

Project execution delays impacting the growth, expected to gain pace in FY26

CMP: INR 788
Target Price: INR 1,175
Rating: BUY

Stock Info

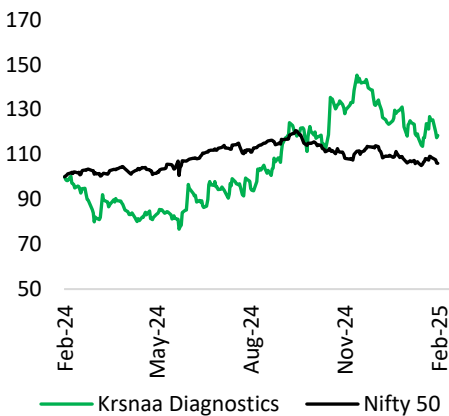
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	25,610
52w H/L (INR)	1,044 / 528
Avg. Yearly Volume (in 000')	60.8

Shareholding Pattern %

(As on Dec, 2024)

Promoters	27.24
DII's	14.46
FII's	4.04
Public	54.27

Krsnaa Diagnostics Vs Nifty



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Krsnaa Diagnostics Ltd. posted a slightly muted set of earnings for Q3FY25 with Net Profits at INR 194 mn, below our estimates of INR 226 mn, down 0.9% QoQ / up 49.65% YoY. The revenue too fell sequentially by 6.3% QoQ/ up 10.2% YoY to INR 1,745 mn on consolidated basis. The diagnostic chain has expanded to 3,423 Pathology Collection centres with 121 Processing Labs and on the Radiology front, they operate 178 CT Scan/MRI centres with 1,434 tele-reporting centres pan India, with association of more than 500 doctors across more than 150 districts in India.

Delays in major expansion of diagnostics network due to multiple factors

Krsnaa Diagnostics has major tenders under implementation in Maharashtra, Odisha, Jharkhand and Madhya Pradesh 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 become matured with EBITDA margins on par with existing centres. Though the Company is seeing the Projects are under implementation, regulatory hurdles in the states like Maharashtra where the 17 District Hospitals have given tender for CT / MRI scan facilities, 39 CT scan machines for Maharashtra State Government hospitals and the BMC contract for 600 collection centres, the Company is seeing regulatory delays that impacted their growth and margins as well.

In other states like Jharkhand, Uttar Pradesh and Madhya Pradesh, the Company has bagged tenders and are in the execution phases.

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

The Pathology contract with Rajasthan Government is again slated for court hearing and the Company is awaiting a favourable judgement as & when the Court gives the final verdict. Although we haven't taken the sub-judicial contract, it was expected to generate annual revenue of INR 3-4 bn from Rajasthan alone.

Asset Light Model and high margin Retail business to help Profitability

The Diagnostic company has already started their Retail operations in the 4 states of Punjab, Odisha, Assam and Maharashtra. This retail venture is profitable for the Company as they already have Pathology Processing Labs in these states, and now they have to expand horizontally in these states adding more Collection Centres.

The Company is now using the Manufacturer's line of credit instead of purchasing the hard assets like CT & MRI scan machines, thereby lightening their balance sheet and checking expenses.

Valuation & Outlook

Krsnaa Diagnostics reported a decent Q3FY25 earnings missing our estimates marginally on account of a seasonally weak Q3 quarter for the healthcare industry. Though the Rajasthan court case remained hanging while increasing competition, seasonality & project execution delays impacted margins during Q3FY25. We remain positive on the diagnostic company's future prospects considering the sectoral tailwind, tenders won and Projects under implementation. We recommend BUY rating on the Company based on FY27E EPS of INR 53 at fwd PE of 22x with a Target Price of INR 1,175 (earlier INR 1,200) per share as we expect the project executions to gain pace from FY26.

Summary (INR Mn)	FY24	FY25E	FY26E	FY27E
Net Sales	6,196	7,237	9,377	12,653
EBIDTA	1,442	1,845	2,344	3,227
Net Profit	568	751	1,108	1,724
Diluted EPS	17.60	23.25	34.33	53.40
P/E (x)	44.54	33.72	22.84	14.68
EV/EBIDTA (x)	17.47	12.82	9.94	6.91
P/BV (x)	3.13	2.86	2.54	2.17
ROE (%)	7.02	8.48	11.13	14.76

