

Expansion of B2G business model in underpenetrated geographies and unorganized players

CMP: INR 670
Target Price: INR 1,052
Rating: BUY

Stock Info

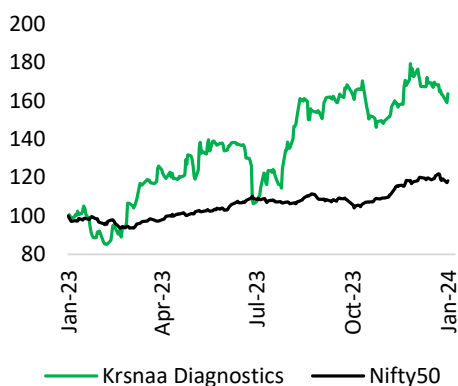
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	23,090
52w H/L (INR)	768 / 353
Avg. Yearly Volume (in 000')	265

Shareholding Pattern %

(As on Dec, 2023)

Promoters	27.03
DIs	16.58
FIs	3.44
Public	52.95

Krsnaa Diagnostics Vs Nifty



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Krsnaa Diagnostics Ltd. operated in Tier 2 & Tier 3 cities providing diagnostic services from their centres across the country. The diagnostic chain earlier operated entirely from within the Government hospitals providing Radiology tests (CT Scan & MRI tests) to patients at a discounted price 45-60% rates lower than existing market rates and Pathology tests at 40-80% rates lower than B2C Peers. The diagnostic chain has total 3,052 centres and laboratories across India, with 134 CT/MRI centres, 112 Pathology processing Laboratories and 240+ Doctors (Radiologists and Pathologists) operating across 125+ districts in 17 states & Union Territories. The diagnostic chain is the first of its kind to get approval from NABH for Tele-reporting of radiology labs in India.

Major expansion of diagnostics network underway across different states

Krsnaa Diagnostics has major tenders under implementation in Maharashtra, Assam and Odisha, which are expected to complete by the end of this fiscal year, and will enhance their EBITDA margins & Profitability in the long run between 26-28% sustainably when the centres under these tenders start generating revenue, and incremental front loading of expenses halts allowing bottom lines to increase.

In the state of Maharashtra, the company will be setting up 39 CT scan units in 20 locations, which will start revenue generation by Q1FY25. For the BMC project, the company will establish 600 Pathology collection labs of which 462 were already operational. For the large Project of Assam, the company will establish 10 laboratories, 44 collection centres, operational 24x7 and 1,212 collection centres, which will start generating revenue from Q4FY24 onwards. In Odisha, their Project has already commenced operations in Q2FY24, and will witness substantial revenue growth from Q4FY24.

Rajasthan tender of 55 Districts of 150 labs and 1,295 collection centres

The tender of Rajasthan which got delayed due to the elections in Nov 2023, and leading to the formation of Government in the state has caused a delay in the implementation of the tender won by Krsnaa Diagnostics for all the 50 districts of Rajasthan (increased from earlier 33 districts) which once commenced, will yield a peak revenue of INR 3 bn (earlier INR 1.5 bn) annually from the state. This tender is expected to generate better margins for the company as the tender's number of districts has increased while the number of labs and collection centres remains the same while the population they will cater to will increase, thereby increasing the volume handled by the same number of labs.

Front loading of Expenses to halt in FY25 and Margins to improve

With several expansion Projects in Maharashtra, Assam, Odisha ramp up and BMC Project to complete by end of fiscal year FY24, we believe the front load expenses for the overall company will decrease from the Q1FY25 onwards, and the EBITDA Margins of the company will improve from current levels of 22% in H1FY24 to 25% in FY25E. Also, the newer Project's revenue generation will add up to the revenue for the FY25E by 39% and 15% in FY26E.

Valuation & Outlook

Krsnaa Diagnostics Ltd. is undergoing capacity expansion across several states including Maharashtra, Assam, Odisha and Mumbai. The expansionary Projects are expected to be completed by the end of this fiscal year, and as the front loading of expenses reduces from Q4FY24, the EBITDA margins for FY25 are expected to be 26% in FY25E and 27% in FY26E. We believe the pending High Court case on the implementation of Rajasthan tender will be ruled in favour of the company and will be yielding up to INR 3 bn of incremental revenue annually. We initiate coverage with a "BUY" rating on the stock with a Target Price of INR 1,052 per share based on FY26E EPS at fwd P/E multiple of 25x with an upside of 57%.

