

# Krsnaa Diagnostics | BUY

## Improving performance to drive re-rating

Krsnaa Diagnostics reported a strong 2Q with significant margin/PAT improvement. This was driven by operating leverage in new centres – EBITDAM improved to 20.5% from ~12% sequentially. This quarter had 2 notable developments: (1) Strategic investment in Apulki Healthcare for INR 250-300mn - Krsnaa will be the exclusive diagnostic provider for 30y (+30); (2) Collaboration with Medikabazaar and United for INR 3bn+ investment to set up 30+ imaging centres (details below). The former bolsters revenue prospects while the latter helps plug funding gap for key radiology projects. The management tried to address concerns around receivables as they plan to bring it down to 90 days in FY25 (from 104 days in FY24; positive). The high receivables are from two states (INR 1.25bn total value) and will be recovered in subsequent months. There is a clear B2C push but it is a medium-term initiative. A final outcome on Rajasthan tender is yet pending. With improving performance, there is significant room for re-rating, in our view. We value Krsnaa at 26x (vs. 24x earlier; narrowing discount to Thyrocare) to arrive at a revised Sep'25 TP of INR 1026. Maintain BUY.

- Strong margin recovery:** Revenues grew 20%YoY to INR 1.86bn (in-line). EBITDA margin improved meaningfully to 26.5% (JMFe: 25%). This improvement was driven by: (1) operating leverage from new centres; (2) business restructuring - business consultant services in-housed (vs. outsourced earlier). The mature centres reported 34% margin, down QoQ on account of seasonality and mix but new centres reported a strong 20.5% margins (vs. 11.8% QoQ). The management remains firm on its 25% revenue growth guidance with sustainable EBITDAM of ~25%. The revenue guidance remains slightly on the higher side (JMFe: 21% in FY25) ex-Rajasthan but 25% EBITDA guidance is achievable, in our view.
- Update on progress of tenders:**
  - With 2 new tender wins in Jharkhand, there is room to grow further in this state.
  - In Maharashtra, the company swiftly operationalized 11 centres and plans to ramp up significantly next fiscal. Krsnaa plans to set up 5 MRI centres by end of this year. The company will set up 32 slice CT and 1.5 Tesla MRI in this state.
  - In Madhya Pradesh, Krsnaa won 5 new centres and will complete 2 by this year end.
  - Orissa 600 tenders have been operationalized.
  - The company is making progress on the Assam tender.
- Addressing concerns around receivables:** The management tried to address concerns around receivables – Of the INR 2.4bn receivables, INR 1.25bn pertains to 2 states (one being Himachal) and is confident of recovering the same (NHM backed projects) in subsequent months. The delay was on account of procedural reasons and pending budgetary approvals. FY25 target receivable days are 90 days which should improve collections meaningfully. This could then gradually come down to 80-85 days.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,026
Upside/(Downside)	22.1%
Previous Price Target	880
Change	16.6%

### Key Data – KRSNAA IN

Current Market Price	INR840
Market cap (bn)	INR27.1/US\$0.3
Free Float	56%
Shares in issue (mn)	31.4
Diluted share (mn)	32.4
3-mon avg daily val (mn)	INR105.0/US\$1.2
52-week range	902/528
Sensex/Nifty	80,005/24,339
INR/US\$	84.1

### Price Performance

%	1M	6M	12M
Absolute	1.3	48.5	20.6
Relative*	8.4	38.6	-3.9

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	4,871	6,196	7,496	9,043	10,868
Sales Growth (%)	6.9	27.2	21.0	20.6	20.2
EBITDA	1,223	1,443	1,934	2,333	2,880
EBITDA Margin (%)	25.1	23.3	25.8	25.8	26.5
Adjusted Net Profit	621	569	802	1,087	1,469
Diluted EPS (INR)	19.8	18.1	24.8	33.6	45.3
Diluted EPS Growth (%)	-9.1	-8.4	36.6	35.5	35.1
ROIC (%)	12.4	8.2	8.8	10.3	13.1
ROE (%)	8.7	7.3	9.4	11.5	13.7
P/E (x)	42.5	46.4	33.9	25.0	18.5
P/B (x)	3.6	3.3	3.1	2.7	2.4
EV/EBITDA (x)	19.3	18.6	13.9	11.4	8.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 28/Oct/2024

