

Krsnaa Diagnostics | BUY

Robust execution bolsters confidence

Krsnaa Diagnostics' ex-Covid, ex-Rajasthan revenue CAGR of c.46% over FY21-23 was strong and underscores robust execution capabilities, in our view. The company is in the process of executing the Rajasthan agreement post a favourable ruling from the Rajasthan High Court – and is guiding towards INR 3bn revenue in FY25 from this tender. Despite significant new centre additions, margins have remained resilient in FY23 but change in mix (towards pathology) and implementation of large-scale tenders may mean a more subdued near-term margin. Krsnaa's guidance is overall better than we expected: (1) FY24 growth is guided to be 30-35% (excluding Rajasthan) with ~25% EBITDA margin; and (2) FY25 revenue is expected to be INR 10bn+ with EBITDA margin of ~28%. Given the healthy execution pipeline and improving performance trajectory, we bake in 26%/35% Revenue/PAT CAGR over FY23-26. We are fairly confident of Krsnaa's execution capabilities and believe there is sufficient scope for earnings upgrade (our FY25 revenue forecast is still over 15% lower vs. guidance). We value Krsnaa at 24x Sep'25 earnings (30-40% discount to peers) to derive a TP of INR 1050. BUY.

- Revenue growth optically subdued; future prospects strong:** Krsnaa's Revenue CAGR of c.46% (ex-Covid, ex-Rajasthan) over FY21-23 underscores their robust execution capabilities. However, Krsnaa's FY23 growth has been optically subdued due to Rajasthan tender expiry in Aug'22. A finer look at FY23 revenue indicates +30%YoY growth (ex-Covid, ex-Rajasthan). This trend has sustained in 1Q wherein adj. growth was +50%YoY (INR 1.4bn). We expect 26%/35% Revenue/PAT CAGR over FY23-26. Our assumptions include contribution from Rajasthan of INR 1.5bn in FY25 and INR 2bn in FY26. Krsnaa has multiple near term growth drivers such as Punjab, Himachal, Orissa, Assam and BMC tenders (Refer Exhibit 5) which cumulatively have revenue potential of INR 3-4bn.
- Margins resilient:** Krsnaa added 26 CT/MRI centres, 147 tele-radiology centres, 50 labs and 556 collection centres in FY23 despite which margins have remained resilient (25.1% in FY23). In addition, Krsnaa added six labs, one radiology centre and 300+ collection centres in 1Q; while cost has been incurred, commensurate revenue is expected in subsequent quarters. This, along with change in mix, and implementation of large-scale tenders in Rajasthan and Assam, will keep near-term margins in check (24-25%). With operating leverage playing out, we expect EBITDAM to expand to ~27% in FY25-26.
- Strong guidance ups confidence, execution remains key:** Krsnaa is participating in new tenders and will disclose further details subsequently (upside trigger). **FY24 guidance:** The management expects revenue growth of 30-35% (excluding Rajasthan). The expected contribution of Rajasthan in 4Q (vs. 3Q earlier) is INR 250mn. The management is now guiding towards INR 3bn revenue in FY25 (vs. INR 1.5bn earlier) post implementation. EBITDA margin will remain subdued at 24-25% due to large scale new centre implementation. **FY25 guidance:** The management aspires to deliver INR 10bn+ revenue with ~28% EBITDA margin as operating leverage plays out. The key risk to guidance is delay in executing Rajasthan agreement and implementation hurdles.