Overview

Business Model	Krsnaa Diagnostics Ltd. operated in Tier 2 & Tier 3 cities providing diagnostic services from their centres across the country. The diagnostic chain earlier operated entirely from within the Government hospitals providing Radiology tests (CT Scan & MRI tests) to patients at a discounted price 45-60% rates lower than existing market rates and Pathology tests at 40-80% rates lower than B2C Peers. The diagnostic chain has total 3,052 centres and laboratories across India, with 134 CT/MRI centres, 112 Pathology processing Laboratories and 240+ Doctors (Radiologists and Pathologists) across 125+ districts in 17 states & Union Territories.
Strategic Positioning	Largest Diagnostic Chain operating from Government Hospitals with no other significant player of considerable size.
Competitive Edge	They already have lowest pricing at 45-60% lower than existing rates for the CT Scan/MRI and Pathology tests.
Financial Structure	The Company's revenue mix for FY23 comprised: Radiological tests (CT/MRI scan) made up 66% of revenue and 33% from traditional Pathological Tests.
Future Revenue drivers	Krsnaa Diagnostics has major tenders under implementation which are expected to complete by end of FY24. In Maharashtra, the company will be setting up 39 CT scan units in 20 locations, which will start revenue generation by Q1FY25, BMC project will establish 600 Pathology collection labs of which 462 were already operational, and, in the Assam Project, they will establish 10 laboratories, 44 collection centres and 1,212 collection centres which will start generating revenue from Q4FY24 onwards. In Odisha, their Project has already commenced operations in Q2FY24, and will witness substantial revenue growth from Q4FY24.
Share Holder Value Proposition	Krsnaa Diagnostics has already had their business operating in the low margin Government fixed pricing in Diagnostics sector, and yet they are seen doing +25% margins against their Peers in B2C along with expansion.
Earnings Visibility	The CAGR growth rate of Revenue, EBITDA and PAT between FY23 & FY26 is expected to be 26.4%/30.3%/34% respectively.
Risk	No large listed player in the Diagnostic space in Radiology Tests, and Pathology tests space has entire Unorganized contractors operating alongside Government Hospitals, but cannot compete with Krsnaa's Pricing power.
Rating Rationale and Fair Value Calculation	Krsnaa Diagnostics Ltd. is undergoing capacity expansion across several states including Maharashtra, Assam, Odisha and Mumbai. The expansionary Projects are expected to be completed by the end of this fiscal year, and as the front loading of expenses reduces from Q4FY24, the EBITDA margins for FY25 are expected to be 26% in FY25E and 27% in FY26E. We believe the pending High Court case on the implementation of Rajasthan tender will be ruled in favour of the company and will be yielding up to INR 3 bn of incremental revenue annually. We initiate coverage with a "BUY" rating on the stock with a Target Price of INR 1,010 per share based on FY26E EPS at fwd P/E multiple of 24x with an upside of 43%.

Exhibit 1: Summary

Summary (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,555	4,871	6,108	8,530	9,834
EBIDTA	1,315	1,223	1,374	2,218	2,704
Net Profit	683	621	604	1,150	1,494
Diluted EPS	21.75	19.78	19.25	36.63	47.57
P/E (x)	32.50	35.74	36.73	19.30	14.86
EV/EBIDTA (x)	8.90	9.50	16.02	9.72	7.67
P/BV (x)	3.24	3.01	2.78	2.43	2.09
ROE (%)	9.98	8.41	7.56	12.58	14.04
Debt/Equity (x)	0.05	0.03	0.02	0.02	0.01

