



# “Krsnaa Diagnostics Limited 2QFY23 and 1HFY23 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Krsnaa Diagnostics Limited 2Q FY23 and 1H FY23 Earnings Conference Call hosted by Equirus Securities.

We have with us from the management, Mr. Rajendra Mutha - Chairman and Whole-time Director; Mr. Yash Mutha - Whole-time Director; and Mr. Pawan Daga - Chief Financial Officer. 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yash Mutha. Thank you and over to you, sir.

**Yash Mutha:** Good afternoon everyone and welcome to the Q2 FY2023 Results Conference Call of Krsnaa Diagnostics Limited and thank you everyone for joining us today. We have already circulated our earnings presentation which is available on our website as well as the stock exchanges website. I hope you all have had the opportunity to go through the presentation. From an industry perspective, the need for high quality and affordable diagnostic services are clearly visible as it is an integral of our healthcare industry which plays an imperative role in diagnosis, assessing disease and plays a major role in the treatment, management and even prevention of diseases.

Today, the Indian diagnostics market is valued at \$10 billion and projected to a CAGR growth of 14% in the next 5 years. The key fundamental drivers of the diagnostic industry such as large population of 1.3 billion people, rising per capita income, allowing increased affordability and need to assess better healthcare services, emergence of lifestyle diseases and increased awareness of preventive health checkups, overall, looking at India's demographics, there is a vast and underpenetrated market of diagnostic services which offers an immense opportunity to both organized and the unorganized players.

Furthermore, recognizing the importance of making diagnostic services affordable, the government and various states are continuously evaluating public private partnerships as a viable and best alternative to provide high quality diagnostic services at affordable rates to the masses. Today, Krsnaa Diagnostics is a leader in the public private partnership diagnostic space, and we are proud to have expanded our presence in the last 5 years making high quality diagnostic services affordable and available to the remotest corners in the country. We are well positioned to serve our patients and we see a tremendous runway ahead to build upon a solid foundation.

With this backdrop, I am pleased to inform you that in line of setting up new centers in the state of Himachal Pradesh, the company has operationalized 10 pathology labs out of the 24 and 126 collection centers out of the 190. In the state of Maharashtra, the company has fully operationalized its diagnostic centers at K. J. Somaiya Hospital & Research Center, Sion, Mumbai and at Pandit Madan Mohan Malviya Shatabdi Hospital in Govandi, Mumbai. In the state of Punjab, as per the agreement with the government for procurement operation and maintenance of 25 CT scanners, 6 new MRI machines, 30 pathological labs, 1 referral laboratory

and 95 collection centers across the state. The company has operationalized diagnostic centers at two more locations, Mansa and Sri Muktsar Sahib. With this, the company has now operationalized 20 CT scanners, 5 MRI machines, 18 pathology labs, including one referral labs and 95 collection centers in the state of Punjab which amounts to completion of almost 88% of the project as on date. We are progressively expanding our presence and during the quarter, we have added 7 radiology, 50 Tele-reporting, 20 pathology labs and 116 collection centers. As of today, Krsnaa is a leading PPP diagnostic player with 120 radiology centers, 1,489 tele reporting centers, 72 processing labs and 677 pathology collection centers. The implementation of the remaining centers is on track; however, there have been some regulatory and procedural delays in operationalizing these centers. We expect all the centers mentioned in the RHP to be operationalized by the end of the third quarter of the current fiscal.

Coming to the financial performance during the quarter, during the second quarter, Krsnaa registered co-revenues of Rs. 123 crores, a growth of 19% year-on-year despite the high base in Q2 FY22 due to the second wave of COVID-19 and 9% on a sequential basis. The COVID-19 revenues declined from Rs. 5 crores in Q2 FY22 to Rs. 0.3 crore in Q2 FY23. Krsnaa continues to grow its core revenues with a focused approach. Our EBITDA stood at Rs. 31 crores with margins of 25.2% and net profit of Rs. 15 crores with margins of 12.5%. Compared to previous quarters, which saw an impact of margins, our margin for this quarter has stabilized with increased contribution from newly launched center and therefore giving us confidence that our margins are expected to improve in the upcoming quarters with the maturity of newly launched centers.