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We acknowledge the support of Raghav Vedanarayanan in the preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,050
Upside/(Downside)	68.0%
Previous Price Target	960
Change	9.4%

Key Data – KRSNAA IN

Current Market Price	INR625
Market cap (bn)	INR19.6/US\$0.2
Free Float	50%
Shares in issue (mn)	31.4
Diluted share (mn)	31.4
3-mon avg daily val (mn)	INR90.8/US\$1.1
52-week range	639/353
Sensex/Nifty	64,831/19,254
INR/US\$	82.8

Price Performance

%	1M	6M	12M
Absolute	20.7	72.9	30.1
Relative*	23.8	58.4	17.9

* To the BSE Sensex

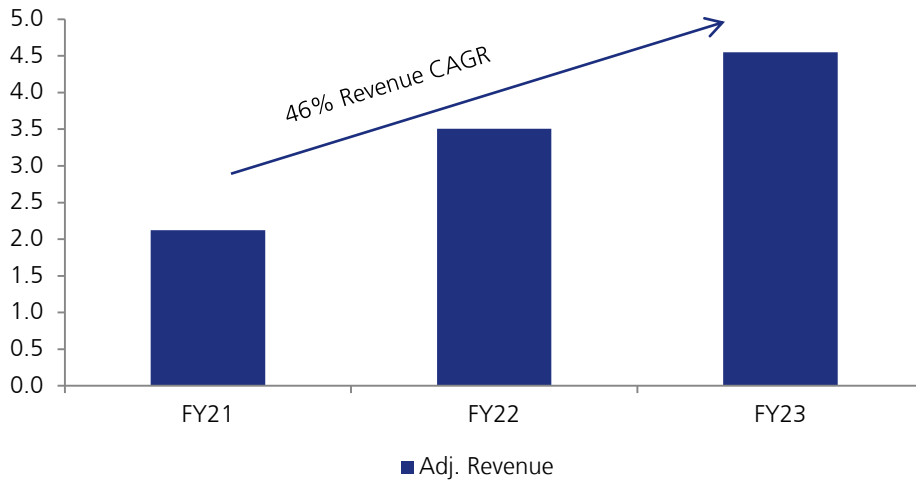
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Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,555	4,871	6,108	8,530	9,834
Sales Growth (%)	14.9	6.9	25.4	39.6	15.3
EBITDA	1,315	1,223	1,496	2,303	2,704
EBITDA Margin (%)	28.9	25.1	24.5	27.0	27.5
Adjusted Net Profit	683	621	719	1,233	1,513
Diluted EPS (INR)	21.8	19.8	22.9	39.3	48.2
Diluted EPS Growth (%)	77.5	-9.1	15.7	71.6	22.7
ROIC (%)	21.9	12.4	11.1	17.4	19.5
ROE (%)	14.9	8.7	9.3	14.1	15.0
P/E (x)	28.7	31.6	27.3	15.9	13.0
P/B (x)	2.9	2.7	2.4	2.1	1.8
EV/EBITDA (x)	12.3	13.8	11.7	7.3	5.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

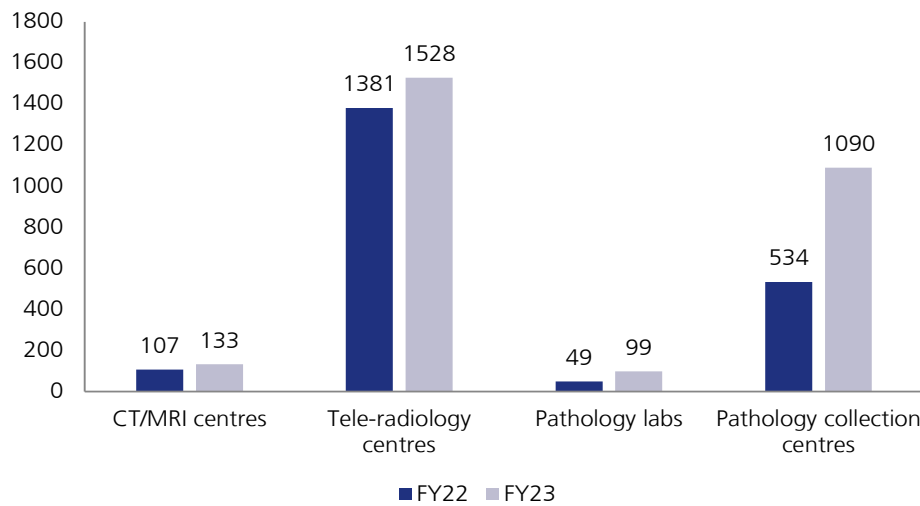
Source: Company data, JM Financial. Note: Valuations as of 31/Aug/2023