Financials

Profit & Loss Statement (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	3,965	4,555	4,871	6,108	8,530	9,834
% Growth	53.4%	14.9%	6.9%	25.4%	39.6%	15.3%
Gross Profit	3,127	3,951	4,129	4,856	6,824	7,916
Gross Profit Margin %	78.9%	86.8%	84.8%	79.5%	80.0%	80.5%
Employee Costs	296	547	746	977	1,279	1,426
Operating & Other Expenses	2,181	2,636	2,906	3,482	4,606	5,212
EBITDA	938	1,315	1,223	1,374	2,218	2,704
EBITDA Margin %	23.7%	28.9%	25.1%	22.5%	26.0%	27.5%
Depreciation	374	414	538	705	832	881
Other Income	122	149	194	201	228	245
EBIT	564	901	685	670	1,386	1,824
Finance Cost	259	185	77	105	120	129
Exceptional Items	2,528	-	-	-	-	-
PBT	2,955	865	802	765	1,494	1,940
Income Tax	1,105	182	181	161	344	446
PAT	1,849	683	621	604	1,150	1,494
PAT Margin %	46.6%	15.0%	12.8%	9.9%	13.5%	15.2%

Source: Company, Aриhant Capital Research

Balance Sheet (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
ASSETS						
Inventories	72	92	251	314	439	506
Trade Receivables	725	579	731	837	1,145	1,320
Cash & Bank Balance	1,529	2,419	1,088	375	788	1,548
Other Current Assets	155	252	188	206	241	259
Plant, Property & Equipments	3,073	3,834	4,678	5,974	6,642	7,261
Other Non-Current Assets	491	1,586	2,163	2,163	2,163	2,163
Total Assets	6,045	8,762	9,099	9,869	11,417	13,057
EQUITY AND LIABILITIES						
Equity Share Capital	65	157	157	157	157	157
Other Equity	2,254	6,687	7,230	7,835	8,985	10,479
Net Worth	2,319	6,844	7,387	7,992	9,142	10,636
Borrowings	1,680	331	243	193	143	93
Other Non-Current Liabilities	209	99	477	477	477	477
Trade Payables	786	773	621	837	1,285	1,482
Other Current Liabilities	1,052	715	371	371	371	371
Total Equity & Liabilities	6,045	8,762	9,099	9,869	11,418	13,058

Source: Company, Aриhant Capital Research

Cash Flow (INR, Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,955	865	802	765	1,494	1,940
Operating Profit before WC Changes	954	1,357	1,250	1,374	2,218	2,704
Operating Profit after WC Changes	1,102	1,350	894	1,403	2,199	2,640
Tax Paid	(77)	(66)	(131)	(161)	(344)	(446)
Cash Flow from Operating Activities	1,026	1,284	763	1,242	1,855	2,194
Cash Flow from Investing Activities	(611)	(2,406)	(1,089)	(1,799)	(1,272)	(1,255)
Cash Flow from Financing Activities	308	1,760	(331)	(155)	(170)	(179)
Net Change in Cash & Cash Equivalents	723	637	(657)	(713)	413	760
Opening Cash & Cash Equivalents	(476)	247	884	227	(486)	(73)
Closing Cash & Cash Equivalents	247	884	227	(486)	(73)	687

Source: Company, Arianth Capital Research

Key Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Per Share (INR)						
EPS	12.3	21.8	19.8	19.3	36.6	47.6
BVPS	178.5	218.0	235.3	254.5	291.1	338.7
Valuation (x)						
P/E	57.7	32.5	35.7	36.7	19.3	14.9
P/BV	4.0	3.2	3.0	2.8	2.4	2.1
EV/EBITDA	10.0	15.3	17.5	16.0	9.7	7.7
Return Ratios (%)						
Gross Margin	78.9%	86.8%	84.8%	79.5%	80.0%	80.5%
EBITDA Margin	23.7%	20.3%	9.5%	6.3%	18.4%	21.4%
PAT Margin	46.6%	15.0%	12.8%	9.9%	13.5%	15.2%
NOPAT Margin	8.9%	15.6%	10.9%	8.7%	12.5%	14.3%
ROE	79.8%	10.0%	8.4%	7.6%	12.6%	14.0%
ROCE	46.3%	9.5%	8.1%	7.4%	12.4%	13.9%
Leverage Ratio						
Total D/E	0.72	0.05	0.03	0.02	0.02	0.01
Turnover Ratios						
Asset Turnover	0.7	0.6	0.5	0.6	0.8	0.8
Receivable Days	67	46	55	50	49	49
Inventory Days	7	7	19	15	10	10
Payable Days	72	62	47	50	55	55

Source: Company, Arianth Capital Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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