

Krsnaa Diagnostics | BUY

Strong performance but weak OCF

Krsnaa Diagnostics reported a strong 4Q performance with 4% topline beat. EBITDA margins recovered to 26%+ on account of lower fees to hospitals and others, albeit to normalize around 12-13% in FY25. The management remains firm on its 25-30% revenue guidance with 25% sustainable EBITDAM. The company expects an update on Rajasthan very soon. Krsnaa announced a few leadership changes to focus on project implementation and B2C foray. The key negative readout was weak OCF of INR 243mn (vs. INR 763mn YoY) due to stretched receivable days of 104. The management called out a few reasons here – (1) HP tender had unrealised receivables of INR 600mn adjusted for which receivable days were 68 (which is in-line with historical trends); and (2) delays in collections due to elections – this happened even in FY19 wherein the receivable days increased to 98 days. Capex for FY25-26 has been moderated to INR 1-1.25bn (ex-Rajasthan). While we remain confident of Krsnaa's growth visibility ahead, we will closely monitor OCF which is likely to recover by 2Q25. We maintain BUY with a Mar'25 TP of INR 970.

- Sustaining revenue momentum with margin recovery:** Revenues grew 25%YoY/5%QoQ to INR 1.66bn (4% beat) led by ramp up of new tenders. EBITDA margin improved 2.6ppt sequentially to 26.3% (JMFE: 23.8%). A part of this improvement was due to lower fees to hospitals and others payout (to normalize around 12-13% of sales). The mature centres reported 33% margin. As it stands, the change in mix towards pathology and pay-per-use adoption in radiology could lead to 78% gross margin and ~25% EBITDA margin on a sustainable basis. B2C is at a nascent stage contributing 2-3% to revenues. The company now has a lion's share of contracts in Maharashtra.
- Aggressive growth guidance; margin guidance at ~25% seems achievable:** The management remains firm on its 25% revenue growth guidance over 5 years with sustainable EBITDAM of ~25%. The guidance has been toned down but still remains on the higher side, in our view, especially if we exclude Rajasthan. The company is expanding its leadership team to increase management bandwidth, focus on project implementation and expand B2C presence.
- Decision on Rajasthan awaited:** The company alluded to an outcome on Rajasthan tender over the next few days. Our estimates have INR 400mn/ 1.2bn in 4Q25/FY26 estimates. We remain optimistic of a favourable outcome. Nonetheless, it will require additional capex of INR 1-1.5bn. Excluding this contract, our FY26 EPS is ~INR 32 per share.
- Weak OCF (Negative):** The company reported just INR 243mn (vs. INR 763mn YoY) operating cashflows due to stretched receivable days. The receivable days surged to 104 days (vs. 55 days YoY). The management called out two reasons for this: (1) Himachal receivables of ~INR 600mn were not received – this is now gradually coming in, per the management. Adjusted for this, receivable days were 68 (in-line with historical trends); and (2) delay in clearing receivables due to election-related delays – we have seen this in FY19 when receivable days increased to 98.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	970
Upside/(Downside)	64.9%
Previous Price Target	935
Change	3.7%

Key Data – KRSNAA IN

Current Market Price	INR588
Market cap (bn)	INR19.0/US\$0.2
Free Float	54%
Shares in issue (mn)	31.4
Diluted share (mn)	32.4
3-mon avg daily val (mn)	INR53.0/US\$0.6
52-week range	789/449
Sensex/Nifty	73,953/22,529
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-0.1	-6.7	5.5
Relative*	-0.5	-16.7	-11.6

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	4,555	4,871	6,196	7,720	9,693
Sales Growth (%)	14.9	6.9	27.2	24.6	25.6
EBITDA	1,315	1,223	1,443	1,969	2,530
EBITDA Margin (%)	28.9	25.1	23.3	25.5	26.1
Adjusted Net Profit	683	621	569	901	1,309
Diluted EPS (INR)	21.8	19.8	18.1	27.8	40.4
Diluted EPS Growth (%)	77.5	-9.1	-8.4	53.5	45.3
ROIC (%)	21.9	12.4	8.2	10.1	12.7
ROE (%)	14.9	8.7	7.3	10.5	13.6
P/E (x)	27.0	29.7	32.5	21.1	14.6
P/B (x)	2.7	2.5	2.3	2.1	1.8
EV/EBITDA (x)	11.5	12.9	13.1	9.3	7.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 21/May/2024

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

■ Key financials:

