

Margins seen sustaining despite large front loading of Expenses

CMP: INR 955
Target Price: INR 1,200
Rating: BUY

Stock Info

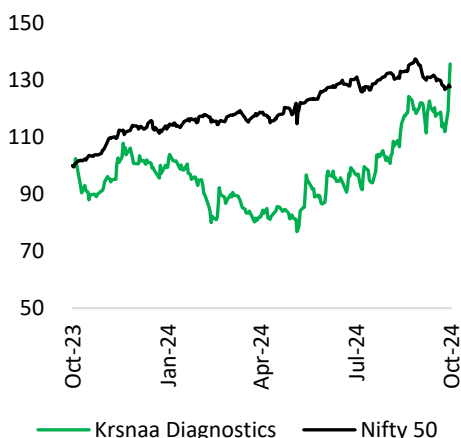
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	30,760
52w H/L (INR)	960 / 528
Avg. Yearly Volume (in 000')	117

Shareholding Pattern %

(As on Sept, 2024)

Promoters	27.17
DII's	15.86
FII's	3.63
Public	53.34

Krsnaa Diagnostics Vs Nifty



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Krsnaa Diagnostics Ltd. posted robust set of earnings for Q2FY25 with EBITDA increasing by 15.8% QoQ/71.6% YoY to INR 494 mn with margins of 26.5%, improving further by 145 bps QoQ/799 bps YoY. The revenue increased by 9.5% QoQ/19.9% YoY to INR 1,863 mn on consolidated basis, while PAT grew to INR 196 mn growing by 9.35% QoQ/161.4% YoY. The diagnostic chain has expanded to 3,139 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 with more than 500 doctors across more than 150 districts in India.

Major expansion of diagnostics network underway across different states

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 under these tenders start generating revenue, and incremental front loading of expenses halts allowing bottom lines to increase.

For the Maharashtra State Government contract for 39 CT Scan machines, the Company has implemented 21 and 18 will be operationalized in future. In the 17 CT & MRI Scan centres in 17 districts, the Company is planning to add 5 by the end of the year. Additionally, Company has bagged orders in Jharkhand and Madhya Pradesh as well, which will benefit them building relation with different State Governments in the longer run for bagging more contracts with reliability on operational abilities.

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 in the later part of November 2024. The Management says that the 50 districts of Rajasthan which once commenced, will yield a peak revenue of INR 3 bn annually and they will be able to lay out the Infrastructure within 9-12 month of time once case is resolved.

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

With several expansion projects in Maharashtra, Odisha, Madhya Pradesh and Jharkhand ramping up, along side BMC contract towards completion, and the Company expanding with the new strategy of paying 10% of the cost of CT/MRI machine costs and the remaining amount to be paid over the next 6 years of operation. We believe this approach will allow the Company to remain asset light in the future with margins impacted in the medium term.

Valuation & Outlook

Krsnaa Diagnostics Ltd. is undergoing capacity expansion across several states including Maharashtra, Odisha, etc. The current contracts under implementation are expected to be completed by the end of this fiscal year, and the EBITDA margins are expected to see further upside as test volumes increase in the newer projects. **Although, we have not accounted the Rajasthan tender in our projections, we still maintain our Positive stance with a "BUY" rating on the stock with a revised Target Price of INR 1,200 per share based on FY27E EPS of INR 67 at fwd P/E of 18x (earlier 15x on FY27E EPS) on account of the Diagnostic company's higher growth estimates with recent investments underway.**

Summary (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	4,871	6,196	8,653	12,403	15,732
EBIDTA	1,223	1,442	1,990	2,915	3,776
Net Profit	621	568	864	1,553	2,153
Diluted EPS	19.78	17.60	26.75	48.11	66.69
P/E (x)	48.08	54.03	35.56	19.77	14.26
EV/EBIDTA (x)	9.50	21.21	14.59	9.72	7.12
P/BV (x)	4.04	3.79	3.43	2.92	2.42
ROE (%)	8.41	7.02	9.64	14.77	17.00

