

Krsnaa Diagnostics Limited

Tepid 1Q; project pipeline remains strong—maintain LONG

CMP Rs 512	Target Price Rs 941 Sep 2024
Rating LONG	Upside 84% (↑)

- Krsnaa Diagnostics' (KRSNAA) 1QFY24 results missed EE owing to below-expected revenues and gross margins. Moreover, opex continued to rise on operationalization of new centres.
- KRSNAA surprised positively with an upgrade in its revenue guidance to 30-35% CAGR over next two years (ex. Rajasthan). It also doubled its Rajasthan peak revenue guidance to Rs 3bn (vs. Rs 1.5bn earlier) given an increase in the scope of contract.
- We expect a 27% revenue CAGR over FY23-FY26 driven by (a) a pick-up in recently commissioned centres in Punjab, HP, and Tripura, and (b) commercialization of the recently won pathology tenders (Orissa, Maharashtra, Rajasthan) and the Maharashtra radiology project.
- KRSNAA's tender pipeline remains strong and its timely execution would be a key re-rating trigger. Maintain LONG with a Sep'24 TP of Rs 941 at 15x EV/EBITDA.

1Q a miss: Revenues at Rs 1.4bn (+24% yoy/+5% qoq) came 3% below EE. Gross margins tanked to 80% (-929bps yoy/-61bps qoq) while opex at Rs 804mn (+10% yoy/+10% qoq) continued to inch up as KRSNAA opened new centres. As a result, EBITDA at Rs 314mn (+13% yoy/-9% qoq) fell 19% short of EE while EBITDA margins languished at 22.5% (-215bps yoy/-341bps qoq), coming in 445bps below EE. PAT at Rs 146mn (+3% yoy/-23% qoq) was 21% below EE, partly aided by a lower ETR of 18% (EE: 25%).

Robust project pipeline; Rajasthan on track: KRSNAA's Punjab and Himachal projects are seeing a strong ramp-up. Moreover, it has recently completed execution of the Assam project and is on track to implement the Rajasthan project by 4QFY24-end (after addressing some regulatory issues). KRSNAA has even revised its annual revenue guidance from just the Rajasthan project to Rs 3bn (Rs 1.5bn earlier); however, we expect full commercialization by 1QFY25-end and Rs 1.5bn of revenues from FY25E.

Revenue growth to remain strong; margin profile to improve: We expect KRSNAA to record a 27% CAGR over FY23-FY26E driven by new projects. We build in the newly won pathology tenders (Maharashtra, Orissa, and Punjab) in FY24 and the Rajasthan pathology and Maharashtra radiology projects into our estimates from FY25, even as management has guided for execution in FY24. Consequently, KRSNAA's margin profile should improve led by (a) operating leverage benefits with a scale-up in revenues, and (b) an improvement in utilization levels as centres start maturing.

Addressing execution concerns: Delays in project execution (Punjab) and regulatory overhangs (Rajasthan) have hampered KRSNAA's growth and led to scepticism on timely execution of projects. While management has guided for a 35% revenue CAGR over FY24-FY25, we conservatively build in a 27% CAGR given past incidences of delay and gradual ramp-ups. Despite this, the growth outlook remains strong and we see revenues touching Rs 8.1bn in FY25E with margins improving to 27.4% as new tenders start adding to revenues.

Financial Summary

YE Mar Rs mn	Sales	EBITDA	Recurring PAT	EPS (Rs)	P/E (x)	P/B (x)	EV/ EBITDA (x)	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
FY23A	4,871	1,223	621	19.8	24.5	2.1	13.9	8.7	11.4	25.1
FY24E	6,358	1,597	809	25.8	18.8	1.9	9.6	10.4	10.7	25.1
FY25E	8,113	2,223	1,140	36.3	13.3	1.7	6.7	13.2	12.5	27.4
FY26E	9,953	2,986	1,702	54.2	8.9	1.4	4.6	17.2	17.1	30.0