- Revenue/EBITDA/PAT of INR 1.66bn/437mn/187mn grew 25%/27%/-1%YoY and were +4%/+15%/+36% vs. JMFe respectively;
- Gross margins declined ~660bps QoQ to 74.1% (JMFe: 78.3%) due to higher pathology revenues;
- EBITDA margin expanded 270bps QoQ to 26.3% (JMFe: 23.8%).
- PAT was flat YoY due to higher depreciation and finance cost - this improved 44%QoQ;
- Tele-reporting was 9% of revenue and B2C was 3%;
- Cash & equivalents as on Mar'24 was INR 535mn (vs. INR 1.1bn YoY);

Exhibit 1. Status of pipeline

Radiology Centres Under Implementation				Pathology Centres Under Implementation			
	Total Centres	Operational	Under Implementation		Total Centres	Operational	Under Implementation
Uttar Pradesh	8	5	3	Mira Bhayandar	1	-	1
Delhi	1	1	-	DMC	1	-	1
DMC	1	-	1	BMC CC	600	473	127
Mira Bhayandar	1	-	1	Rajasthan	150	-	150
Rajasthan	1	-	1	Rajasthan CC	1,295	-	1,295
Maharashtra	56	10	46	Assam	10	9	1
Madhya Pradesh	5	-	5	Assam CC	1,256	237	1,019
Total	73	16	57	Total	3,313	719	2,594

Source: Company

Exhibit 2. Revenue build-up

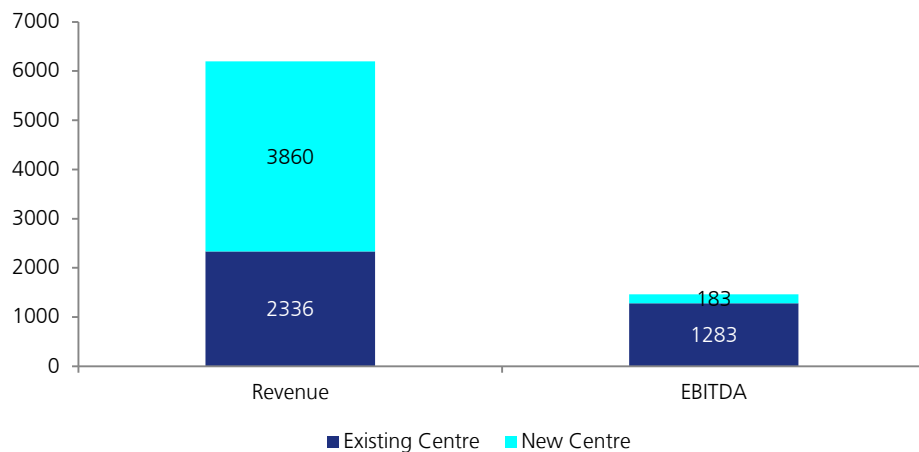
JMFe	FY23	FY24	FY25	FY26
Base	4194	4236	4363	4494
Base growth assumption	-1.0%	1.0%	3.0%	3.0%
RHP tenders	678	1200	1400	1500
Maharashtra/Orissa/Assam		600	1000	1200
Others		161	257	799
Rajasthan			400	1,200
Maharashtra Radiology			300	500
Total	4871	6196	7720	9693

Source: JM Financial; INR mn

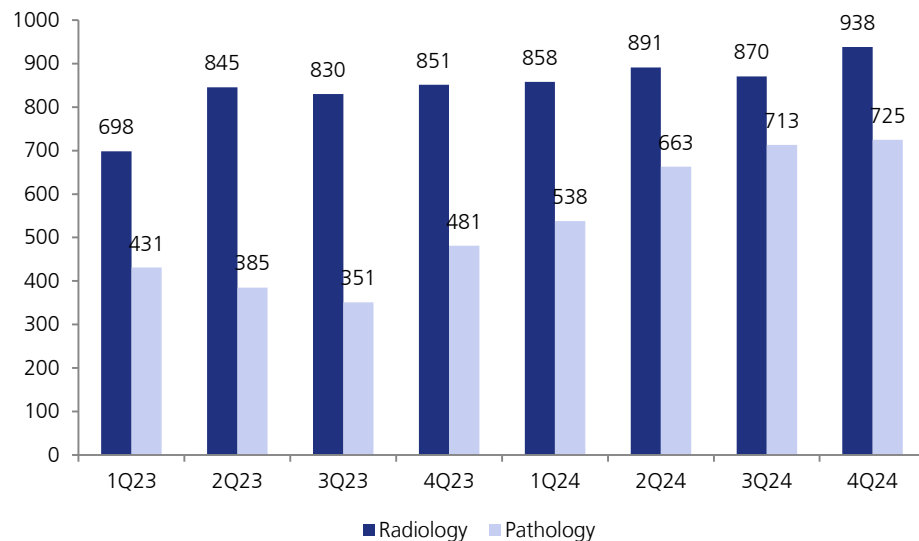
Exhibit 3. Growth assumptions ex-Rajasthan