Exhibit 1. Revenue (ex-Covid, ex-Rajasthan) grew at c. 46% CAGR over FY21-23



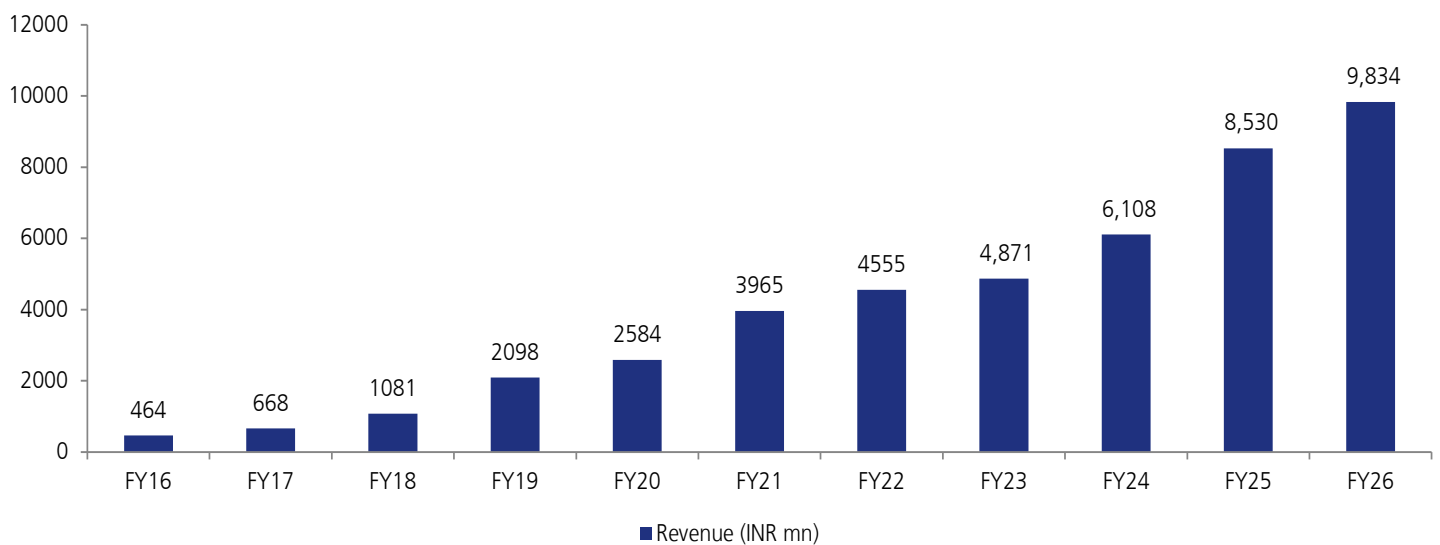
Source: Company, JM Financial

Exhibit 2. Margins remain resilient despite new centre additions in FY23



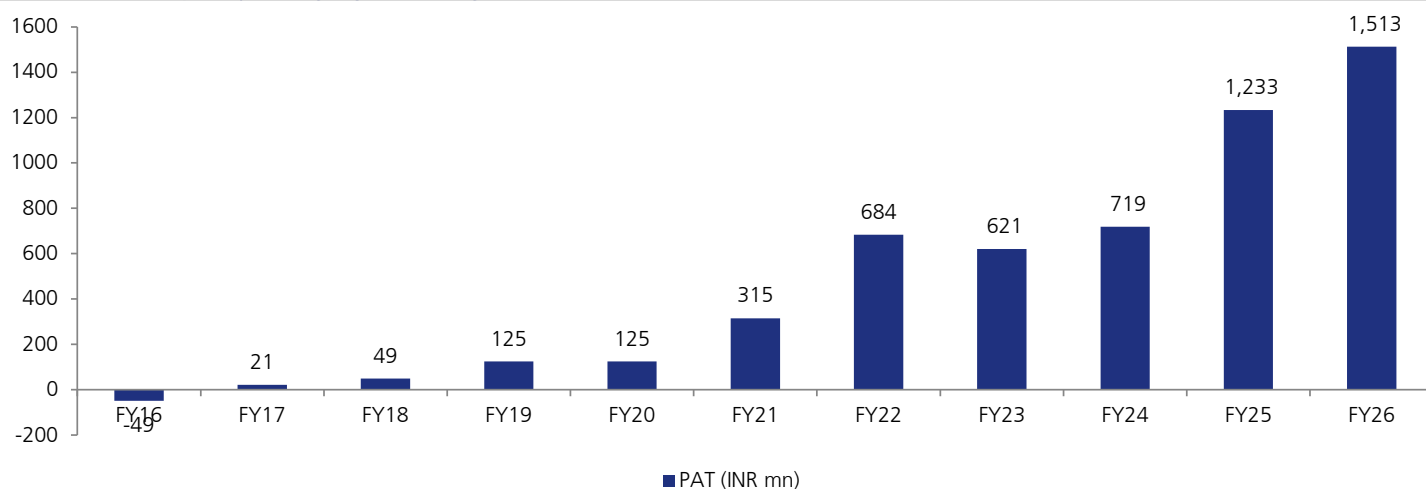
Source: Company, JM Financial

Exhibit 3. Historical revenue growth trajectory to sustain...



Source: Company, JM Financial

Exhibit 4. ...consequently driving higher earnings



Source: Company, JM Financial

Exhibit 5. Revenue build up

JMFe	FY22	FY23	FY24	FY25	FY26
Base	4236	4194	4403	4535	4671
Base growth assumption		-1.0%	5.0%	3.0%	3.0%
RHP tenders		678	900	1100	1300
Maharashtra/Orissa/Assam			600	1000	1200
Others			205	394	662
Rajasthan				1,500	2,000
Total	4236	4871	6108	8530	9834

Source: Company, JM Financial

Rajasthan - story so far

- Krsnaa, after expiry of the earlier Rajasthan tender in Aug'22 and two fresh rounds of bidding, emerged as the L1 bidder and received the Letter of Award ('LOA').
- But, the department cancelled the LOA due to disagreements over submission of performance guarantee (which the company was willing to provide).
- Aggrieved by the department's action, Krsnaa filed a writ petition in the Rajasthan High Court, which ruled in favour of the company.
- Krsnaa has submitted the additional performance guarantees as directed by the Court and they believe that the agreement will be executed soon.
- The tenure of the contract is 5 years (3+2).
- This project has an outlay of INR 2bn and the company is exploring vendor financing options as well.

Exhibit 6. Radiology centres pending implementation

Radiology	Total Centres	Completed till date	Pending
Uttar Pradesh	8	4	4
Delhi	1	0	1
Rajasthan	1	0	1
Maharashtra	39	0	39
Maharashtra Dhule	1	0	1
Mira Bhayandar	1	0	1