Source: Company, Equirus Securities

Estimate Revision

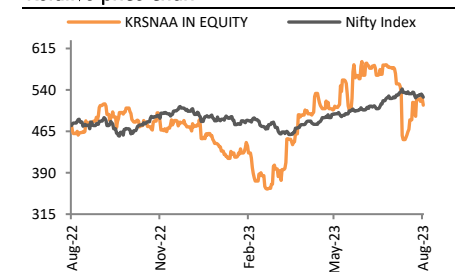
(Rs mn)	Forecasts		% Change	
	FY24E	FY25E	FY24E	FY25E
Sales	6,358	8,113	-4%	0%
EBITDA	1,597	2,223	-11%	-1%
PAT	809	1,140	-12%	0%
EPS	25.8	36.3	-12%	0%

Stock Information

Market Cap (Rs Mn)	16,085
52 Wk H/L (Rs)	609/353
Avg Daily Volume (1yr)	1,41,936
Avg Daily Value (Rs Mn)	0.8
Equity Cap (Rs Mn)	7,387
Face Value (Rs)	5
Share Outstanding (Mn)	31.4
Bloomberg Code	KRSNAA IN
Ind Benchmark	

Ownership (%)	Recent	3M	12M
Promoters	0.0	0.0	0.0
DII	0.0	0.0	0.0
FII	0.0	0.0	0.0
Public	0.0	0.0	0.0

Relative price chart



Source: Bloomberg

Analysts

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Exhibit 1: Quarterly performance

Particulars	1QFY24	1QFY24E	4QFY23	1QFY23	% Change			Comments
					1QFY24E	4QFY23	1QFY23	
Net Sales	1,396	1,440	1,332	1,129	-3%	5%	24%	
COGS	278	259	257	120	7%	8%	132%	
Employee expenses	229	248	211	161	-8%	9%	42%	
Other Expenses	401	380	359	295	6%	12%	36%	
Fees to hospitals and others	174	165	160	275	5%	9%	-37%	
Total Expenditures	1,082	1,052	987	851	3%	10%	27%	
EBITDA	314	388	345	278	-19%	-9%	13%	
Depreciation	157	152	146	124	4%	8%	27%	
EBIT	156	236	199	154	-34%	-21%	1%	
Interest	20	3	22	14	579%	-12%	41%	
Other Income	42	13	59	46	220%	-29%	-9%	
Profit before tax	179	246	236	187	-27%	-24%	-4%	
Tax Expenses	32	62	47	45	-47%	-30%	-27%	
Profit After tax	146	185	189	142	-21%	-23%	3%	
Minority Interest	0	0	0	0				
Profit/(Loss) from Ass.	0	0	0	0				
Recurring PAT	146	185	189	142	-21%	-23%	3%	
Extraordinaires	0	0	0	0				
Reported PAT	146	185	189	142	-21%	-23%	3%	
EPS (Rs)	4.7	5.9	6.0	4.5	-21%	-23%	3%	
Cost items as % of sales								
RM expenses	19.9%	18.0%	19.3%	10.6%	189 bps	61 bps	929 bps	
Employee expenses	16.4%	17.2%	15.8%	14.3%	-81 bps	58 bps	215 bps	
Other expenses	28.8%	26.4%	27.0%	26.2%	237 bps	178 bps	261 bps	
Margin (%)								
Gross Margin	80.1%	82.0%	80.7%	89.4%	-189 bps	-61 bps	-929 bps	
EBITDA Margin	22.5%	26.9%	25.9%	24.6%	-445 bps	-341 bps	-215 bps	
PAT Margin	10.5%	12.8%	14.2%	12.6%	-233 bps	-371 bps	-210 bps	

Source: Company, Equirus Securities

Earnings Call Takeaways

Revenues

- Revenues are expected to grow 30-35% yoy in FY24 and FY25 (ex-Rajasthan). With Rajasthan coming in FY25, the growth can be higher.
- In the early stage, majority of the patients are captive patients (in-patients in hospitals) and then gradually as the centres mature, walk-in increases. At the company level, ~30% would be walk-in and the rest would be captive.
- For walk-in patients, final payment is made by the patient or the government depending on the project.