Ex-Rajasthan	FY24	FY25	FY26
Revenue ex-Rajasthan	6,196	7,320	8,493
		18.1%	16.0%
EBITDA	1,443	1,793	2,123
	23.3%	24.5%	25.0%
PAT	569	771	1,051
EPS	18	24	32
P/E	32	24	18

Source: Company, JM Financial

Exhibit 4. Mature centres deliver 33% margin

Source: Company; Note: Amount in INR mn

Exhibit 5. Radiology and pathology revenues

Source: Company; Note: Amount in INR mn

Exhibit 6. Result review

Krsnaa - P&L (INR mn)	4QFY23A	4QFY24A	% YoY	4QFY24E	% Delta vs JMFe	3QFY24A	% QoQ
Total Revenue	1,332	1,663	25%	1,599	4%	1,583	5%
COGS	257	430	67%	347	24%	344	25%
Gross Profit	1,075	1,233	15%	1,252	-2%	1,240	-1%
% of revenue	80.7%	74.1%	-657 bps	78.3%		78.3%	-415 bps
Staff Cost	211	325	54%	299	9%	297	9%
Other expenses	519	471	-9%	572	-18%	569	-17%
EBITDA	345	437	27%	380	15%	374	17%
EBITDA margin (%)	25.9%	26.3%	40 bps	23.8%	248 bps	23.6%	266 bps
Other Income	59	43	-27%	42	3%	41	6%
Finance Cost	22	73		33		41	
Depreciation	146	181		220		212	
PBT	236	226	-4%	169	33%	161	40%
Exceptional Items	0	0		0		0	
Tax	47	39		32		31	
Tax Rate (%)	19.8%	17.2%		19.0%		19.4%	
PAT (Reported)	189	187	-1%	137	36%	130	44%
PAT margin (%)	14.2%	11.3%	-294 bps	8.6%	267 bps	8.2%	307 bps
EPS	6.0	5.8	-4%	4.4	32%	4.1	40%
Krsnaa - Cost margins							
	4QFY23A	4QFY24A	% YoY	4QFY24E	% Delta vs JMFe	3QFY24A	% QoQ
COGS/sales	19.3%	25.9%	657 bps	21.7%	416 bps	21.7%	415 bps
Staff cost/sales	15.8%	19.5%	367 bps	18.7%	82 bps	18.7%	79 bps
Other expenditure/sales	39.0%	28.3%	-1064 bps	35.8%	-745 bps	35.9%	-760 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	4,555	4,871	6,196	7,720	9,693	
Sales Growth	14.9%	6.9%	27.2%	24.6%	25.6%	
Other Operating Income	0	0	0	0	0	
Total Revenue	4,555	4,871	6,196	7,720	9,693	
Cost of Goods Sold/Op. Exp	603	742	1,410	1,776	2,229	
Personnel Cost	547	746	1,115	1,274	1,570	
Other Expenses	2,089	2,161	2,228	2,702	3,363	
EBITDA	1,315	1,223	1,443	1,969	2,530	
EBITDA Margin	28.9%	25.1%	23.3%	25.5%	26.1%	
EBITDA Growth	40.1%	-7.0%	18.0%	36.4%	28.5%	
Depn. & Amort.	414	538	745	853	992	
EBIT	901	685	697	1,116	1,538	
Other Income	149	194	168	233	265	
Finance Cost	185	77	165	237	168	
PBT before Excep. & Forex	865	802	701	1,112	1,636	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	865	802	701	1,112	1,636	
Taxes	182	181	132	211	327	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	683	621	569	901	1,309	
Adjusted Net Profit	683	621	569	901	1,309	
Net Margin	15.0%	12.8%	9.2%	11.7%	13.5%	
Diluted Share Cap. (mn)	31.4	31.4	31.4	32.4	32.4	
Diluted EPS (INR)	21.8	19.8	18.1	27.8	40.4	
Diluted EPS Growth	77.5%	-9.1%	-8.4%	53.5%	45.3%	
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	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	865	802	700	1,112	1,636	
Depn. & Amort.	414	538	745	853	992	
Net Interest Exp. / Inc. (-)	62	-82	13	4	-98	
Inc (-) / Dec in WCap.	-7	-356	-968	-131	-131	
Others	16	-8	-59	0	0	
Taxes Paid	-66	-131	-188	-211	-327	
Operating Cash Flow	1,284	763	243	1,627	2,071	
Capex	-1,322	-1,414	-1,939	-1,000	-2,000	
Free Cash Flow	-38	-651	-1,695	627	71	
Inc (-) / Dec in Investments	-1,265	157	537	0	0	
Others	180	168	113	233	265	
Investing Cash Flow	-2,406	-1,089	-1,289	-767	-1,735	
Inc / Dec (-) in Capital	3,853	-69	232	0	0	
Dividend + Tax thereon	0	-78	0	0	0	
Inc / Dec (-) in Loans	-1,894	-91	902	-500	-250	
Others	-200	-93	-206	-237	-168	
Financing Cash Flow	1,760	-331	928	-736	-418	
Inc / Dec (-) in Cash	637	-657	-117	123	-81	
Opening Cash Balance	247	884	227	23	147	
Closing Cash Balance	2,418	1,088	621	658	577	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	6,844	7,387	8,098	8,999	10,307	
Share Capital	157	157	161	162	162	
Reserves & Surplus	6,687	7,230	7,937	8,837	10,145	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	410	325	1,598	1,098	848	
Def. Tax Liab. / Assets (-)	70	114	148	148	148	
Total - Equity & Liab.	7,324	7,826	9,844	10,245	11,303	
Net Fixed Assets	4,140	4,962	6,570	6,717	7,725	
Gross Fixed Assets	4,908	6,291	8,805	9,805	11,805	
Intangible Assets	23	28	24	24	24	
Less: Depn. & Amort.	1,075	1,612	2,358	3,211	4,203	
Capital WIP	283	255	98	98	98	
Investments	3	3	3	3	3	
Current Assets	4,611	4,121	5,130	5,618	5,939	
Inventories	92	251	358	446	560	
Sundry Debtors	579	731	1,763	2,009	2,257	
Cash & Bank Balances	2,419	1,088	535	658	577	
Loans & Advances	0	0	0	0	0	
Other Current Assets	1,522	2,051	2,473	2,504	2,544	
Current Liab. & Prov.	1,430	1,259	1,859	2,093	2,364	
Current Liabilities	794	970	1,047	1,281	1,551	
Provisions & Others	636	289	812	812	812	
Net Current Assets	3,182	2,861	3,271	3,525	3,575	
Total - Assets	7,324	7,826	9,844	10,245	11,303	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	15.0%	12.8%	9.2%	11.7%	13.5%	
Asset Turnover (x)	0.8	0.6	0.7	0.8	0.9	
Leverage Factor (x)	1.3	1.1	1.2	1.2	1.1	
RoE	14.9%	8.7%	7.3%	10.5%	13.6%	