On the B2C side of the business, we are pleased to announce that we have decided to enter the markets through a franchisee model and planned to launch 600 collection centers across India providing services at attractive rates. The company will strengthen its footprint across

Maharashtra, Himachal Pradesh, Punjab, West Bengal and Rajasthan in a phase manner with the spread across metros, tier 2 and tier 3 cities. The centers will be equipped to offer specialized services in genetics, genomics and molecular diagnostics along with routine investigations of biochemistry, serology and histopathology. The centers will offer dedicated services to women's health including hormones, PCOD as well as diabetes monitoring, cardiac health and cancer care. With this expansion, the company would be providing premium quality diagnostic services to patients which will be accessible to them at highly attractive rates.

On the technology front, we are also implementing the latest CRM for one of the leading vendors, this will help create efficient, automated business processes to increase productivity, provide the team with relevant data points to enhance customer engagement with an overall aim to improve the customer experience and satisfaction. Looking ahead, we are focused on timely implementation of the projects, which would also augment step-up growth coupled with maturing of recently launched centers, further expansion of the B2C business. With all these

initiatives underway, we are confident that Krsnaa is well positioned to meet its annual targets and remain one of the fastest growing diagnostic chains in India.

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

**Pawan Daga:**

Thank you, Yash. Very good afternoon to all the attendees. I will present the financial highlights for the second quarter and half year ended September 2022. In the second quarter, the company registered total revenue from operation of Rs. 123 crores, an increase of 13.6% on a year-on-year basis from Rs. 108 crores and 8.9% on a sequential basis from Rs. 113 crores in Q1 FY23. The growth is led by our core business comprising of radiology and pathology, which registered revenue growth of 18.7% year-on-year and 8.9% on a sequential basis. The COVID revenue declined by 94% from Rs. 5 crores in Q2 FY22 to Rs. 0.3 crore in Q2 FY23.

Operating EBITDA for the quarter stood at Rs. 31 crores, an increase of 9.5% compared to the previous quarter. EBITDA margins were 25.2% in Q2 FY23. In spite of the new center being launched, the profitability margin remained stable quarter-on-quarter. The margins are expected to improve in the upcoming quarter with the maturity of the newly launched centers. Profit after tax for Q2 FY23 was Rs. 15 crores, an increase of 22.4% on a year-on-year basis from Rs. 13 crores and 7.7% on a sequential basis from Rs. 14 crores in Q1 FY23. For the quarter, PAT margins were 12.5%.

In the half year, the company registered total revenue from operation of Rs. 236 crores. Our core business comprising of radiology and pathology which registered revenue of Rs. 235 crores with growth of 14.7% on year-on-year basis. The COVID revenue declined by 98% from Rs. 35 crores in H1 FY22 to Rs. 0.6 crore in H1 FY23. Operating EBITDA for H1 FY23 stood at Rs. 59 crores with the margin of 25.1% for the H1 and profit after tax for H1 FY23 stood at Rs. 30 crores with the margin of 12.5% for the H1.

We can now open the floor for question-and-answer session.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Avnish Khara from VT Capital. Please go ahead.

**Avnish Khara:**

Sir, my first question is on the Ayushman tender, so there was a very large tender over there, so what exactly happened over there, can you just share some light on that?

**Rajendra Mutha:**

Sir, there were 4 participants in that tender. We are given to understand that out of them one participant was blacklisted. Another Participant who was supplying services to Rajasthan Government during Covid period had participated in Tender through Consortium. The other party in that Consortium was blacklisted. Hence, the entire consortium got blacklisted. and after that the third party who was there withdrew. At the end, only one participant remained and

authorities cannot open the tender with a single participant. In such cases, the Government retenders the Tender and if, at the time of retendering also only one participant comes, then only tender gets opened. I think new tender will be uploaded in couple of days, then in that how many bidder come, we will be able to know. According to us by 15<sup>th</sup> December the new tender will be opened.

**Avnish Khara:** So, 15th December, the tender will be opened and then are you expecting a lot of competition here according to you?

**Rajendra Mutha:** In this Tender we were the only party that qualified in terms of documentation for technical as well as financial eligibility criteria and we secured L1 position. However, because we were the only party qualifying for the bid, Government cancelled the tender and we are expecting in a couple of days the re-tendering process should begin. Probably by 12th of November a fresh tender shall be uploaded as per our estimations. Further we expect a time period of 15 days for pre-bid meeting to be conducted and within a month, tentatively by 12th or 15th December, 2022 tender will be completed.

**Avnish Khara:** So, we will have visibility on this by Q4, correct, also, if I look at your fees to hospital, in absolute amount it is down quarter-on-quarter, so what is the reason for that?

