the company. The company has invested ~INR 3.3 Bn over FY18 to FY21 to create the infrastructure.

Other Key Highlights

- Under the PPP model the company has presence in 60 districts out of 760 districts which provides visibility for growth.
- Private players are not direct competitors for the company as they can not have disparity in prices offered to its existing customers and under PPP model. However, the company competes with small regional players under the PPP model.
- The company has 10 years partnership with Private Hospitals where prices are higher than those under PPP model but the company has revenue sharing with these hospitals.
- Company does not require large capex for growth as it has created capacity over past four years. The average capacity utilization is ~40%.
- Foray into B2C will enhance overall operating efficiency of the company.
- Prices for the tests are benchmarked to CGHS rate. Prices in the Sutar hospital were 6% less than the CGHS rate applicable to patients with prescriptions from government hospitals.
- Thye prices for private walk-ins and public patients are same. However, only in case of PPP in Pune, Krsnaa charges 10% premium to private walk-ins.
- Krsnaa offers tests for radiology and pathology for both PPP and Private Partnership at 40%-50% and 40%-70% lower than the prevailing market rate, respectively.
- Existing Infrastructure: 537 Pathology Centers, 46 Processing Labs and 491 Collection Centers.
- Krsnaa has developed strong IT infrastructure which is driving operational efficiency. It is helping in accurate diagnosis and faster reporting.

Future Growth Strategy

- Historically, the company hasn't lost any renewable tender and their win ratio of new tender participated is ~78%. Krsnaa has built strong in-house capabilities to understand the terms of the tenders and participate in the right tenders where growth prospects are visible.
- Krsnaa will continue expand its Partnership with Private Hospitals.
- With early success of Tele-Radiology with Assam government, Krsnaa believes it can replicate it with other state governments too.
- Krsnaa is expanding its presence in Mumbai and with B2C segment coming in the company expects to do revenue of INR 2,000 Mn from Mumbai in next 3 years.
- The company expects to grow its revenue by 2x and net profit by 3x in next 3 years.
- The company believes to achieve 25%+ RoCE next year.

KEY FINANCIALS

Particulars (INR mn)	FY18	FY19	FY20	FY21	9MFY22
Net Sales	906	2,092	2,584	3,965	3,078
EBITDA	292	579	628	953	1,049
PAT	46	96	135	515	505
EPS	4.49	5.43	13.05	20.03	17.43
EBITDA Margin (%)	32.2	27.7	24.3	24	30.2
PAT Margin (%)	5.0	4.5	5.0	12.6	14.1

Source: Company, KRChoksey Research

Krsnaa Diagnostics Ltd

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.