Q3FY25: Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q3FY25	Q2FY25	Q3FY24	% QoQ	% YoY
Total Revenue	1,745	1,863	1,583	-6.35%	10.23%
COGS	399	449	344	-11.16%	16.13%
Gross Profit	1,346	1,414	1,240	-4.82%	8.59%
Gross Margin	77.1%	75.9%	78.3%	124bps	-116bps
Staff Cost	359	351	297	2.30%	20.95%
Other expenses	537	570	569	-5.79%	-5.70%
EBITDA	451	494	374	-8.75%	20.55%
EBITDA margin (%)	25.8%	26.5%	23.6%	-68bps	221bps
Other Income	92	46	41	101.07%	126.51%
Finance Cost	61	64	41	-4.01%	47.96%
Depreciation	227	222	212	2.26%	6.93%
PBT	255	254	161	0.29%	58.30%
Exceptional Items	0	0	0		
Tax	61	58	31	4.39%	94.26%
Tax Rate (%)	22.9%	22.9%	19.4%		
Minority Interest	0	0	0		
PAT (Reported)	194	196	130	-0.92%	49.65%
PAT margin (%)	11.1%	10.5%	8.2%	61bps	293bps
Diluted EPS (INR)	5.88	5.92	3.97	-0.68%	48.11%
Krsnaa Diagnostics-Cost margins	Q3FY25	Q2FY25	Q3FY24	% QoQ	% YoY
COGS/sales	22.9%	24.1%	21.7%	-124bps	116bps
Staff cost/sales	20.6%	18.8%	18.7%	174bps	182bps
Other expenditure/sales	30.8%	30.6%	35.9%	18bps	-519bps

Q3FY25 – Concall Highlights:

Guidance:

- Going ahead, Krsnaa Diagnostics aims for 25% YoY sales growth in FY26, with plans to expand its retail footprint and leverage technology for diagnostics.
- The Company expects Other Income to be around INR 50 mn per quarter going ahead.
- The Management clarified that apart from the Rajasthan tender, all other tenders that they have received approval are under implementation.
- Regarding the Rajasthan tender, the Company says they are looking for future case hearing dates, and will update as & when they receive any decision from the court.

Q3FY25: Concall Key Highlights (Continued)

- The Company saw some operational challenges along with Seasonality factor for the revenue decline sequentially.
- The Management attributed the delay in the BMC and Maharashtra CT & MRI Scan contracts for the temporary dip in revenue growth of the Diagnostics chain.
- The Company is venturing in the retail diagnostics front under the brand name “RPL”, and has launched retail operations in 4 states of Punjab, Odisha, Maharashtra and Assam as the Company already has laboratories set up in those states.
- The Company has added 284 additional collection centres across the nation. The Company has received accreditation from NABL for their 12 Laboratories.
- The Management appreciated the Government’s Budget for healthcare sector of INR 909 b, up 13% over last year’s budget.
- The Management informed that the receivables came higher than usual due to delayed payments from Himachal Pradesh and Karnataka, averaging 60-65 days, with exceptions extending to 120 days. The Company aims to reduce them to 90 days by fiscal year-end and normalize to 65-70 days by the next fiscal year.
- On the Other Income, the Company attributed the gains from strategic capital reallocations and structured financial initiatives, interest income from fixed deposits.
- The Company faced challenges with receivables, particularly from Himachal Pradesh and Karnataka, but aims to normalize these by the next fiscal year.
- Operationally, Krsnaa achieved a balanced revenue mix between radiology and pathology, with new centers contributing to growth.
- The Management informed of Project Execution facing delays due to site handover issues and process automation challenges.
- The Management acknowledged concerns including delayed project rollouts, higher receivables, and increased competition.
- The Company is also focused on improving its ROCE and capitalizing on Government healthcare reforms.
- The Company has employee engagement and upskilling initiatives underway to enhance job satisfaction and check attrition levels.
- In Q3FY25, Radiology contributed 49% of revenue and Pathology contributed 51%, marking the first quarter where Pathology exceeded Radiology. The Management aims to maintain a 50:50 mix in the future.
- The Company witnessed radiology realization per test increasing while volume trends saw seasonality impact. Pathology saw an increasing shift in the revenue mix due to new projects, but a balanced contribution is expected.
- The Existing Centres delivered EBITDA margins of 36% while the New centres delivered an EBITDA margin of 17% in 9MFY25.
- The Company plans to expand their retail footprint in Metro, Tier 1, 2 & 3 cities, leveraging technology, AI-enabled diagnostics, and seamless online booking.
- The current ROCE of around 10-12%, with expectations for improvement driven by strategic initiatives such as the asset-light model, B2C expansion, and operational efficiency.
- The Company anticipates a higher B2C revenue contribution to total revenue.
- The Management said that the sector is facing a shift towards preventive healthcare and digital solutions causing increased level of competition.