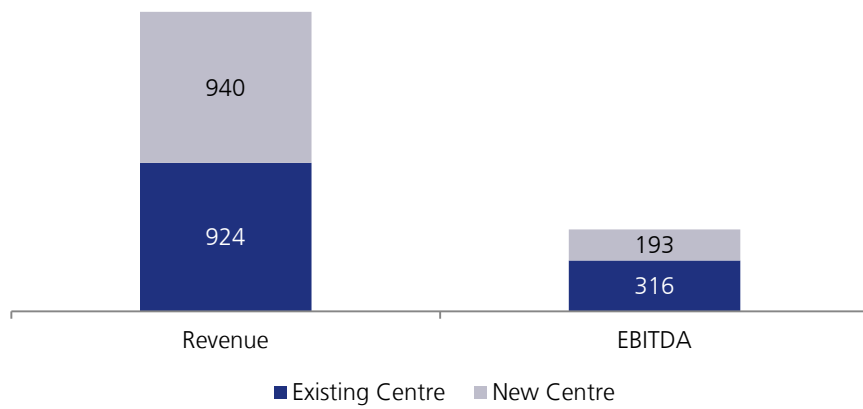
- **Apulki deal:** Krsnaa will acquire 23.53% stake in Apulki Healthcare for INR 250-300mn investment.
  - Apulki was formed in Jun'22 for establishing and maintaining onco and cardiac hospitals. Two 125+ bedded hospitals in Pune and Mumbai are expected to commence operations in Feb'25.
  - By offering a comprehensive suite of cutting-edge diagnostic technologies—including MRI, PET CT, Cardiac CT, and Advanced Pathology—available 24x7 under one roof, Krsnaa will be the exclusive diagnostic partner. The tenure of this arrangement will be 30 years (+30y extendable). PET CT is a new endeavour for Krsnaa.
  - The services will be provided at CGHS rates.
  - The management will provide further details (revenue potential, investments, future stake increase, etc.) once the agreement is signed.
- **Deal with United/Medikabazaar plugs funding gap:** Krsnaa has entered into a strategic partnership with Medikabazaar, India's largest B2B Healthcare procurement & supply-chain solutions provider, and United Imaging, a global leader in advanced imaging technologies.
  - This collaboration, with an INR 3bn+ investment, will help Krsnaa set up 30+ imaging centres across Tier 2/3 cities in India. This could take 18-24 months.
  - Krsnaa will benefit from United's equipment and imaging solutions and Medikabazaar's distribution.
  - Krsnaa will procure equipment at 10% upfront cost with balance payable over 6 years. This will plug a critical funding gap for Krsnaa given the high number of radiology centres pending execution.
  - This deal has come into effect.
- **Wait for Rajasthan outcome continues (not in our est.):** The matter remains sub-judice and timeline for resolution remain elusive. Next hearing is likely Nov-end. Last quarter, we had reset our estimates to exclude Rajasthan tender. Any favourable outcome will pose upside risk to our estimates.
- **Key financials:**
  - Revenue/EBITDA/PAT of INR 1863mn/494mn/196mn grew 20%/55%/87% YoY and were -1%/+5%/in line vs. JMFe;
  - Gross margin was at 75.9% (vs. 75% JMFe);
  - EBITDA margin improved to 26.5% vs. 20.4% YoY (JMFe: 25%);
  - PAT was up 87%YoY due to operating leverage from new centres and low base last year;
  - Estimated capex outlay for FY25 is INR 1.7bn.
  - Cash balance at the end of Sep'30 was INR 2.2bn.