Costs & Margins

- Rs 260mn opex this quarter was on account of the new centres which didn't contribute anything to the revenues.
- EBITDAM was impacted by addition of new workforce and network expansion.
- EBITDAM should be ~25% in FY24. In FY25, it should go up to ~28%.

Footprint

- Radiology: 134 CT Scan & MRI centres and 1,372 Tele-radiology centres.
- Pathology: 105 (99 in Q4FY23) Processing Labs and 1,336 (1,090 in Q4FY23) Collection Centres. 200 more collection centres will be opened in July.

Rajasthan Tender

- It will be executed by the end of this month and project will be implemented in the end of Q3 or the beginning of Q4.
- This new tender should contribute Rs 250mn to revenues in Q4FY24. In FY25, it can contribute Rs 3bn (earlier guidance was Rs 1.5bn)
- The previous Rajasthan tender contributed Rs 200mn in Q1FY23.
- The tenure of the new tender is of 5 years (3+2).
- The number of districts coverage has been increased to 50 (vs 36 earlier).
- The total capex to be incurred towards this Rajasthan tender would be Rs 2bn which would be incurred in Q3FY24, Q4FY24 and 1QFY25.

Other Projects

- Assam- Recently executed tender for 10 labs and 1,256 collection centres.
- Punjab- The growth has been strong. However, KRSNAA hasn't reached its peak revenue potential yet.
- BMC- It should stabilize in the next quarter, once the new collection centres and labs come in.
- Punjab and Himachal have compensated for the drop in Rajasthan.
- Assam and Orissa projects are yet to operationalize.
- KRSNAA has won back most of the tenders which have come for renewal. However, most of the radiology contracts haven't come for renewal yet.
- In the radiology segment, KRSNAA participates in tenders which are through NHM only because of the high investments required. In pathology, they participate even in state projects because the investments are lower and they are for lesser tenure.
- Mature centres (radiology) are the ones which are >3 years old. Generally, the contract period for these centres is 10 years.

B2C

- Affordable wellness packages have been introduced for which a lot of traction is being seen.
- Home sample collection has been recently introduced (14th Aug) in Punjab. It is also present in Maharashtra.
- KRSNAA has a franchisee model for B2C.
- The contribution to revenues from B2C won't be significant.

Other Key Takeaways

- Receivable days were 79 days in Q1FY24 (vs 86 days in Q1FY23).
- OCF/EBITDA for FY24 is expected to be similar to FY23 levels.
- The cash currently present in the books would be used for working capital requirements and capex.
- Rs 310mn capex was incurred in Q1FY24. For FY24 more Rs 1.2-1.3bn will be spent and in FY25, Rs 1.2-1.3bn will be incurred. Most of the capex would be through internal accruals and some through vendor financing.
- Vendor financing is being explored even for pathology.

Company Snapshot

How we differ from consensus

Particular (Rs Mn)		Equirus	Consensus	% Diff	Comment
EPS	FY24E	26	26	0%	
	FY25E	36	39	-6%	
Sales	FY24E	6,358	6,108	4%	
	FY25E	8,113	8,016	1%	
PAT	FY24E	809	806	0%	
	FY25E	1,140	1,218	-6%	

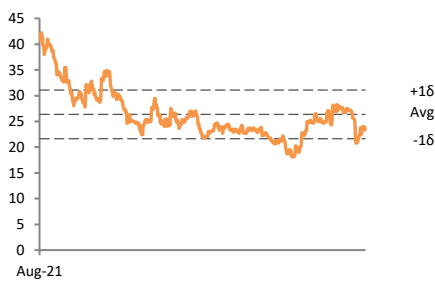
Key Estimates

Key Assumptions	FY23	FY24E	FY25E	FY26E
Radiology Services Revenues	3,224	3,824	4,591	6,048
Pathology Services Revenues	1,647	2,792	3,522	3,906