Financials

Profit & Loss Statement (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,871	6,196	7,237	9,377	12,653
<i>% Growth</i>	6.9%	27.2%	16.8%	29.6%	34.9%
Gross Profit	4,129	4,786	5,862	7,642	10,376
<i>Gross Profit Margin %</i>	84.8%	77.2%	81.0%	81.5%	82.0%
Employee Costs	746	1,115	1,303	1,688	2,278
Operating & Other Expenses	2,906	3,343	4,017	5,298	7,149
EBITDA	1,223	1,442	1,845	2,344	3,227
<i>EBITDA Margin %</i>	25.1%	23.3%	25.5%	25.0%	25.5%
Depreciation	538	745	832	881	998
Other Income	194	168	228	245	264
EBIT	685	697	1,013	1,464	2,229
Finance Cost	77	165	279	288	283
Exceptional Items	-	-	-	-	-
PBT	802	700	963	1,421	2,210
Income Tax	181	132	212	313	486
PAT	621	568	751	1,108	1,724
<i>PAT Margin %</i>	12.8%	9.2%	10.4%	11.8%	13.6%

Balance Sheet (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
ASSETS					
Inventories	251	358	418	542	731
Trade Receivables	731	1,763	972	1,259	1,699
Cash & Bank Balance	1,088	535	2,020	2,327	3,298
Other Current Assets	188	1,555	1,576	1,619	1,685
Plant, Property & Equipments	4,678	6,447	6,642	7,261	7,763
Other Non-Current Assets	2,163	1,060	1,060	1,060	1,060
Total Assets	9,099	11,719	12,687	14,068	16,236
EQUITY AND LIABILITIES					
Equity Share Capital	157	161	161	161	161
Other Equity	7,230	7,937	8,687	9,796	11,520
Net Worth	7,387	8,098	8,849	9,957	11,681
Borrowings	243	419	369	319	269
Other Non-Current Liabilities	477	388	388	388	388
Trade Payables	621	823	1,091	1,413	1,907
Other Current Liabilities	371	1,991	1,991	1,991	1,991
Total Equity & Liabilities	9,099	11,719	12,687	14,068	16,236

Cash Flow (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	802	700	963	1,421	2,210
Operating Profit before WC Changes	1,250	1,399	1,845	2,344	3,227
Operating Profit after WC Changes	894	431	2,823	2,213	3,025
Tax Paid	(131)	(188)	(212)	(313)	(486)
Cash Flow from Operating Activities	763	243	2,611	1,900	2,539
Cash Flow from Investing Activities	(1,089)	(1,289)	(1,272)	(1,255)	(1,236)
Cash Flow from Financing Activities	(331)	842	(329)	(338)	(333)
Net Change in Cash & Cash Equivalents	(657)	(203)	1,011	308	970
Opening Cash & Cash Equivalents	884	227	24	1,034	1,342
Closing Cash & Cash Equivalents	1,088	535	2,020	2,327	3,298

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)					
EPS	19.8	17.6	23.3	34.3	53.4
BVPS	235.3	250.8	274.0	308.4	361.8
Valuation (x)					
P/E	39.6	44.5	33.7	22.8	14.7
P/BV	3.3	3.1	2.9	2.5	2.2
EV/EBITDA	19.4	17.5	12.8	9.9	6.9
Return Ratios (%)					
Gross Margin	84.8%	77.2%	81.0%	81.5%	82.0%
EBITDA Margin	9.5%	6.3%	18.4%	21.4%	21.4%
PAT Margin	12.8%	9.2%	10.4%	11.8%	13.6%
NOPAT Margin	10.9%	9.1%	10.9%	12.2%	13.7%
ROE	8.4%	7.0%	8.5%	11.1%	14.8%
ROCE	8.1%	6.7%	8.1%	10.8%	14.4%
Leverage Ratio					
Total D/E	0.03	0.05	0.04	0.03	0.02
Turnover Ratios					
Asset Turnover	0.5	0.6	0.6	0.7	0.8
Receivable Days	55	50	49	49	49
Inventory Days	19	15	10	10	10
Payable Days	47	50	55	55	55
<i>Source: Company, Aриant Capital Research</i>					

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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%

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