Source: Company, JM Financial

Exhibit 7. Pathology centres pending implementation

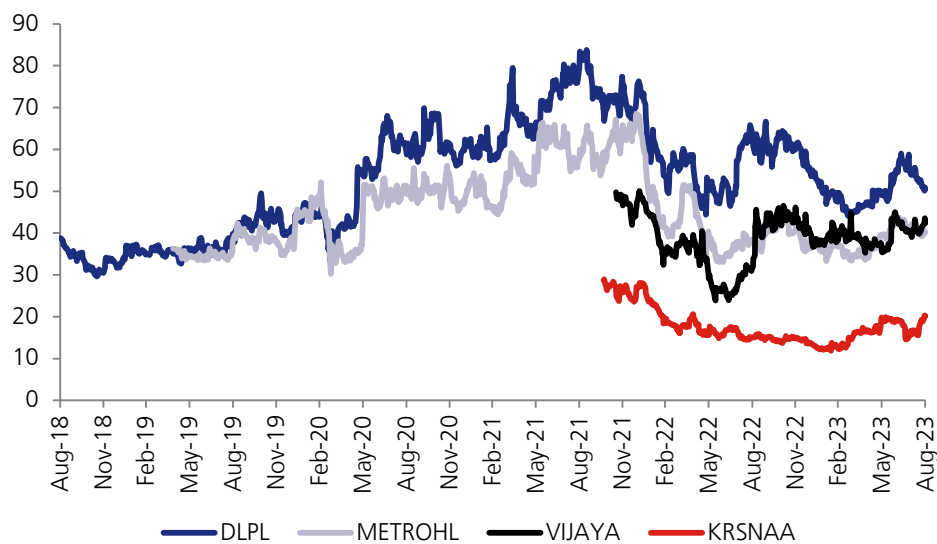
Pathology	Total Centres	Completed till date	Pending
Odisha Lab	6	4	2
Odisha CC	386	317	69
Maharashtra Dhule	1	0	1
Maharashtra BMC CC	600	428	172
Mira Bhayandar	1	0	1
Rajasthan Lab	150	0	150
Rajasthan CC	1295	0	1295
Assam Lab	10	0	10
Assam CC	1256	0	1256

Source: Company, JM Financial

Exhibit 8. Recent tender wins

State	Month	Type	Details
Tripura	Jun'22	Tele-Reporting	Provide X-Ray Tele-Radiology services across all districts of Tripura
Delhi	Jul'22	Radiology	1 MRI, 1 CT Scan at Indira Gandhi Hospital
Rajasthan	Jul'22	Radiology	1 CT Scan at MES Medical College
Maharashtra	Jul'22	Radiology	31 CT Scan and 8 MRI machines at 39 Govt Hospitals
BMC	Jan'23	Pathology	600 collection centres for BMC dispensaries and hospitals
DMC	Feb'23	Radiology	1 Pathology Lab, 1 CT Scan and 1 X-Ray
Odisha	Feb'23	Pathology	6 Labs and 386 collection centres
Rajasthan	Mar'23	Pathology	33 Mother Hubs, 117 Hub Labs and 1295 collection centres
Mirabhayander	Apr'23	Radiology	1 MRI, 1 CT Scan, Sonography, Ultrasound, X-Ray and 1 Pathology Lab
Assam	May'23	Pathology	10 Labs and 1256 collection centres

Source: Company, JM Financial

Exhibit 9. Valuation- Krsnaa trading at significant discount to peers

Source: Bloomberg, JM Financial

1Q Highlights

Revenue/EBITDA/PAT of INR 1.4bn/314mn/146mn grew 24%/13%/3%YoY and were +3%/-7%/-10% vs. JMFe respectively. EBITDA margin declined 215bps YoY to 22.5% (JMFe: 25%; adj. margin: 24%) as new centre costs weighed in. The company has a net cash position of INR 2.25bn. Receivable days was at 79 (vs. 86 QoQ). Capex for the quarter was INR 310mn and the company expects INR 1.2-1.3bn spend in the remaining part of FY24 and FY25 each.