Exhibit 1. Pipeline

Radiology Centres Under Implementation				Pathology Centres Under Implementation			
	Total Centres	Operational	Under Implementation		Total Centres	Operational	Under Implementation
Uttar Pradesh	8	5	3	DMC	1	1	-
Rajasthan	1	-	1	BMC CC	600	473	127
DMC	1	1	-	Odisha CC	600	600	-
Mira Bhayandar	1	1	-	Mira Bhayandar	1	1	-
Maharashtra	73	40	33	Assam	10	10	-
Madhya Pradesh	5	-	5	Assam CC	1,256	652	604
Jharkhand	3	-	3	Jharkhand	1	-	1
<b>Total</b>	<b>92</b>	<b>47</b>	<b>45</b>	<b>Total</b>	<b>2,469</b>	<b>1,737</b>	<b>732</b>

Source: Company

Exhibit 2. New centre margins expand to 20.5% in 2Q



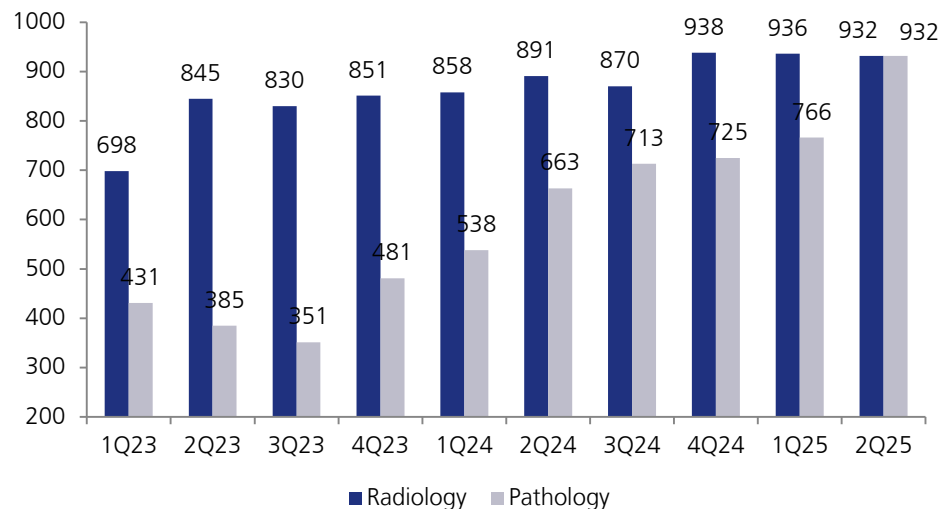
Source: Company, JM Financial

Exhibit 3. Valuation gap to reduce between Krsnaa and Thyrocare



Source: Bloomberg, JM Financial

## Exhibit 4. Radio-Patho split



Source: Company; Amount in INR mn

## Exhibit 5. 2Q24 Result Review

Krsnaa - P&L (INR mn)	2QFY24A	2QFY25A	% YoY	2QFY25E	% Delta vs JMFe	1QFY25A	% QoQ
<b>Total Revenue</b>	<b>1,554</b>	<b>1,863</b>	<b>20%</b>	<b>1,881</b>	<b>-1%</b>	<b>1,702</b>	<b>9%</b>
COGS	359	449	25%	470	-4%	429	5%
<b>Gross Profit</b>	<b>1,195</b>	<b>1,414</b>	<b>18%</b>	<b>1,411</b>	<b>0%</b>	<b>1,273</b>	<b>11%</b>
<b>% of revenue</b>	<b>76.9%</b>	<b>75.9%</b>	-100 bps	<b>75.0%</b>	90 bps	<b>74.8%</b>	110 bps
Staff Cost	264	351	33%	348	1%	331	6%
Other expenses	613	570	-7%	592	-4%	516	10%
<b>EBITDA</b>	<b>318</b>	<b>494</b>	<b>55%</b>	<b>470</b>	<b>5%</b>	<b>427</b>	<b>16%</b>
EBITDA margin (%)	20.4%	26.5%	606 bps	25.0%	151 bps	25.1%	145 bps
Other Income	42	46	10%	63	-27%	73	-37%
Finance Cost	31	64		60		53	
Depreciation	195	222		220		215	
<b>PBT</b>	<b>134</b>	<b>254</b>	<b>89%</b>	<b>253</b>	<b>0%</b>	<b>232</b>	<b>9%</b>
Exceptional Items							
Tax	29	58		58		53	
Tax Rate (%)	21.8%	22.9%		23.0%		22.8%	
<b>PAT (Reported)</b>	<b>105</b>	<b>196</b>	<b>87%</b>	<b>195</b>	<b>0%</b>	<b>179</b>	<b>9%</b>
PAT margin (%)	6.8%	10.5%	376 bps	10.4%	15 bps	10.5%	-1 bps
<b>EPS</b>	<b>3.3</b>	<b>6.1</b>	<b>81%</b>	<b>6.0</b>	<b>0%</b>	<b>5.5</b>	<b>9%</b>
Krsnaa - Cost margins	2QFY24A	2QFY25A	% YoY	2QFY25E	% Delta vs JMFe	1QFY25A	% QoQ
COGS/sales	23.1%	24.1%	100 bps	25.0%	-90 bps	25.2%	-110 bps
Staff cost/sales	17.0%	18.8%	180 bps	18.5%	31 bps	19.4%	-62 bps
Other expenditure/sales	39.4%	30.6%	-886 bps	31.5%	-93 bps	30.3%	27 bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	4,871	6,196	7,496	9,043	10,868	
Sales Growth	6.9%	27.2%	21.0%	20.6%	20.2%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>4,871</b>	<b>6,196</b>	<b>7,496</b>	<b>9,043</b>	<b>10,868</b>	
Cost of Goods Sold/Op. Exp	742	1,410	1,814	2,170	2,554	
Personnel Cost	746	1,115	1,424	1,691	2,011	
Other Expenses	2,161	2,228	2,324	2,848	3,423	
<b>EBITDA</b>	<b>1,223</b>	<b>1,443</b>	<b>1,934</b>	<b>2,333</b>	<b>2,880</b>	
EBITDA Margin	25.1%	23.3%	25.8%	25.8%	26.5%	
EBITDA Growth	-7.0%	18.0%	34.0%	20.6%	23.4%	
Depn. & Amort.	538	745	893	1,008	1,109	
EBIT	685	697	1,041	1,325	1,771	
Other Income	194	168	241	274	298	
Finance Cost	77	165	267	223	210	