Q2FY25: Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q2FY25	Q1FY25	% QoQ	Q2FY24	% YoY
Total Revenue	1,863	1,702	9.46%	1,554	19.87%
COGS	449	429	4.69%	359	25.05%
Gross Profit	1,414	1,273	11.07%	1,195	18.32%
Gross Margin	75.9%	74.8%	110bps	76.9%	-100bps
Staff Cost	351	331	5.98%	264	32.59%
Other expenses	570	516	10.44%	643	-11.40%
EBITDA	494	427	15.78%	288	71.60%
EBITDA margin (%)	26.5%	25.1%	145bps	18.5%	799bps
Other Income	46	73	-37.21%	42	10.49%
Finance Cost	64	53	20.18%	31	108.59%
Depreciation	222	215	3.42%	195	14.06%
PBT	254	232	9.49%	104	143.82%
Exceptional Items	0	0		0	
Tax	58	53	9.98%	29	98.70%
Tax Rate (%)	22.9%	22.8%		28.1%	
Minority Interest	0	0		0	
PAT (Reported)	195.96	179.21	9.35%	75	161.42%
PAT margin (%)	10.5%	10.5%	-1bps	4.8%	569bps
Diluted EPS (INR)	5.92	5.46	8.42%	3.23	83.28%
Krsnaa Diagnostics-Cost margins	Q2FY25	Q1FY25	% QoQ	Q2FY24	% YoY
COGS/sales	24.1%	25.2%	-110bps	23.1%	100bps
Staff cost/sales	18.8%	19.4%	-62bps	17.0%	180bps
Other expenditure/sales	30.6%	30.3%	27bps	41.4%	-1079bps

Q2FY25 – Concall Highlights:

Guidance:

- The Company is aiming revenue growth of over 25% for FY25, excl. the Rajasthan contract.
- The Management aims to maintain the current EBITDA margins in the subsequent quarters.
- The Management said that the Receivable days during the current quarter increased due to increased working capital requirements. The Company intends to bring down the Receivable days below 90 days by end of FY25.
- The Receivables from 2 states including Himachal Pradesh, to the tune of INR 1.25 bn is delayed due to budgetary allocations and procedural delays. The Company expects recovery in coming months.
- The Rajasthan contract is hung in Court, with the next hearing by the end of Nov 2024.

Q2FY25: Concall Key Highlights (Continued)

- Revenues came at INR 1,863 mn (up 9.5% QoQ / up 19.9% YoY) against our estimates of INR 1,804 mn.
- EBITDA for Q2FY25 stood at INR 494 mn (up 15.8% QoQ/ up 55.4% YoY) against our estimates of INR 452 mn.
- EBITDA Margins expanded by 145 bps QoQ / 606 bps YoY to 26.5% against our estimates of 25.1%.
- Q2FY25 Net Profits reported was INR 196 mn up 9.4% QoQ / up 86.7% YoY, against our estimates of INR 191 mn.
- Krsnaa Diagnostics is partnering with United Imaging and Medikabazaar of establishing new imaging centres across Tier 2 & Tier 3 cities pan India. This collaboration involves an investment of over INR 3.0 bn, aimed at establishing more than 30 cutting-edge imaging and pathology centers across tier 1, tier 2 and tier 3 cities in India.
- The Company has recently got contracts in Jharkhand, Odisha, Madhya Pradesh and Maharashtra in Q2FY25.
- The Diagnostic chain has come with a strategic decision to focus in the Oncology and Cardiac diagnostics space which as per the Management are the fastest growing segments in the Diagnostics space.
- The Diagnostics company is investing in the development of a Public Private Partnership dedicated for Oncology and Cardiac care hospital.
- Krsnaa Diagnostics is adopting the system of upfront payment of 10% of the cost of new CT Scan & MRI machines, with the remaining amount to be paid over the next 6 years. Thereby, relieving the balance sheet of extra burden of Fixed Assets.
- The Company secured a 30 year diagnostic partnership with Apulki Healthcare, with the option of extending it by 30 years.
- In Q2FY25, revenue mix geographically stood as follows: North 35%, West 31%, South 21% and East 13%.
- They are planning to build end-to-end retail capabilities in to tap the growing demand for regular checkups and preventive screenings by leveraging their existing PPP network to build a strong B2C channel through multiple models, including home visits.
- The Management sees this diversification of revenue streams to improve profit margins and returns, although, the strategy is still in its early stages.
- In Q2FY25, their operations were stabilized in Assam with 10 pathology labs and 652 collection centers.
- The Management is investing in building a technology-enabled network to handle the increasing volume of samples and enhance patient accessibility with initiatives like a user friendly app, digital marketing, and CRM integration. The investment in technology is aimed at improving patient experience and operational efficiency which will further drive growth.
- This initiative aims to ensure the individuals in remote areas can access advanced diagnostic services. Further, this will enhance the customer base and revenue potential.