**Yash Mutha:** The reason why the fees to the hospital is down because that is linked to the Rajasthan earlier project that we were working on. Since the project has now been stopped from August onwards, that is why you see a decline in the revenue or the fees to the hospital paid as well.

**Avnish Khara:** And your receivable days, they were at 47 in FY22 and even from the first half they have gone up significantly, so is that something that we have seen over the years that the second half is relatively better?

**Yash Mutha:** As we have shown in the presentation as well, basically if you see from a government receivables, there is a certain level of seasonality wherein Q2, Q3 is where the receivables gets stretched, but like we have been communicating always, we try to keep it within 90 days and even for this half year, you will see that we had kept it around 86 odd days and as it comes to the year end and the government is also under pressure and therefore, the authorities are also basically, pay the dues because their next year budget get impacted, so we are confident and hopeful to see it is coming down to the similar number of receivable days that we saw during the March year end. So, these are seasonal and a regular pattern if you see the year-on-year similar trends, in fact this quarter has been better than compared to all the previous trends that we have seen and witnessed.

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from Incred PMS. Please go ahead.

- Aditya Khemka:** Sir, in the balance sheet, I am just noticing there is a line item called other financial assets, Rs. 118 crores in H1 FY23 which was a negligible number last year, could you throw some light as to what this other financial asset is?
- Pawan Daga:** We see the other financial assets include the fixed deposits of long-term tenure more than 1 year.
- Aditya Khemka:** So, you are yet to execute the tender, so you have to put a fixed deposit with the government, is that what is that?
- Pawan Daga:** So, some fixed deposits are of our internal accruals and partially some fixed deposits of proceeds from IPO, which we are utilizing the funds for our upcoming projects and the project earmarked in the IPO.
- Aditya Khemka:** But I am slightly confused as to why that could be classified as other financial asset, generally more than fixed deposit, if that come under bank balance or cash and cash equivalent, normally we don't do that way?
- Pawan Daga:** So, tenure of fixed deposit is more than 1 year will be classified as other financial assets.
- Aditya Khemka:** And sir, secondly on the Rajasthan tender, so as you said there was only one bidder and therefore the government will lead to reopen the tender to see if there are other parties that express interest, just try and walk us through what is the total size of the tender even if the government is willing to give you the entire tender, does your balance sheet and funding allow you to execute a tender as big as Rajasthan's tender?
- Yash Mutha:** Yes, so basically the Rajasthan tender if you see it is one of the tenders which has almost large network of hub and spoke model, almost 3,000 collection centers and bigger share of labs, so the government is also keen to have serious players and that is the reason why when they invited bidders to participate, they saw certain bidders with certain terms which are not qualified and hence we cancelled the tender which they will come up again. So, of course, this is a good opportunity, I think in terms of just topline, it could be revenue wise contribution, it could be in the range of about Rs. 150 to Rs. 200 crores which for a mature level of this project can be expected.
- Aditya Khemka:** And as a company, let us say, if we win the majority of the tender, let us say, we get the L1 in the tender, which is the capital outlay that we will have to put?
- Yash Mutha:** The capital outlay again will be subjected to what is the requirement that the government is putting up, how many labs they want to establish, but unlike our radiology tenders, since pathology is asset light model, so I don't think so there will be significant investment required

for this kind of a tender, but the actual outlay will only be, we can comment once we see what are the tender requirements and accordingly we will then update.

**Aditya Khemka:** So, basically, if I understand this correctly, majority of your Rajasthan tender is for pathology, it is not for radiology?

**Yash Mutha:** Yes, it is for pathology, correct.

**Aditya Khemka:** And sir, lastly, just one request I was looking at the presentation that you guys uploaded, it is very informative, but there are certain operating metrics like average revenue for patient and then total number of patients which you gave in slide 37-38 on your deck, so these numbers are given only up to FY22 and not for first half of FY23, so just from a good practice standpoint it could be very appreciated if the company would add first half and quarterly numbers to these operating metrics like number of patients, average revenue for patient, etc.

**Yash Mutha:** Yes, we take your suggestions. I think we will try to implement that and accordingly ensure that the presentation has all these elements covered.

**Aditya Khemka:** So, sir, just one, because I don't have that data with me, do you have the number ready with you as to what is the average revenue per patient in first half FY23 and also what is the revenue from Tele-reporting patients in first half of FY23?

**Yash Mutha:** While I don't have the numbers on the top of my head, but the numbers in terms of the realization has been in line, so in fact both the Tele-reporting revenue per patient has also improved as well as the average revenue per patient, but we can provide the data separately after this call. Pawan, can you just take a note of this, please.