PBT before Excep. & Forex	802	701	1,015	1,376	1,859	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	802	701	1,015	1,376	1,859	
Taxes	181	132	213	289	390	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	621	569	802	1,087	1,469	
<b>Adjusted Net Profit</b>	<b>621</b>	<b>569</b>	<b>802</b>	<b>1,087</b>	<b>1,469</b>	
Net Margin	12.8%	9.2%	10.7%	12.0%	13.5%	
Diluted Share Cap. (mn)	31.4	31.4	32.4	32.4	32.4	
<b>Diluted EPS (INR)</b>	<b>19.8</b>	<b>18.1</b>	<b>24.8</b>	<b>33.6</b>	<b>45.3</b>	
Diluted EPS Growth	-9.1%	-8.4%	36.6%	35.5%	35.1%	
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	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	802	700	1,015	1,376	1,859	
Depn. & Amort.	538	745	893	1,008	1,109	
Net Interest Exp. / Inc. (-)	-82	13	26	-51	-88	
Inc (-) / Dec in WCap.	-356	-968	-188	-208	-218	
Others	-8	-59	0	0	0	
Taxes Paid	-131	-188	-213	-289	-390	
<b>Operating Cash Flow</b>	<b>763</b>	<b>243</b>	<b>1,532</b>	<b>1,836</b>	<b>2,271</b>	
Capex	-1,414	-1,939	-1,700	-1,500	-1,200	
Free Cash Flow	-651	-1,695	-168	336	1,071	
Inc (-) / Dec in Investments	157	537	0	0	0	
Others	168	113	241	274	298	
<b>Investing Cash Flow</b>	<b>-1,089</b>	<b>-1,289</b>	<b>-1,459</b>	<b>-1,226</b>	<b>-902</b>	
Inc / Dec (-) in Capital	-69	232	0	0	0	
Dividend + Tax thereon	-78	-86	0	0	0	
Inc / Dec (-) in Loans	-91	902	0	-250	-250	
Others	-93	-206	-267	-223	-210	
<b>Financing Cash Flow</b>	<b>-331</b>	<b>842</b>	<b>-266</b>	<b>-473</b>	<b>-460</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-657</b>	<b>-203</b>	<b>-193</b>	<b>137</b>	<b>910</b>	
Opening Cash Balance	884	227	23	-170	-33	
Closing Cash Balance	1,088	535	342	478	1,388	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	7,387	8,098	8,900	9,986	11,455	
Share Capital	157	161	162	162	162	
Reserves & Surplus	7,230	7,937	8,738	9,825	11,293	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	325	1,598	1,598	1,348	1,098	
Def. Tax Liab. / Assets (-)	114	148	148	148	148	
<b>Total - Equity &amp; Liab.</b>	<b>7,826</b>	<b>9,844</b>	<b>10,646</b>	<b>11,482</b>	<b>12,701</b>	
Net Fixed Assets	4,962	6,570	7,377	7,868	7,959	
Gross Fixed Assets	6,291	8,805	10,505	12,005	13,205	
Intangible Assets	28	24	24	24	24	
Less: Depn. & Amort.	1,612	2,358	3,251	4,259	5,368	
Capital WIP	255	98	98	98	98	
Investments	3	3	3	3	3	
Current Assets	4,121	5,130	5,226	5,761	7,114	
Inventories	251	358	433	523	628	
Sundry Debtors	731	1,763	1,951	2,230	2,531	
Cash & Bank Balances	1,088	535	342	478	1,388	
Loans & Advances	0	0	0	0	0	
Other Current Assets	2,051	2,473	2,500	2,531	2,567	
Current Liab. & Prov.	1,259	1,859	1,960	2,151	2,376	
Current Liabilities	970	1,047	1,148	1,338	1,563	
Provisions & Others	289	812	812	812	812	
Net Current Assets	2,861	3,271	3,266	3,611	4,739	
<b>Total - Assets</b>	<b>7,826</b>	<b>9,844</b>	<b>10,645</b>	<b>11,482</b>	<b>12,701</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	12.8%	9.2%	10.7%	12.0%	13.5%	
Asset Turnover (x)	0.6	0.7	0.7	0.8	0.9	
Leverage Factor (x)	1.1	1.2	1.2	1.2	1.2	
RoE	8.7%	7.3%	9.4%	11.5%	13.7%	

