

Krsnaa Diagnostics | BUY

A new experiment

We recently visited Krsnaa's new state-of-the-art Kurla (Mumbai) pathology lab. This new lab caters to BMC collection centres and will be leveraged for a B2C foray. It has the potential to test 30K-40K samples/day (scalable to 1 lakh tests/day). The lab's current test offering is 250-300 tests, which will be expanded as it ramps up. In addition to digital ads, Krsnaa is in the process of rolling out a website and mobile app to increase private walk-ins and improve positioning. While PPP remains its core focus, this new experiment can incrementally contribute to growth over the medium to long term, in our view. In its recent earnings call, Krsnaa maintained its 30% revenue growth guidance for FY24 (ex-Rajasthan) and believes it can grow at this rate over the next 4-5 years. Margin may remain subdued in the near term due to large new centre implementation costs but will start normalising from 4Q. The Rajasthan agreement is yet to be signed despite a favourable verdict from the Rajasthan High Court and the company has once again taken legal recourse to enforce the court order. Given the healthy revenue momentum, new centre visibility and tender pipeline, we believe there is sufficient scope to re-rate. BUY.

- Site visit takeaways:** We recently visited Krsnaa's new state-of-the-art 15,000 sqft Kurla pathology lab. This new experiment is to fuel Krsnaa's B2C ambitions, albeit strategically. This lab already caters to BMC collection centres and will act as a Central lab to cater to the entire Mumbai and other region. The scope of this BMC tender can potentially be expanded to include home collection tests, which will improve utilisation. This lab can accommodate 35K-40K tests on a daily basis and is scalable to 1 lakh tests (i.e., 15K patients/ day). The lab's current test menu is 250-300 tests and TAT is 6-10 hours. The lab hosts capabilities such as haematology, microbiology, serology, etc. and can accommodate more equipment/ capabilities as the need arises. Newer technologies, such as Indexor from Abbott, can help manage large volumes. The B2C tests will be offered at higher-than-CGHS rates but 10-15% lower than the lowest market rates. Recently, the company has also been spending on digital ad campaigns and is in the process of launching a website and mobile application. While PPP remains the core focus, this new experiment can incrementally contribute to growth over the medium to long term.
- Strong guidance, execution remains key:** Krsnaa is participating in new, large tenders and will disclose further details later (upside trigger). It remains steadfast on its ~30% revenue growth guidance in FY24 (ex-Rajasthan) and expects INR 3bn peak revenue from the Rajasthan tender. Krsnaa aspires to consistently deliver 30-35% revenue CAGR over the next 4-5 years. The key risk to guidance is delay in execution. EBITDA margin may remain weak in 3Q and pick up in 4Q (post Assam implementation and other new centre costs).
- Rajasthan uncertainty remains:** The agreement has not been signed with the authorities despite a favourable verdict from the Rajasthan High Court. Hence, it has taken further legal recourse (outcome expected in near future). We remain optimistic of a positive outcome but continue to monitor developments.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,010
Upside/(Downside)	51.3%
Previous Price Target	1,050
Change	-3.8%

Key Data – KRSNAA IN

Current Market Price	INR668
Market cap (bn)	INR21.0/US\$0.3
Free Float	50%
Shares in issue (mn)	31.4
Diluted share (mn)	31.4
3-mon avg daily val (mn)	INR72.5/US\$0.9
52-week range	727/353
Sensex/Nifty	69,929/20,997
INR/US\$	83.4

Price Performance

%	1M	6M	12M
Absolute	4.1	17.8	41.1
Relative*	-3.4	5.5	25.5

* To the BSE Sensex

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	1,374	2,218	2,704
EBITDA Margin (%)	28.9	25.1	22.5	26.0	27.5
Adjusted Net Profit	683	621	604	1,150	1,494
Diluted EPS (INR)	21.8	19.8	19.3	36.6	47.6
Diluted EPS Growth (%)	77.5	-9.1	-2.7	90.3	29.9
ROIC (%)	21.9	12.4	9.5	16.4	19.5
ROE (%)	14.9	8.7	7.9	13.4	15.1
P/E (x)	30.7	33.8	34.7	18.2	14.0
P/B (x)	3.1	2.8	2.6	2.3	2.0
EV/EBITDA (x)	13.3	14.9	13.7	8.3	6.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 12/Nov/2023

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Exhibit 1. New state-of-the-art Kurla centre



Source: Company, JM Financial

Exhibit 2. Management commentary on B2C segment

4Q23	1Q24	2Q24
In line with our commitment to serving the B2C segment, we have introduced affordable wellness packages that cater to the diverse needs of our customers	Launched our home collection services in Punjab, which is another initiative	Down the line we would expect the B2C contribution to be in the range of about 10% .
Ayaksham wellness packages cover both basic and special tests, ensuring comprehensive healthcare solutions for individuals.	We believe the B2C initiatives (wellness packages and home collection) are taking good shape, and based on the success and the learnings, we'll be expanding these to other states, including Maharashtra, Odisha, and Assam, where we already have pathology labs	
We are trying to leverage our lab networks or the existing networks, but it (B2C growth) will be gradual and not sudden	We want to leverage our existing network of labs and centres and spread them more through these various initiatives	
Priority wise, we will be focusing on PPP while B2C will take its own steady progress	Pricing: B2C tests will be offered at higher than CGHS rates but 10-15% lower than lowest market rates and that has helped with the initial successes on the B2C model.	

