

Expansion of B2G business model in underpenetrated geographies and unorganized players

CMP: INR 702
Target Price: INR 1,052
Rating: BUY

Stock Info

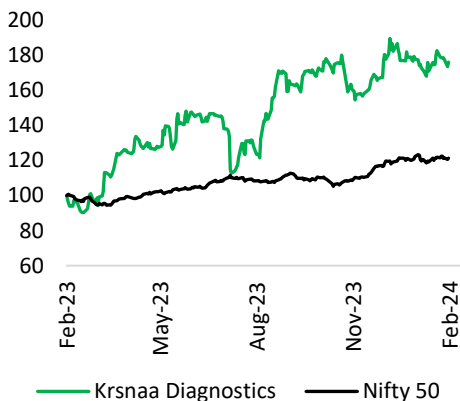
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	22,670
52w H/L (INR)	789 / 353
Avg. Yearly Volume (in 000')	265

Shareholding Pattern %

(As on Dec, 2023)

Promoters	27.03
DII's	16.58
FII's	3.44
Public	52.95

Krsnaa Diagnostics Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-4225 4871

Anmol Das
anmol.das@arihantcapital.com
022-6711 4834

Krsnaa Diagnostics Ltd. Posted decent set of earnings for Q3FY24 with Revenue coming to INR 1,583 mn up by 34% YoY/2% QoQ, EBITDA increased to 378 mn up 27% YoY/17% QoQ, EBITDA Margins came at 24% against 25%/21% YoY/QoQ respectively and Net profits came at INR 130 mn down 5% YoY/23%QoQ. The company has recently operationalized the Assam Project which was secured during the Q1FY24, encompassing the establishment of 10 laboratories and 1,256 collection centre. In Q3FY24, the Company has established 6 new pathology labs, established 116 Pathology collection centres and 64 new telereporting centres. the company is looking to establish 40 labs across various locations which are taken on Lease and not in the Government Premises. These labs will augment revenues from PPP as well as incremental revenue from the B2C and B2B customer segments, and therefore leverage the infrastructure beyond the existing long term PPP contracts.

Maharashtra and Rajasthan contracts to drive business growth

Krsnaa Diagnostics has won contracts to set up 56 Radiology centres across the state of Maharashtra out of which 9 have been set up, and ~30 will be set up by end of H1FY25, and remaining by end of FY25. In Rajasthan, the company has a contract for setting up 150 laboratories and 1,295 collection centres. Since, the contract of Rajasthan is ex-judiciary and Management expects the decision to come before the end of this month, we haven't taken the financial gains and expenses to be incurred from Rajasthan.

Assam and Odisha contracts operationalized in full swing

The company has recently operationalized the Assam Project which was secured during the Q1FY24, encompassing the establishment of 10 laboratories and 1,256 collection centres would start reflecting in revenues from Q4FY24. The Odisha project started in Q2FY24, is ramping well, and we believe it will show its true potential in FY25 revenues.

Rajasthan contract to take Capex up to INR 4.5-5 bn for next 2 Years

The contract for Rajasthan is expected to be decided by the High Court by end of this month, and will increase the capex for the company by another INR 2.5-3 bn taking it to INR 4.5-5 bn for the next 2 years.

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 remain positive 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 50%.

Financials

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

Q3FY24 – Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ
Total Revenue	1,583	1,181	34%	1,554	2%
COGS	344	192	79%	359	-4%
Gross Profit	1,240	989	25%	1,195	4%
Gross Margin	78.30%	83.75%	-545bps	76.9%	140bps
Staff Cost	297	190	56%	264	12%
Other expenses	569	505	13%	613	-7%
EBITDA	374	294	27%	318	18%
EBITDA margin (%)	23.6%	24.9%	-128bps	20.4%	317bps
Other Income	41	45	-10%	42	-2%
Finance Cost	41	23	83%	31	35%
Depreciation	212	139	53%	195	9%
PBT	161	178	-9%	134	20%
Exceptional Items	0	0		0	
Tax	31	41	-25%	29	7%
Tax Rate (%)	19.4%	23.3%	-390bps	21.8%	-239bps
Minority Interest	0	0		0	
PAT (Reported)	130	136	-5%	105	24%
PAT margin (%)	8.2%	11.6%	-336bps	6.8%	144bps
Diluted EPS (INR)	4.0	4.2	-6%	3.2	23%