Exhibit 10. 1Q24 Review

Krsnaa - P&L (INR mn)	Q1FY23A	1Q24A	% YoY	1Q24E	% Delta vs JMFe	Q4FY23A	% QoQ
Total Revenue	1,129	1,396	24%	1,354	3%	1,332	5%
COGS	120	278	132%	257	8%	257	8%
Gross Profit	1,009	1,118	11%	1,097	2%	1,075	4%
% of revenue	89.4%	80.1%	-929 bps	81.0%		80.7%	-61 bps
Staff Cost	161	229	42%	217	6%	211	9%
Other expenses	570	575	1%	542	6%	519	11%
EBITDA	278	314	13%	339	-7%	345	-9%
EBITDA margin (%)	24.6%	22.5%	-215 bps	25.0%	-253 bps	25.9%	-341 bps
Other Income	46	42	-9%	55	-24%	59	-29%
Finance Cost	14	20		23		22	
Depreciation	124	157		160		146	
PBT	187	179	-4%	211	-15%	236	-24%
Exceptional Items	0	0		0		0	
Tax	45	32		49		47	
Tax Rate (%)	23.9%	18.2%		23.0%		19.8%	
PAT (Reported)	142	146	3%	163	-10%	189	-23%
PAT margin (%)	12.6%	10.5%	-210 bps	12.0%	-152 bps	14.2%	-371 bps
EPS	4.5	4.7	3%	5.2	-10%	6.0	-23%
Krsnaa - Cost margins							
COGS/sales	10.6%	19.9%	929 bps	19.0%	89 bps	19.3%	61 bps
Staff cost/sales	14.3%	16.4%	215 bps	16.0%	42 bps	15.8%	58 bps
Other expenditure/sales	50.5%	41.2%	-929 bps	40.0%	121 bps	39.0%	223 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,555	4,871	6,108	8,530	9,834
Sales Growth	14.9%	6.9%	25.4%	39.6%	15.3%
Other Operating Income	0	0	0	0	0
Total Revenue	4,555	4,871	6,108	8,530	9,834
Cost of Goods Sold/Op. Exp	603	742	1,130	1,578	1,819
Personnel Cost	547	746	947	1,279	1,426
Other Expenses	2,089	2,161	2,535	3,369	3,884
EBITDA	1,315	1,223	1,496	2,303	2,704
EBITDA Margin	28.9%	25.1%	24.5%	27.0%	27.5%
EBITDA Growth	40.1%	-7.0%	22.4%	53.9%	17.4%
Depn. & Amort.	414	538	705	832	881
EBIT	901	685	792	1,471	1,824
Other Income	149	194	221	251	271
Finance Cost	185	77	91	120	129
PBT before Excep. & Forex	865	802	922	1,602	1,965
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	865	802	922	1,602	1,965
Taxes	182	181	203	368	452
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	683	621	719	1,233	1,513
Adjusted Net Profit	683	621	719	1,233	1,513
Net Margin	15.0%	12.8%	11.8%	14.5%	15.4%
Diluted Share Cap. (mn)	31.4	31.4	31.4	31.4	31.4
Diluted EPS (INR)	21.8	19.8	22.9	39.3	48.2
Diluted EPS Growth	77.5%	-9.1%	15.7%	71.6%	22.7%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	865	802	922	1,602	1,965
Depn. & Amort.	414	538	705	832	881
Net Interest Exp. / Inc. (-)	62	-82	-130	-131	-142
Inc (-) / Dec in WCap.	-7	-356	28	-19	-64
Others	16	-8	0	0	0
Taxes Paid	-66	-131	-203	-368	-452
Operating Cash Flow	1,284	763	1,322	1,915	2,188
Capex	-1,322	-1,414	-2,000	-1,500	-1,500
Free Cash Flow	-38	-651	-678	415	688
Inc (-) / Dec in Investments	-1,265	157	0	0	0
Others	180	168	221	251	271
Investing Cash Flow	-2,406	-1,089	-1,779	-1,249	-1,229
Inc / Dec (-) in Capital	3,853	-69	0	0	0
Dividend + Tax thereon	0	-78	0	0	0
Inc / Dec (-) in Loans	-1,894	-91	-50	-50	-50
Others	-200	-93	-91	-120	-129
Financing Cash Flow	1,760	-331	-141	-170	-179
Inc / Dec (-) in Cash	637	-657	-598	496	779
Opening Cash Balance	247	884	227	-371	125
Closing Cash Balance	2,418	1,088	489	986	1,765