**Pawan Daga:** Yes. Surely.

**Aditya Khemka:** And as I said it would be great if you guys just add the quarterly data along with the annual data that would be fantastic.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal:** So, my question is on, if you look at the Q-o-Q revenue growth, we are looking at about Rs. 10 crore delta, not looking at Y-o-Y, looking at Q-o-Q revenue growth where COVID was a small component of business, now in the presentation we have talked about that a lot of our Punjab contracts has got operationalized over the last 6 odd months, so is there impact of the Punjab revenues, Punjab project already fit in the numbers and if it is not, by when we will start to reflect through?

**Yash Mutha:** Punjab has already started contributing revenues to the overall business. In this quarter, we have seen about Rs. 10 crores of revenue coming from the Punjab project which has been increasing steadily and I think now with these centers getting live, more and more contribution will be seen from the Punjab project as well.

**Nitin Agarwal:** What is the for example Rs. 10 crores that we have done in this quarter, what percentage of the peak potential of the Punjab contract will that represent?

**Yash Mutha:** As of now, I think it will just be about close to 15%, there is a significant opportunity as these centers get live and the true potential of Punjab like we have been maintaining earlier as well, I think it is yet to be tapped into, so there is significant opportunity to grow Punjab and it has been ramping up month-on-month, quarter-on-quarter as we have seen the trends now.

**Nitin Agarwal:** From your past experience, typically it will take another couple of quarters before it starts meaningfully scale up?

**Yash Mutha:** From Q4 onwards, we will see Punjab improving the contribution. As we said, Punjab compared to all our past experience, in terms of deploying these centers and the projects, Punjab had its own share of challenges in terms of regulatory approvals along with the change of government what resulted into a bit slow ramp up compared to all our past experience. Having said that now this center getting operationalized, we are also eagerly pushing the pedal and all our energy and resources to ensure that the ramp up happens and we are able to start getting contribution from the Punjab project.

**Nitin Agarwal:** And Yash, when we sort of think about our business from here on, so obviously Punjab project is going to scaleup, what are the other projects which has already won that will meaningfully contribute over the next few quarters?

**Yash Mutha:** Along with Punjab, we have Himachal, the pathology project which we have, again which has been implemented, 10 labs have been implemented. Along with that, we had Mumbai region where in we had some centers in the Mumbai region which are coming up, so these all the centers are which we believe as they start maturing they will start contributing to these existing revenue base that we have. Then there are some new projects which are currently in the pipeline including Delhi we have won a project, then Tripura the tele-reporting, these are additional projects that we have won which will also continue to add to the existing revenue base.

**Nitin Agarwal:** And if I were to put the last one, of the contracts you already won, if you want to assess like the peak quarterly revenue potential of these contracts, what kind of a number in a ballpark basis we are looking at maybe in a year, year and a half time when all of these contracts that we won we are going to get close to start to get at optimal levels?



- Yash Mutha:** So, all these contracts put together with Punjab, Himachal, I think on a mature analyzed basis, like we said, it should be close to Rs. 100 crores annualized revenue.
- Nitin Agarwal:** Each of these?
- Yash Mutha:** No, all put together, so Punjab, Himachal and Maharashtra, if you take all of these, they would be in the range of about Rs. 100 odd crores.
- Nitin Agarwal:** Annualized?
- Yash Mutha:** Yes, annualized.
- Nitin Agarwal:** So, Rs. 25 crores a quarter?
- Yash Mutha:** Yes.
- Nitin Agarwal:** It seems a little low, but that is fine.
- Moderator:** Thank you. The next question is from the line of Shashwat Desai from Sameeksha Capital. Please go ahead.
- Shashwat Desai:** As I see, margins are affected by two things, one is employee expense which is raising from last year quarter 2, it has been steadily raising at the percentage of revenue, secondly other expenses, major part of other expense is reporting charges, so these two expenses have risen a lot, so what is the reason for that?
- Yash Mutha:** I think that is good observation. Basically, the reason for raising manpower cost is linked to the projects of Punjab and Himachal Pradesh where significant resources have been deployed. Just to give you a perspective, there are 25 CT scans, 6 MRIs, number of labs coming up equally in Himachal Pradesh, so we have deployed manpower, so whilst the manpower has been added, however, the revenue has not been commensurate to the extent of the manpower because it is a ramp up which is currently going on. So, I think beyond this there won't be a significant addition to the manpower once the projects are now operationalized and as the revenue starts increasing, you will see these costs getting stabilized and probably they will come back to the standard level that we expect as a percentage of manpower to the revenues. With regards to the reporting charges, again here in Punjab we have to appoint radiologist at each of these centers and that is the reason why because the volumes are low and we are not totally able to leverage the Tele-reporting, that is why the doctor's cost or reporting cost are high, but we are working where the other volumes could also be done from these doctors as a result of which we will see the doctors or the reporting charges also coming down as the volumes go up in the subsequent quarters.