Concall Highlights

Guidance:

- The Company has operationalized 9 out of 56 radiology centres in Maharashtra, and the management intends to operationalize the remaining radiology centres over the next 4-5 quarters in Maharashtra. Notably, Maharashtra has the highest number of radiology Centres among all states. So, in the H1Fy25, about 30 CT scans will be operationalized and the remaining will be done in H2 as the company has recently signed the contract, and will require some time to operationalize.
- The capex for the next 2 years will be INR 1.5-2 bn for the company. The Management informs that if the Rajasthan court decision comes in their favour, they will have to allocate more capex for that contract as well.
- Hence, the Management clarifies that if the Rajasthan decision comes in your favour, the capex for FY25 will go up to INR 4.5-5 bn.
- Regarding the Rajasthan tender pending with the High Court, the management is expecting the decision to come in their favour.

Concall Highlights (Continued)**Key Highlights:**

- Revenue grew to INR 1,583 mn up by 34% YoY/2% QoQ, EBITDA increased to 378 mn up 27% YoY/17% QoQ, EBITDA Margins came at 24% against 25%/21% YoY/QoQ respectively and Net profits came at INR 130 mn down 5% YoY/23%QoQ.
- The company has recently operationalized the Assam Project which was secured during the Q1FY24, encompassing the establishment of 10 laboratories and 1,256 collection centre. The revenue contribution for this Project would be visible from this quarter itself.
- The company has successfully operationalized 9 CT scan machines in the state of Maharashtra, and the remaining 30 CT scans would be soon be operationalized from which the revenue contribution would be materialize from the Q1FY25.
- In Q3FY24, the Company has established 6 new pathology labs, established 116 Pathology collection centres and 64 new telereporting centres.
- As a strategy, the company is looking to establish 40 labs across various locations which are taken on Lease and not in the Government Premises. These labs will augment revenues from PPP as well as incremental revenue from the B2C and B2B customer segments, and therefore leverage the infrastructure beyond the existing long term PPP contracts.
- The Odisha project which started in Q2FY24, is ramping well, and the management sees good traction coming from the state in the future.
- The B2C business is growing steadily and gaining momentum as there is good traction in the Diagnostic packages which are received well along with increasing Krsnaa's brand Awareness.
- The Company remains Net debt Free as of Q3FY24, while the receivable days has increased to 121 days as there is some delay in payments from the state of Himachal Pradesh and Manipur. However, the management clarifies that they have started receiving payment from these states in the current quarter and they expect the receivable days to normalize in the Q4FY24.
- The Lease Liability for the 9MFY24 for MRI Equipments stood at INR 200 mn.
- The management states that their intention is to remain Net Debt free. However, going ahead, if opportunity arises where taking debt looks more efficient, they will take such decisions on a case to case basis.
- The Company says they have served 11.1 million patients in the 9MFY24. Also, the split between Credit Billing and cash Billing stood at 70% and 30% respectively.
- The break up between Tele-reporting of CT & MRI scans and Pathology stood at 60-65% and 30-35% respectively.
- The Management says that with the Rajasthan contract coming through as well as Maharashtra and the NPMRI tender, they believe the Radiology and Pathology revenue mix would be in the range of 65% and 35% 2-3 years down the line.
- The Management believes that going ahead, they will be seeing the margins at about 25% and above, which will be a stabilized number for them.
- The management says they currently have 1-2% of B2C business, where their cost are higher due to the marketing Costs, etc, but their pricing is still fairly low than their competitors. The company is exploring the Company owned Collection Centres as well as through Franchises which is growing very fast.

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880