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	6,844	7,387	8,106	9,340	10,853
Share Capital	157	157	157	157	157
Reserves & Surplus	6,687	7,230	7,949	9,183	10,696
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	410	325	275	225	175
Def. Tax Liab. / Assets (-)	70	114	114	114	114
Total - Equity & Liab.	7,324	7,826	8,495	9,678	11,142
Net Fixed Assets	4,140	4,962	6,257	6,925	7,544
Gross Fixed Assets	4,908	6,291	8,291	9,791	11,291
Intangible Assets	23	28	28	28	28
Less: Depn. & Amort.	1,075	1,612	2,317	3,149	4,030
Capital WIP	283	255	255	255	255
Investments	3	3	3	3	3
Current Assets	4,611	4,121	3,709	4,674	5,714
Inventories	92	251	314	439	506
Sundry Debtors	579	731	837	1,145	1,320
Cash & Bank Balances	2,419	1,088	489	986	1,765
Loans & Advances	0	0	0	0	0
Other Current Assets	1,522	2,051	2,069	2,103	2,122
Current Liab. & Prov.	1,430	1,259	1,475	1,923	2,120
Current Liabilities	794	970	1,186	1,634	1,831
Provisions & Others	636	289	289	289	289
Net Current Assets	3,182	2,861	2,235	2,750	3,594
Total - Assets	7,324	7,826	8,494	9,678	11,141

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	15.0%	12.8%	11.8%	14.5%	15.4%
Asset Turnover (x)	0.8	0.6	0.7	0.9	0.9
Leverage Factor (x)	1.3	1.1	1.1	1.1	1.1
RoE	14.9%	8.7%	9.3%	14.1%	15.0%

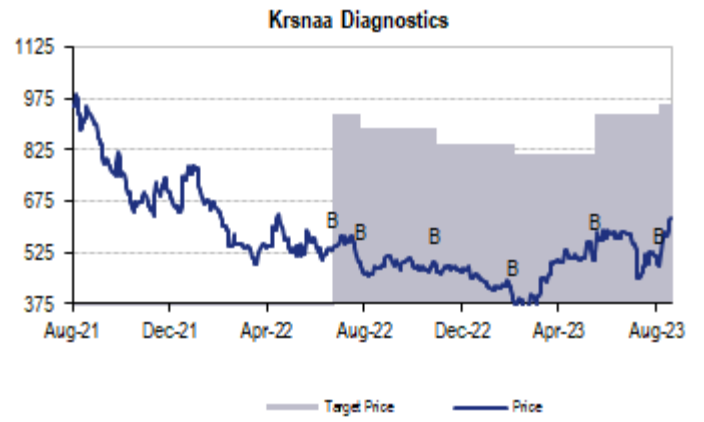
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	218.0	235.3	258.2	297.4	345.6
ROIC	21.9%	12.4%	11.1%	17.4%	19.5%
ROE	14.9%	8.7%	9.3%	14.1%	15.0%
Net Debt/Equity (x)	-0.5	-0.3	-0.2	-0.3	-0.3
P/E (x)	28.7	31.6	27.3	15.9	13.0
P/B (x)	2.9	2.7	2.4	2.1	1.8
EV/EBITDA (x)	12.3	13.8	11.7	7.3	5.9
EV/Sales (x)	3.6	3.5	2.9	2.0	1.6
Debtor days	46	55	50	49	49
Inventory days	7	19	19	19	19
Creditor days	87	62	66	75	76

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Jul-22	Buy	930	
7-Aug-22	Buy	885	-4.8
10-Nov-22	Buy	840	-5.1
15-Feb-23	Buy	810	-3.6
29-May-23	Buy	930	14.8
17-Aug-23	Buy	960	3.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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