- Shashwat Desai:** Secondly, as per my understanding, earlier Punjab was Rs. 100 crores project and rest of all are Rs. 100 crores, so why now Punjab, Himachal and Maharashtra, these three contributing only Rs. 100 crores, Punjab was contributing Rs. 100 crores earlier?
- Yash Mutha:** Correct, the reason is, as we are seeing today there have been these deployment challenges that we see whilst on an annualized revenue basis we would certainly have higher aspiration, but given that we are seeing we just want to calibrate and see how we take it, aspiration wise or from opportunity wise, of course they will be providing much higher value, but currently the way these state level different dynamics are working out, we just want to be cautious in terms of the approach and of course come back with much more updates probably by Q3 by when all these centers we have operationalized, like some of the centers we are seeing there are some operational challenges like in the border areas, electricity is not getting supplied, so we just want to get the centers operationalized and then we will come with probably more guidance in terms of how these projects will contribute to the revenues.
- Shashwat Desai:** Will we have the operational revenues, so we are in line to make a 25% growth this year which is around Rs. 300 crores in the next half of the year?
- Yash Mutha:** So Yes, if you see from guidance wise, we are working toward it where we will be working towards to achieving that target of having 20-25% growth as this project we have ramped up, we are confident we should be able to achieve it.
- Shashwat Desai:** And just one request, as earlier participant mentioned volume data is increasing, so if you can draw in volume and operational data it would be helpful.
- Moderator:** Thank you. The next question is from the line of Jainil Shah from JM Financial. Please go ahead.
- Jainil Shah:** My question is on the gross margin, there has been some impact on the gross margin this quarter, so if you can throw some color on the mix or what is it, is it temporary and how should we look at it going forward?
- Pawan Daga:** So, the gross margin is slightly impacted because of the low volume in the new operationalized center where we see our consumption cost is at a higher price and this is the reason only where we see an impact on the gross margin, but going forward, we will see the improvement in the gross margin as well as the stability in the gross margin.
- Jainil Shah:** And Yash, if we look at the growth X of our Punjab contracts, it is just like around 3%-4%, so what is impacting this growth in the base business and how should we even look at the lumpiness in quarter over quarter, so like 2Q is supposed to be a very good quarter and we still have muted growth, so how should we look at it?

**Yash Mutha:** I think from an overall business perspective, as we said today the entire energy and focus is on ramping up the projects. Punjab is a large project which we want to get up live, so that they get stabilized. Hence, there has been slight delay as, the entire team is working on it, but I think as Punjab and Himachal get operationalized, we will be focusing back on our existing centers which are running on its own stream and this will also contributing more and more to the business. So, I think quarter wise, Q3-Q4 onwards, we will have some more perspective to share in terms of how the quarterly numbers will look like, once all these projects get operationalized.

**Jainil Shah:** And are we still firm on our FY24 guidance because and if you can just refresh, so our RHP tenders as you mentioned will contribute around Rs. 100 crores and Maharashtra if I am not wrong, last quarter you mentioned Rs. 65-Rs. 70 crores and other tenders would contribute Rs. 100 crores, is that understanding correct?

**Yash Mutha:** Yes.

**Jainil Shah:** And base business we are not seeing much traction, so then would that mean that we would be lowering our guidance a bit or may be this could be delayed by like 6 months or so?

**Yash Mutha:** Correct, so I think from a guidance perspective, we are equally and very aggressively working on achieving the target that we had set out for ourself. The only challenge that we are seeing is in terms of certain delays and I think that is why we would want to calibrate and come back. I think from our perspective given that various of these even projects that are currently under implementation, we believe that hopefully by the end of next quarter, we will have some more realistic guidance to provide which basically, though we are committed to achieving those targets of doubling profits as well as in terms of the revenue that we had mentioned in the previous quarter, so we are working aggressive towards it and if you see the project that we have on hand, some of these projects like large projects which include Maharashtra, the Himachal Pradesh, the entire state, so I think that gives us confidence that we will be able to achieve those targets.

