

Margins seen sustaining despite large front loading of Expenses

CMP: INR 678
Target Price: INR 1,016
Rating: BUY

Stock Info

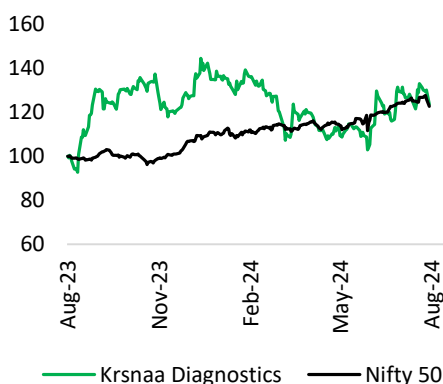
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	21,710
52w H/L (INR)	789 / 482
Avg. Yearly Volume (in 000')	117

Shareholding Pattern %

(As on June, 2024)

Promoters	27.17
DIs	15.26
FIs	3.33
Public	54.23

Krsnaa Diagnostics Vs Nifty



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Krsnaa Diagnostics Ltd. operated in Tier 2 & Tier 3 cities providing diagnostic services from their centres across the country. The diagnostic chain earlier operated entirely from within the Government hospitals providing Radiology tests (CT Scan & MRI tests) to patients at a discounted price 45-60% lower rates than existing market rates and Pathology tests at 40-80% rates lower than B2C Peers. The diagnostic chain has total 3,052 centres and laboratories across India, with 168 CT/MRI centres, 120 Pathology processing Laboratories and 500+ Doctors (Radiologists and Pathologists) operating across 125+ districts in 17 states & Union Territories. The diagnostic chain is the first of its kind to get approval from NABH for Tele-reporting of radiology labs in India.

Major expansion of diagnostics network underway across different states

Krsnaa Diagnostics has major tenders under implementation in Maharashtra, Assam and Odisha, 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.

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

The tender of Rajasthan which got delayed due to the elections in Nov 2023, and leading to the formation of Government in the state has remained the bone of contention for the company's business. The management says that the 50 districts of Rajasthan (increased from earlier 33 districts) which once commenced, will yield a peak revenue of INR 3 bn (earlier INR 1.5 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, Assam, Odisha ramping up and BMC contract also at completion, we believe the front load expenses for the overall company will decrease from the H2FY25 onwards, and the EBITDA Margins of the company will improve from current levels of 25% in H1FY24 and improve from here onwards.

Valuation & Outlook

Krsnaa Diagnostics Ltd. is undergoing capacity expansion across several states including Maharashtra, Assam, Odisha and Punjab. The current contracts under implementation are expected to be completed during the course of this fiscal year, and as the front loading of expenses reduces from Q2FY25, the EBITDA margins for FY25 are expected to be +26% in FY25E and 27% in FY26E. We believe the pending High Court case for the Rajasthan tender will be ruled in favour of the company and will be yielding up to INR 3 bn of incremental revenue annually. 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 Target Price of INR 1,016 per share based on FY27E EPS of INR 67.8 at fwd P/E of 15x (earlier 25x on FY26E EPS).

Summary (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	4,871	6,196	9,220	11,617	14,027
EBIDTA	1,223	1,442	2,397	3,195	3,857
Net Profit	621	568	1,166	1,749	2,188
Diluted EPS	19.78	17.60	36.11	54.17	67.76
P/E (x)	34.28	38.52	18.78	12.52	10.01
EV/EBIDTA (x)	9.50	15.10	8.32	5.94	4.52
P/BV (x)	2.88	2.70	2.36	1.99	1.66
ROE (%)	8.41	7.02	12.59	15.88	16.57