Comparable valuation

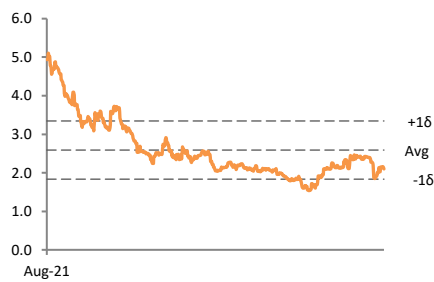
Company	Reco.	CMP	Mkt Cap Rs. Mn.	Price Target	Target Date	P/E			EV/EBITDA			ROE			ROIC			Div Yield
						FY23A	FY24E	FY25E	FY23A	FY24E	FY25E	FY23A	FY24E	FY25E	FY23A	FY24E	FY25E	
Dr Lal Pathlabs	Short	2,258	190	1,564	Sep'24	78.8	66.8	57.0	31.5	39.8	36.3	15%	16%	17%	23%	27%	32%	0%
Metropolis Healthcare	Reduce	1,356	70	1,319	Sep'24	48.6	47.0	40.3	23.9	23.1	21.0	15%	15%	16%	17%	17%	20%	1%
Krsnaa Diagnostics	Long	512	15	941	Sep'24	24.5	18.8	13.3	13.9	9.6	6.7	9%	10%	13%	11%	11%	13%	1%

Price to earning chart



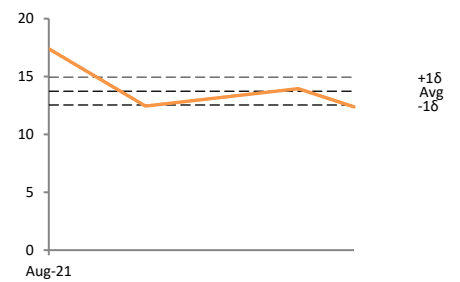
Source: Company, Equirus Research

Price to book chart



Source: Company, Equirus Research

EV-EBITDA chart



Source: Company, Equirus Research

Quarterly performance

Y/E Mar (Rs mn)	1QFY23A	2QFY23A	3QFY23A	4QFY23A	1QFY24A	2QFY24E	3QFY24E	4QFY24E
Revenue	1,129	1,229	1,181	1,332	1,396	1,654	1,654	1,654
COGS	120	173	192	257	278	331	331	331
Employee Cost	161	183	190	211	229	238	248	274
Other Expenses	570	567	505	519	575	640	639	647
EBITDA	278	306	294	345	314	445	437	402
Depreciation	124	129	139	146	157	150	150	150
EBIT	154	177	155	199	156	295	286	251
Interest Exp.	14	18	23	22	20	4	4	4
Other Income	46	43	45	59	42	21	21	21
Profit before Tax	187	202	178	236	179	312	303	268
Tax Expenses	45	48	41	47	32	78	76	67
Profit After Tax	142	153	136	189	146	234	227	201
Minority Interest	0	0	0	0	0	0	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0	0
Recurring PAT	142	153	136	189	146	234	227	201
Exceptional Items	0	0	0	0	0	0	0	0
Reported PAT	142	153	136	189	146	234	227	201
Other comprehensive income.	0	0	0	0	0	0	0	0
PAT after comp. income.	142	153	136	189	146	234	227	201
FDEPS	4.5	4.9	4.3	6.0	4.7	7.4	7.2	6.4
Cost items as % of sales								
RM expenses	10.6	14.1	16.2	19.3	19.9	20.0	20.0	20.0
Employee expenses	14.3	14.9	16.1	15.8	16.4	14.4	15.0	16.6
Other expenses	50.5	46.1	42.7	39.0	41.2	38.7	38.6	39.1
Margin (%)								
Gross Margin	89.4	85.9	83.8	80.7	80.1	80.0	80.0	80.0
EBITDA Margin	24.6	24.9	24.9	25.9	22.5	26.9	26.4	24.3
PAT Margin	12.6	12.5	11.6	14.2	10.5	14.1	13.8	12.2
YoY Growth (%)								
Sales	(14.8)	13.6	10.9	23.1	23.7	34.5	40.1	24.2
EBITDA	(33.1)	(4.1)	(2.0)	23.0	12.9	45.3	48.4	16.4
EBIT	(51.1)	(18.1)	(20.0)	13.1	1.3	66.4	84.6	26.3
PAT	(34.2)	22.4	(16.5)	5.5	3.0	52.5	66.7	6.4