**Jainil Shah:** And one last question if I may please squeeze in, what is your exact plan on the B2C front, so we are going to operationalize around, rollout 600 centers, so what is the timeline for that and how much contribution are we really expecting?

**Yash Mutha:** For our B2C segment, though we are late in the sense from a market perspective, but what we have done is we studied what are the current trends and come up with the unique model which benefits the so called business associate and have tasted initial successes, as of date we have almost close to 100 such touch points including Maharashtra where we have these what you call Krsnaa Business Associates and the B2B touch points and we are planning to do in a phase manner, so we are launching this in Punjab very soon. I think we have already the team is working on there; they will be signing such agreements very soon. Having said that, but initially it will be a bit slow ramp up because we really want to ensure that the model that we are coming

into the market is strong enough, stable enough and from thereon we should expect a steep hike in terms of just basically replicating and scaling the model. So, we are expecting by end of Q4, there will be a gradual growth in terms of the numbers and then from the next fiscal year as once all the systems, the integration everything gets aligned, we should start seeing a spike in terms of getting those traction in terms of having more touch points and numbers getting added quarter-on-quarter. From revenue wise also, I think we are seeing some good contribution coming up with about these 20 odd centers contributing to almost Rs. 20 lakh from the initial month itself, so we are seeing that as these centers start maturing, they will also further add to the revenue base.

**Moderator:** Thank you. The next question is from the line of Rishabh Tiwari from Allegro Capital Advisors. Please go ahead.

**Rishabh Tiwari:** My question is regarding the material cost, so the material cost has gone up from 10.5% to 14% this quarter and just wanted to know the reason of such a significant increase and related question is, is it related to change in the business mix as in the revenue mix of radiology, pathology and Tele-reporting if you could give, if you have the numbers at the top of the mind?

**Yash Mutha:** I think one of the key reasons for increase in the consumable cost is of course because of the pathology business raising, there again because as you mainly ramp up there are lot of controls and calibrations to be done which requires, in the initial phase, these testing have to be carried out which adds to the consumption cost. As the volumes increase, you will see the consumption cost coming down and gradually stabilizing at the levels that we are used to. So, it is just a matter of the ramp up currently going on where machines have to be tested, calibrated periodically to process as the volume start kicking in.

**Rishabh Tiwari:** Do you have the number round figure, at least ballpark, what is the pathology revenue mix contribution this quarter, last quarter it was 38%, has there been significant increase?

**Yash Mutha:** I don't have the number with me, Pawan will you be able to answer this question?

**Pawan Daga:** Pathology contribution is 32% in this quarter.

**Rishabh Tiwari:** Ok and the Tele-reporting or radiology?

**Pawan Daga:** Tele-reporting in the range of 10% only, and remaining is contributed by the radiology.

**Moderator:** Thank you. The next question is from the line of Ranodeep Sen from MAS Capital. Please go ahead.

**Ranodeep Sen:** Can you share the thoughts about the retail game plan especially with respect to the franchisee models and what kind of EBITDA margins can we expect, will it be marginally different from what we have been clocking in our PPP centers?

**Yash Mutha:** So, the franchisee model that we have conceptualized, as I said both from a pricing perspective, it is an aggressive pricing compared to the market, our rates are highly competitive and yet at the same time given that there is no significant investment to be made by Krsnaa, most of the investment will be done by the franchisee, again which is not significant investment for them, the rest of the support comes from Krsnaa in terms of branding collateral and the system. With all these inputs, I think from a margin perspective we will be having the same margin that we see from a center which will be in the range of about 40% EBITDA margin is what we are expecting from these franchisee centers or the collection centers.

**Ranodeep Sen:** My second question, any specific reason in terms of choosing the B2C foray especially with the 5 states that you have mentioned in phase 1 and phase 2, would love to understand your thought process especially why not we are not opting for Tamil Nadu and Kerala which has the highest share of elderly citizens as per the elderly India 2021 report, so?