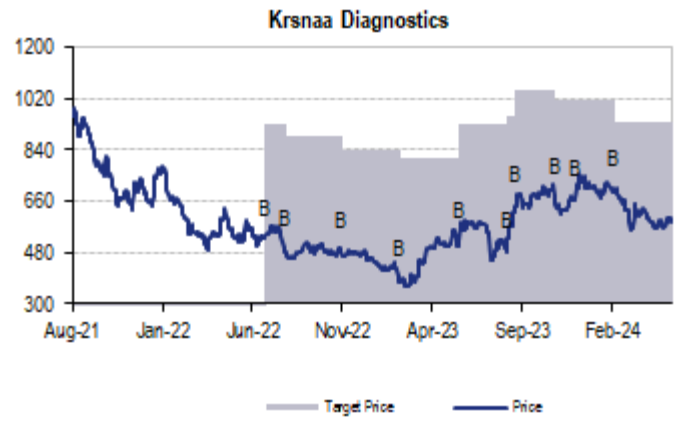
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	218.0	235.3	257.9	277.8	318.2	
ROIC	21.9%	12.4%	8.2%	10.1%	12.7%	
ROE	14.9%	8.7%	7.3%	10.5%	13.6%	
Net Debt/Equity (x)	-0.5	-0.3	0.1	0.0	0.0	
P/E (x)	27.0	29.7	32.5	21.1	14.6	
P/B (x)	2.7	2.5	2.3	2.1	1.8	
EV/EBITDA (x)	11.5	12.9	13.1	9.3	7.2	
EV/Sales (x)	3.3	3.2	3.1	2.4	1.9	
Debtor days	46	55	104	95	85	
Inventory days	7	19	21	21	21	
Creditor days	87	62	63	67	68	

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

Recommendation History



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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.
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* REITs refers to Real Estate Investment Trusts.

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