Q1FY25: Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q1FY25	Q4FY24	% QoQ	Q1FY24	% YoY
Total Revenue	1,702	1,663	2.37%	1,396	21.96%
COGS	429	430	-0.21%	278	54.49%
Gross Profit	1,273	1,233	3.28%	1,118	13.88%
Gross Margin	74.8%	74.1%	65bps	80.1%	-531bps
Staff Cost	331	325	1.92%	229	44.33%
Other expenses	516	471	9.45%	575	-10.33%
EBITDA	427	437	-2.37%	314	36.04%
EBITDA margin (%)	25.1%	26.3%	-122bps	22.5%	40bps
Other Income	73	43	68.65%	42	73.28%
Finance Cost	53	73	-27.37%	20	171.09%
Depreciation	215	181	18.49%	157	36.42%
PBT	232	226	2.64%	179	29.69%
Exceptional Items	0	0		0	
Tax	53	38	39.78%	32	62.59%
Tax Rate (%)	22.8%	16.7%		18.2%	
Minority Interest	0	0		0	
PAT (Reported)	179.21	188.27	-4.81%	146	22.39%
PAT margin (%)	10.5%	11.3%	-79bps	10.5%	4bps
Diluted EPS (INR)	5.46	5.70	-4.21%	4.52	20.80%
Krsnaa Diagnostics-Cost margins	Q1FY25	Q4FY24	% QoQ	Q1FY24	% YoY
COGS/sales	25.2%	25.9%	-65bps	19.9%	531bps
Staff cost/sales	19.4%	19.5%	-9bps	16.4%	301bps
Other expenditure/sales	30.3%	28.3%	196bps	41.2%	-1091bps

Q1FY25 – Concall Highlights:

Guidance:

- The Company has Capex plans of INR 1,700 mn for Fy25, of which they have already spent INR 220 mn in Q1FY25.
- The Management maintains their earlier stated guidance of 25% base revenue growth in FY25, with aspirations of achieving 30% growth depending on contingent factors.

Q1FY25: Concall Key Highlights (Continued)

- Revenue came at INR 1,702 mn against our estimates of INR 1,754 mn, up 2.37% QoQ/ up 21.96% YoY.
- EBITDA came at INR 427 mn against our estimates of INR 477 mn, down 2.3% QoQ/ up 36.0% YoY.
- EBITDA Margins came at 25.1% for Q1FY25 against our estimates of 27.2% in Q1FY25, down 122 bps QoQ / up 40 bps YoY.
- Net Profit came at INR 179.2 mn, against our estimates of INR 217 mn, down 4.8% QoQ/ up by 22.4% YoY.
- The management attributed relief on the fact that the Government has allocated INR 380 bn against INR 338.86 bn of revised FY23-24 national health budget.
- On the Rajasthan Tender pending in Jaipur High Court, the Company said that they have fulfilled all the required fulfilments, and are now awaiting the Court resolution.
- 21 CT Scan centres in Maharashtra have been operationalized, and 18 to be operationalized from the 39 Hospital contract with Maharashtra.
- The Company is implementing 17 new MRI & CT Scan machines which has been signed with the Maharashtra government for 17 District Hospitals, of which the Company is planning to add 5 by the year end.
- Telereporting contract with BARC for providing round the clock 24 Hr telereporting services.
- The Company also has 5 MRI centres contract with Madhya Pradesh Government, of which 2 will be operational by FY25 end on the basis that the required Government Infrastructure is provided to the company.
- In the Assam contract started in Q3FY24, where the Company will be establishing 10 labs and 1256 collection centres, 400 centres have already been operationalized.
- On both the Assam and Odisha contracts, started in Q3FY24 and Q2FY24, the management exuberated confidence that they are both gaining traction, and will achieve maturity faster.
- In the last 3 months, the Company has laid 20 new CT scan centres and 375 Pathological centres.
- The Company is focusing on increasing customer services, digital as well as offline, sample collection from home, and the massive retail presence with increasing footfalls of existing patients and wellness segment.
- Gross Debt of the Company as on June 30th 2024 stood at INR 1,700 mn, and Cash & Cash Equivalents stood at INR 2,400 mn as of June 30th.
- Regarding the contracts of the various State Governments, the management clarified that the contracts are of multi year long duration, for ex: Maharashtra is 12 Years, Odisha 10 Years, Assam 5 years and MP is also 12 Years.
- The Management says that the margins are lower in those centres where the pathology volumes are higher, and Radiology business footfalls increase over time as the centre matures.
- In Q1FY25, the Radiology segment contributed 55% to the revenue and Pathology contributed 45%. Telereporting stood at 8% of overall revenue.
- Will be leveraging the existing Labs for opening & serving the new B2C centres for retail segment growth.
- The margins from mature centres are 3x of the margins from the newer centres.
- The Company will be launching a new user friendly website to enhance User Experience for the retail & B2C business.