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,584	3,965	4,555	4,871	6,358	8,113	9,953
COGS	277	837	603	742	1,270	1,590	1,991
Employee Cost	231	296	547	746	989	1,217	1,393
Other Expenses	1,448	1,893	2,089	2,161	2,502	3,083	3,583
EBITDA	627	938	1,315	1,223	1,597	2,223	2,986
Depreciation	324	374	414	538	609	751	861
EBIT	303	564	901	685	988	1,471	2,125
Interest Exp.	247	259	185	77	32	17	17
Other Income	130	122	149	194	106	65	161
Profit before Tax	186	427	865	802	1,062	1,520	2,270
Tax Expenses	52	111	181	181	253	380	567
Profit After Tax	134	315	684	621	809	1,140	1,702
Minority Interest	0	0	0	0	0	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0
Recurring PAT	134	315	684	621	809	1,140	1,702
Exceptional Items	0	0	0	0	0	0	0
Reported PAT	134	315	684	621	809	1,140	1,702
Other comprehensive income.	0	0	0	0	0	0	0
PAT after comp. income.	134	315	684	621	809	1,140	1,702
FDEPS	13.0	24.3	21.8	19.8	25.8	36.3	54.2
DPS	0	0	2	2	3	4	5
BVPS	(191)	179	218	235	258	291	340

YoY Growth (%)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	23.5	53.4	14.9	7.0	30.5	27.6	22.7
EBITDA	8.4	49.5	40.1	(7.0)	30.6	39.2	34.3
EBIT	(5.9)	85.9	59.8	(23.9)	44.2	48.9	44.4
PAT	8.2	134.6	116.8	(9.2)	30.2	40.9	49.3

Key Ratios

Profitability (%)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Gross Margin	89.3	78.9	86.8	84.8	80.0	80.4	80.0
EBITDA Margin	24.3	23.7	28.9	25.1	25.1	27.4	30.0
PAT Margin	5.2	8.0	15.0	12.8	12.7	14.1	17.1
ROE	(9.5)	13.6	14.9	8.7	10.4	13.2	17.2
ROIC	6.6	10.2	14.0	8.8	9.9	12.4	16.1
Core ROIC	8.8	14.1	20.9	11.4	10.7	12.5	17.1
Dividend Payout	0.0	0.0	8.0	8.0	10.0	10.0	10.0

CAGR (%)	1 year	2 years	3 years	5 years	7 years	10 years
Revenue	7.0	10.8	23.5	35.3	40.1	0.0
EBITDA	(7.0)	14.2	24.9	34.4	37.4	0.0
PAT	(9.2)	40.3	66.6	75.9	(299.1)	0.0

Valuation (x)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	37.2	20.0	22.3	24.5	18.8	13.3	8.9
P/B	0.0	2.7	2.2	2.1	1.9	1.7	1.4
P/FCFF	(23.7)	8.8	42.0	(9.5)	(9.4)	11.5	3.6
EV/EBITDA	30.9	20.3	12.4	13.9	9.6	6.7	4.6
EV/Sales	7.5	4.8	3.6	3.5	2.4	1.8	1.4
Dividend Yield (%)	0.0	0.0	0.4	0.3	0.5	0.7	1.1