**Yash Mutha:** See, if you see, currently Krsnaa has a largest footprint on the PPP side and what we tried to do is we already have our network of CT scan, MRI and pathology centers in the states like Maharashtra, Himachal Pradesh as well as Punjab, so the thought process was that since we have a network of these centers and by establishing these franchisee centers in these state, we will be able to leverage the network in a much more impactful manner wherein patients, those who are not living near the centers, but their samples could be collected and processed at the nearest lab that we already have and at the same time even get patients who are coming for pathology may be even also, if they need radiology services, they can be directed to our centers, so this is why we chose these existing state where we have a good footprint or network of centers and trying to leverage them. Of course, as a model start expanding, then we could look into other states where there is a need, but as of now, given that we want to have a very impactful and thoughtful process in terms of building this network, we thought of leveraging our existing footprints in these states and then launching the B2C network.

**Ranodeep Sen:** And if I may just ask one question that I had like any update did we get on the tax issue that had come back like couple of months back?

**Yash Mutha:** On taxation, like we communicated as well, in the earnings report, we are currently co-operating with the authorities. I think significant part, in terms of the documentation or information that was requested has been provided, we are also equally waiting to see the outcome of their assessment and we shall keep all the stakeholders informed about as and when we get any such kind of information from the authorities. As of now, no demand or claim has been made on the company by the income tax authorities.

**Moderator:** Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** Just one question, basically if the model in terms of I think in some states we have a restriction on marketing and reaching out to customers, so giving a model how will we then grow if we are not able to market, reach out to customers? Just one more point that I would like to add to this, so I think Punjab is one of the states where in we have a restriction of reaching on to customers and today in the conversation we are mentioning that the B2C segment we will start with states like Punjab, HP and Maharashtra, so with such condition, how do we then leverage the B2C business in those markets?

**Yash Mutha:** Basically, there is no such restriction in terms of marketing our efforts, I think what the government tenders normally stipulate is that if there is a government patient you need to give service what is stipulated in the tenders. Government doesn't discriminate between a private patient and a government patient, but because these are under the PPP, they expect that especially for those people who don't have access or the poor people and the people from low income families they get the due treatment and service. In fact, all the states where we are present, we have equal share of people coming from the government patients as well as private walk-in, so I don't think there is any restriction for us to leverage, in fact the government is more happy that more and more avail these services because that is what the intent to create access to quality and affordable healthcare to the masses.

**Yogansh Jeswani:** Sir, I was under the impression of at least my understanding was that in couple of states, we are not allowed to put out banners or hoardings or such things about Krsnaa Diagnostics for getting the outside patients, outside the hospital, so is that understanding wrong, sir?

**Yash Mutha:** Yes, we are allowed, even if you see Punjab like you mentioned, Punjab we have huge hoardings that have been put up outside our centers, otherwise how would people know that government has launched such schemes and such initiatives. In fact, if I give an example like Himachal Pradesh, the government is saying that they want to do joint radio jingle campaign with us to promote these services, so that more and more people get to know that such services are being made available for the masses.

**Yogansh Jeswani:** Sir, currently, say for example, if I have to talk about Himachal and Punjab, how much of your footfall is coming in from outside customers and how much is it from within the government hospital? If you don't have the example sir, even rough ballpark figure will be okay?

**Yash Mutha:** So, currently, if you see today in Punjab and Himachal we almost have to the extent of 50% government patients and 50% private walk-ins. Like the Punjab, our rates are highly disruptive, more and more patients coming, as they know that these are the services like come and avail these services and likewise the same trend is being seen in the Himachal Pradesh as well.

**Yogansh Jeswani:** Just one question I missed out asking, so sir, if we look at the slide in terms of average revenue per patient, so I think we are back to 975 which we have seen sequentially going forward do we expect some growth coming in from higher average revenue side or will it just be more centers and volume given the kind of tenders that we have won, do you see this number also increasing and if yes, by how much?

**Yash Mutha:** So, the average revenue that you see currently is at stable levels. If you see a half year comparison of the previous year, there was a combination of lot of COVID tests which were fairly priced but these are the stable level of average revenue that we expect. There won't be a significant jump in this unless there is a new tender which is won at differentiate prices, but I think these are the stable revenues that we expect to continue going forward; however, as and when the mix of let us say patient or the test menu changes, there might be some impact, but I am sure it will not go down, but it will be stable or at least continue to grow, also coupled with the fact that there are certain price escalation clauses in our contracts, so they might also have an impact in the realization going upwards from the base that we have today.

**Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

**Cyndrella Carvalho:** Yash, just wanted to understand from the base business perspective if you see for this quarter, the sluggishness that we have seen, is it volume led or is it realization led, you mentioned as we will come back to concentrate on the existing centers we should ramp up, but I want to understand from the volume aspect or from the realization aspect?