Financials

Profit & Loss Statement (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,555	4,871	6,196	9,220	11,617	14,027
% Growth	14.9%	6.9%	27.2%	48.8%	26.0%	20.8%
Gross Profit	3,951	4,129	4,786	7,376	9,351	11,292
Gross Profit Margin %	86.8%	84.8%	77.2%	80.0%	80.5%	80.5%
Employee Costs	547	746	1,115	1,383	1,684	2,034
Operating & Other Expenses	2,636	2,906	3,343	4,979	6,157	7,434
EBITDA	1,315	1,223	1,442	2,397	3,195	3,857
EBITDA Margin %	28.9%	25.1%	23.3%	26.0%	27.5%	27.5%
Depreciation	414	538	745	832	881	998
Other Income	149	194	168	228	245	264
EBIT	901	685	697	1,565	2,314	2,860
Finance Cost	185	77	165	279	288	283
Exceptional Items	-	-	-	-	-	-
PBT	865	802	700	1,514	2,271	2,841
Income Tax	182	181	132	348	522	654
PAT	683	621	568	1,166	1,749	2,188
PAT Margin %	15.0%	12.8%	9.2%	12.6%	15.1%	15.6%

Balance Sheet (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
ASSETS						
Inventories	92	251	358	533	671	811
Trade Receivables	579	731	1,763	1,238	1,560	1,883
Cash & Bank Balance	2,419	1,088	535	2,313	3,245	4,733
Other Current Assets	252	188	1,555	1,616	1,664	1,713
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	13,401	15,461	17,962
EQUITY AND LIABILITIES						
Equity Share Capital	157	157	161	161	161	161
Other Equity	6,687	7,230	7,937	9,102	10,852	13,039
Net Worth	6,844	7,387	8,098	9,264	11,013	13,201
Borrowings	331	243	419	369	319	269
Other Non-Current Liabilities	99	477	388	388	388	388
Trade Payables	773	621	823	1,389	1,750	2,114
Other Current Liabilities	715	371	1,991	1,991	1,991	1,991
Total Equity & Liabilities	8,762	9,099	11,719	13,401	15,461	17,962

Source: Company, Aриhant Capital Research

Cash Flow (INR, Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	865	802	700	1,514	2,271	2,841
Operating Profit before WC Changes	1,357	1,250	1,399	2,397	3,195	3,857
Operating Profit after WC Changes	1,350	894	431	3,253	3,047	3,709
Tax Paid	(66)	(131)	(188)	(348)	(522)	(654)
Cash Flow from Operating Activities	1,284	763	243	2,905	2,525	3,056
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)	1,304	932	1,487
Opening Cash & Cash Equivalents	247	884	227	24	1,328	2,260
Closing Cash & Cash Equivalents	2,418	1,088	535	2,313	3,245	4,733

Key Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)						
EPS	21.8	19.8	17.6	36.1	54.2	67.8
BVPS	218.0	235.3	250.8	286.9	341.1	408.8
Valuation (x)						
P/E	31.2	34.3	38.5	18.8	12.5	10.0
P/BV	3.1	2.9	2.7	2.4	2.0	1.7
EV/EBITDA	14.6	16.7	15.1	8.3	5.9	4.5
Return Ratios (%)						
Gross Margin	86.8%	84.8%	77.2%	80.0%	80.5%	80.5%
EBITDA Margin	28.9%	25.1%	23.3%	26.0%	27.5%	27.5%
PAT Margin	15.0%	12.8%	9.2%	12.6%	15.1%	15.6%
NOPAT Margin	15.6%	10.9%	9.1%	13.1%	15.3%	15.7%
ROE	10.0%	8.4%	7.0%	12.6%	15.9%	16.6%
ROCE	9.5%	8.1%	6.7%	12.1%	15.4%	16.2%
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	0.8	0.8
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, Aриhant 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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