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	1,252	1,706	1,918	
Personnel Cost	547	746	977	1,279	1,426	
Other Expenses	2,089	2,161	2,504	3,327	3,786	
EBITDA	1,315	1,223	1,374	2,218	2,704	
EBITDA Margin	28.9%	25.1%	22.5%	26.0%	27.5%	
EBITDA Growth	40.1%	-7.0%	12.4%	61.4%	21.9%	
Depn. & Amort.	414	538	705	832	881	
EBIT	901	685	670	1,386	1,824	
Other Income	149	194	201	228	245	
Finance Cost	185	77	105	120	129	
PBT before Excep. & Forex	865	802	765	1,494	1,940	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	865	802	765	1,494	1,940	
Taxes	182	181	161	344	446	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	683	621	604	1,150	1,494	
Adjusted Net Profit	683	621	604	1,150	1,494	
Net Margin	15.0%	12.8%	9.9%	13.5%	15.2%	
Diluted Share Cap. (mn)	31.4	31.4	31.4	31.4	31.4	
Diluted EPS (INR)	21.8	19.8	19.3	36.6	47.6	
Diluted EPS Growth	77.5%	-9.1%	-2.7%	90.3%	29.9%	
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	765	1,494	1,940	
Depn. & Amort.	414	538	705	832	881	
Net Interest Exp. / Inc. (-)	62	-82	-96	-108	-116	
Inc (-) / Dec in WCap.	-7	-356	28	-19	-64	
Others	16	-8	0	0	0	
Taxes Paid	-66	-131	-161	-344	-446	
Operating Cash Flow	1,284	763	1,242	1,855	2,194	
Capex	-1,322	-1,414	-2,000	-1,500	-1,500	
Free Cash Flow	-38	-651	-758	355	694	
Inc (-) / Dec in Investments	-1,265	157	0	0	0	
Others	180	168	201	228	245	
Investing Cash Flow	-2,406	-1,089	-1,799	-1,272	-1,255	
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	-105	-120	-129	
Financing Cash Flow	1,760	-331	-155	-170	-179	
Inc / Dec (-) in Cash	637	-657	-713	413	760	
Opening Cash Balance	247	884	227	-486	-73	
Closing Cash Balance	2,418	1,088	375	788	1,548	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	6,844	7,387	7,992	9,142	10,636	
Share Capital	157	157	157	157	157	
Reserves & Surplus	6,687	7,230	7,835	8,985	10,479	
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	8,380	9,480	10,924	
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	3,595	4,476	5,497	
Inventories	92	251	314	439	506	
Sundry Debtors	579	731	837	1,145	1,320	
Cash & Bank Balances	2,419	1,088	375	788	1,548	
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	2,120	2,553	3,377	
Total - Assets	7,324	7,826	8,380	9,480	10,924	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	15.0%	12.8%	9.9%	13.5%	15.2%	
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%	7.9%	13.4%	15.1%	

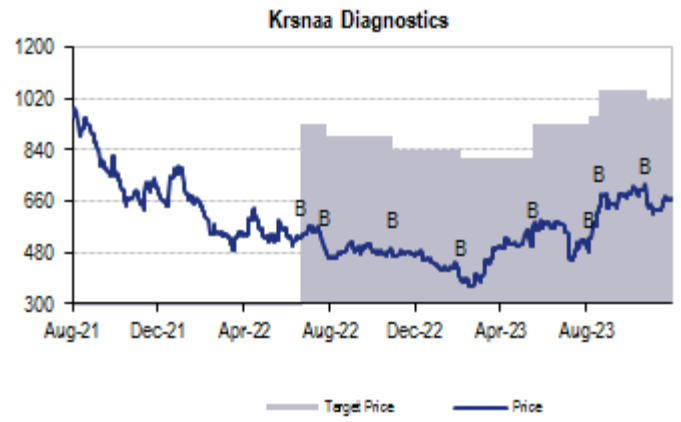
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	218.0	235.3	254.5	291.1	338.7	
ROIC	21.9%	12.4%	9.5%	16.4%	19.5%	
ROE	14.9%	8.7%	7.9%	13.4%	15.1%	
Net Debt/Equity (x)	-0.5	-0.3	-0.2	-0.2	-0.3	
P/E (x)	30.7	33.8	34.7	18.2	14.0	
P/B (x)	3.1	2.8	2.6	2.3	2.0	
EV/EBITDA (x)	13.3	14.9	13.7	8.3	6.5	
EV/Sales (x)	3.9	3.7	3.1	2.2	1.8	
Debtor days	46	55	50	49	49	
Inventory days	7	19	19	19	19	
Creditor days	87	62	65	74	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
1-Sep-23	Buy	1,050	9.4
6-Nov-23	Buy	1,010	-3.8

Recommendation History



APPENDIX I

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