Balance Sheet

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	52	65	157	157	157	157	157
Reserves	(2,021)	2,255	6,687	7,230	7,958	8,985	10,517
Net Worth	(1,970)	2,320	6,844	7,387	8,115	9,142	10,674
Total Debt	2,150	2,027	256	165	165	165	165
Other long term liabilities	5,235	209	233	610	424	541	664
Minority Interest	0	0	0	0	0	0	0
Account Payables	381	786	773	621	871	1,111	1,363
Other Current Liabilities	504	705	655	316	424	541	664
Total Liabilities	6,300	6,047	8,762	9,099	9,999	11,500	13,529
Gross Fixed Assets	3,488	3,765	4,271	5,406	7,260	8,560	9,560
Acc. Depreciation	737	680	414	699	1,307	2,059	2,920
Net Fixed Assets	2,751	3,085	3,857	4,707	5,953	6,501	6,641
Capital WIP	91	37	283	255	0	0	0
long term investments	3	3	3	3	3	3	3
Others	1,318	440	1,278	1,877	1,877	1,877	1,877
Inventory	51	72	92	251	348	445	545
Receivables	614	725	579	731	1,394	1,778	2,182
Loans and advances	0	90	0	0	0	0	0
Other current assets	198	65	252	188	159	203	249
Cash & Cash Equivalents.	1,273	1,529	2,419	1,088	265	693	2,033
Total Assets	6,300	6,047	8,762	9,099	9,999	11,500	13,529
Non-Cash WC	(22)	(538)	(505)	233	606	773	949
Cash Conv. Cycle	(381.3)	(165.8)	(369.9)	(209.7)	(67.3)	(65.2)	(63.5)
WC Turnover	(119.1)	(7.4)	(9.0)	20.9	10.5	10.5	10.5
Gross Asset Turnover	0.7	1.1	1.1	0.9	0.9	0.9	1.0
Net Asset Turnover	0.9	1.3	1.1	1.0	1.1	1.2	1.5
Net D/E	(0.4)	0.2	(0.3)	(0.1)	0.0	(0.1)	(0.2)

Days (x)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Receivable Days	83	62	52	49	61	71	73
Inventory Days	61	27	50	84	86	91	91
Payable Days	525	254	472	343	214	228	227
Non-cash WC days	(3)	(50)	(40)	17	35	35	35

Cash Flow

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	186	427	865	802	1,062	1,520	2,270
Depreciation	324	374	414	538	609	751	861
Others	(80)	336	186	342	0	0	0
Tax paid	(52)	(111)	(181)	(181)	(253)	(380)	(567)
Change in WC	0	0	0	(738)	(373)	(167)	(175)
Operating Cashflow	378	1,026	1,284	763	1,044	1,724	2,388
Capex	(767)	(648)	(1,311)	(1,347)	(1,600)	(1,300)	(1,000)
Change in Invest.	1	37	(1,265)	(157)	0	0	0
Others	0	0	170	(101)	0	0	0
Investing Cashflow	(766)	(611)	(2,406)	(1,606)	(1,600)	(1,300)	(1,000)
Change in Debt	690	(123)	(1,771)	(91)	0	0	0
Change in Equity	0	13	92	0	0	0	0
Others	(635)	413	3,439	(240)	(310)	(14)	(64)
Financing Cashflow	55	303	1,760	(331)	(310)	(14)	(64)
Net Change in Cash	(333)	717	638	(1,174)	(865)	411	1,324

Source: Company, Equirus Research

<p>Rating & Coverage Definitions:</p> <p>Absolute Rating</p> <ul style="list-style-type: none"> LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies ADD: ATR >= 5% but less than Ke over investment horizon REDUCE: ATR >= negative 10% but <5% over investment horizon SHORT: ATR < negative 10% over investment horizon <p>Relative Rating</p> <ul style="list-style-type: none"> OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon BENCHMARK: likely to perform in line with the benchmark UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon <p>Investment Horizon</p> <p>Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter</p>	<p>Registered Office:</p> <p>Equirus Securities Private Limited 1205 & 1206, A-Block, 12th Floor, Navratna Corporate Park, Bopal-Ambli Road, Ahmedabad-380059. Tel. No: +91 – (0)79 6901 5000</p> <p>Corporate Office:</p> <p>3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge, S.G. Highway Ahmedabad-380054 Gujarat Tel. No: +91 (0)79 - 6190 9550 Fax No: +91 (0)79 – 6190 9560</p>
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