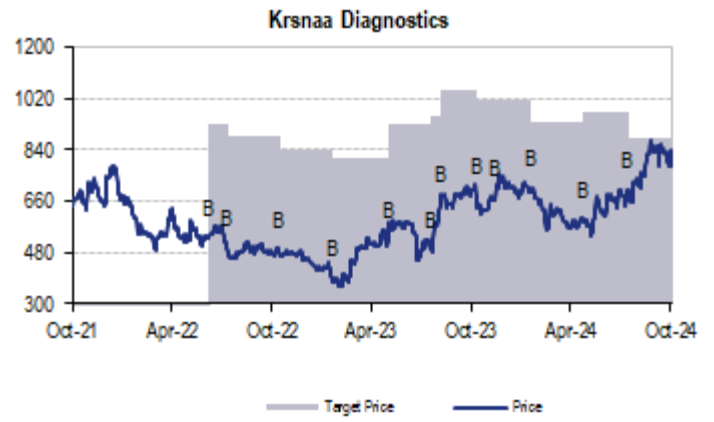
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	235.3	257.9	274.8	308.3	353.7	
ROIC	12.4%	8.2%	8.8%	10.3%	13.1%	
ROE	8.7%	7.3%	9.4%	11.5%	13.7%	
Net Debt/Equity (x)	-0.3	0.1	0.1	0.1	-0.1	
P/E (x)	42.5	46.4	33.9	25.0	18.5	
P/B (x)	3.6	3.3	3.1	2.7	2.4	
EV/EBITDA (x)	19.3	18.6	13.9	11.4	8.8	
EV/Sales (x)	4.8	4.3	3.6	2.9	2.3	
Debtor days	55	104	95	90	85	
Inventory days	19	21	21	21	21	
Creditor days	62	63	61	61	61	

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
11-Dec-23	Buy	1,010	0.0
13-Feb-24	Buy	935	-7.4
21-May-24	Buy	970	3.7
8-Aug-24	Buy	880	-9.3

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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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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