Financials

Profit & Loss Statement (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,555	4,871	6,196	8,653	12,403	15,732
% Growth	14.9%	6.9%	27.2%	39.6%	43.3%	26.8%
Gross Profit	3,951	4,129	4,786	7,009	10,108	12,901
Gross Profit Margin %	86.8%	84.8%	77.2%	81.0%	81.5%	82.0%
Employee Costs	547	746	1,115	1,557	2,233	2,832
Operating & Other Expenses	2,636	2,906	3,343	5,019	7,194	9,125
EBITDA	1,315	1,223	1,442	1,990	2,915	3,776
EBITDA Margin %	28.9%	25.1%	23.3%	23.0%	23.5%	24.0%
Depreciation	414	538	745	832	881	998
Other Income	149	194	168	228	245	264
EBIT	901	685	697	1,158	2,034	2,778
Finance Cost	185	77	165	279	288	283
Exceptional Items	-	-	-	-	-	1
PBT	865	802	700	1,107	1,992	2,761
Income Tax	182	181	132	244	438	607
PAT	683	621	568	864	1,553	2,153
PAT Margin %	15.0%	12.8%	9.2%	10.0%	12.5%	13.7%

Balance Sheet (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
ASSETS						
Inventories	92	251	358	500	717	909
Trade Receivables	579	731	1,763	1,162	1,665	2,112
Cash & Bank Balance	2,419	1,088	535	2,045	2,699	4,095
Other Current Assets	252	188	1,555	1,605	1,680	1,747
Plant, Property & Equipments	3,834	4,678	6,447	6,642	7,261	7,763
Other Non-Current Assets	1,586	2,163	1,060	1,060	1,060	1,060
Total Assets	8,762	9,099	11,719	13,013	15,082	17,687
EQUITY AND LIABILITIES						
Equity Share Capital	157	157	161	161	161	161
Other Equity	6,687	7,230	7,937	8,800	10,354	12,507
Net Worth	6,844	7,387	8,098	8,962	10,515	12,668
Borrowings	331	243	419	369	319	269
Other Non-Current Liabilities	99	477	388	388	388	388
Trade Payables	773	621	823	1,304	1,869	2,371
Other Current Liabilities	715	371	1,991	1,991	1,991	1,991
Total Equity & Liabilities	8,762	9,099	11,719	13,013	15,082	17,687

Cash Flow (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	865	802	700	1,107	1,992	2,761
Operating Profit before WC Changes	1,357	1,250	1,399	1,990	2,915	3,777
Operating Profit after WC Changes	1,350	894	431	2,881	2,684	3,572
Tax Paid	(66)	(131)	(188)	(244)	(438)	(607)
Cash Flow from Operating Acctivities	1,284	763	243	2,637	2,246	2,965
Cash Flow from Investing Activities	(2,406)	(1,089)	(1,289)	(1,272)	(1,255)	(1,236)
Cash Flow from Financing Activities	1,760	(331)	842	(329)	(338)	(333)
Net Change in Cash & Cash Equivalents	637	(657)	(203)	1,036	654	1,396
Opening Cash & Cash Equivalents	247	884	227	24	1,060	1,714
Closing Cash & Cash Equivalents	2,418	1,088	535	2,045	2,699	4,095

Key Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)						
EPS	21.8	19.8	17.6	26.7	48.1	66.7
BVPS	218.0	235.3	250.8	277.5	325.6	392.3
Valuation (x)						
P/E	43.7	48.1	54.0	35.6	19.8	14.3
P/BV	4.4	4.0	3.8	3.4	2.9	2.4
EV/EBITDA	21.1	23.7	21.2	14.6	9.7	7.1
Return Ratios (%)						
Gross Margin	86.8%	84.8%	77.2%	81.0%	81.5%	82.0%
EBITDA Margin	20.3%	9.5%	6.3%	18.4%	21.4%	21.4%
PAT Margin	15.0%	12.8%	9.2%	10.0%	12.5%	13.7%
NOPAT Margin	15.6%	10.9%	9.1%	10.4%	12.8%	13.8%
ROE	10.0%	8.4%	7.0%	9.6%	14.8%	17.0%
ROCE	9.5%	8.1%	6.7%	9.3%	14.3%	16.6%
Leverage Ratio						
Total D/E	0.05	0.03	0.05	0.04	0.03	0.02
Turnover Ratios						
Asset Turnover	0.6	0.5	0.6	0.7	0.9	1.0
Receivable Days	46	55	50	49	49	49
Inventory Days	7	19	15	10	10	10
Payable Days	62	47	50	55	55	55

Source: Company, Arianth Capital Research

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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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