**Yash Mutha:** It is more from the volume side, as I said with the centers getting deployed and delayed, so the kind of footfall that we expected in terms of ramp up that has not been achieved. Once we start achieving, you will see the trend. I think if I give you the parallel analogy or example of Himachal Pradesh, Himachal Pradesh we started somewhere in September and we are always seeing revenue run rate of almost Rs. 2 crores per month in the first 2 months. So, unlike all the other states, Punjab has been a bit impacted because of delay, so now the center is getting operationalized and government also trying to get an understanding of how the PPP model works especially the new government we should see that these volumes coming back to the expected levels and therefore they should be contributing to the overall revenues.

**Cyndrella Carvalho:** I understand that, I am trying to understand the existing centers not from the new centers or the upcoming centers which we have just commissioned?

**Yash Mutha:** Yes, for example, even in the existing centers of Punjab, the ramp up that we expected A) Punjab base is largely all cash driven patients, so now as more and more awareness is being created that they are getting services at these prices in fact lot of other people are doing marketing without us, like there are certain NGOs, they have got to know about the service and prices, so they are spreading the word around. As these centers get operationalised, their visibility gets started

across the various communities, we will see traction coming on the existing centers, even Punjab which was like Rs. 4 crores of revenue in the Q1 has ramped up to almost Rs. 11 crores in Q2 which is almost doubling of the revenue, so these are the trends which you are seeing and as I said as the centers and they get stabilized, we will see jump coming up from these existing centers as well.

**Cyndrella Carvalho:**

And how about Maharashtra?

**Yash Mutha:**

Maharashtra for the new credit or for the existing centers?

**Cyndrella Carvalho:**

On both sides, existing as well as new in Maharashtra?

**Yash Mutha:**

Existing centers I think for the most matured centers like which are our old centers, they are in fact some of the centers have also shown good growth almost in double digits. The new centers like Mumbai and the municipal corporation centers initial there is a bit of lag as the center gets operationalized, people start knowing about it and then after couple of months the spike starts seen because these awareness has been created about the centers, prices, the quality of services and then you will start seeing an uptake in the businesses as well. On the new Maharashtra center, I think the project that will get operationalized only next year, it is a large project and there is a lot of site procession to be taken over and the learnings from Punjab, we are applying for Maharashtra as well. So, Maharashtra new tender will be operationalized only in the next year.

**Cyndrella Carvalho:**

And in terms of EBITDA margins, you highlighted that it is stabilizing right now, so for this remaining second half also we should expect EBITDA margins are around 25 and as the ramp up happens and newer centers mature from FY25 onwards, we should be expecting the earlier EBITDA margins of closer to 29%, is that the way to say?

**Yash Mutha:**

Like I mentioned, if you see in the quarter 1, the EBITDA margins were bit impacted because of the cost of operations and revenues not being commensurate, but as the revenue start stabilizing and they will further improve, we also expect a further improvement in the margins and hovering around the same 27-28% what we expect in the subsequent quarters.

**Moderator:**

Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:**

Earlier, we used to say that the revenue from our Punjab contracts used to come from subsidiaries, but when I look at the difference between your consolidated and standalone revenue, it is around Rs. 2 crores and we just said that we got around Rs. 10 to Rs. 11 crores, so what is the disconnect over here?





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**Pawan Daga:** So, basically, at the consol level, the revenue between the subsidiaries and holding company gets knock off, so the assets were deployed by the Krsnaa Diagnostics Limited, parent company, so we have an internal arms length transaction with the subsidiaries where we share a revenue because the assets were deployed by the holding company. So, that is why this gap is arising and the sharing which holding company is getting which is added in the topline of the standalone number. That is why this gap is arising.

**Yash Mutha:** Just to add, these are 100% subsidiaries created only for the Punjab project which was the requirement of the tenders where the government wanted us to have these subsidiaries or special purpose vehicles created, 100% owned of the company, so this is just an arrangement where basically since the holding company has invested the asset that is as the revenue that comes back to the holding company, but I think from all perspective, the consolidation level wherein these are all Krsnaa centers and owned and managed by Krsnaa that is how we see at it.

**Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I would now like to hand the conference over to the management for closing comments. Thank you and over to you.

**Yash Mutha:** Thank you everyone. Thank you for your time and for attending this conference call. Thank you very much. We hope we have answered all your questions and if any questions remain unanswered, please feel free to connect with us or our investor relationship team at Churchgate Partners. Looking forward to interacting with you in the future. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Equirus Securities, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.

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