Krsnaa Diagnostics Ltd.

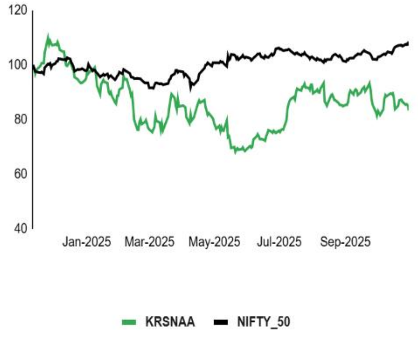
Rajasthan PPP to propel growth; Retail to expand margins.

CMP: INR 780
Target Price: INR 990
Rating: BUY

Stock Info	
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	162
Mkt Cap (INR Mn)	25,316
52w H/L (INR)	1,044 / 626
Avg. Yearly Volume (in 000')	89

Shareholding Pattern % *(As on Sept, 2025)*	
Promoters	27.11
DIIs	14.96
FIIs	3.66
Public	54.27

Krsnaa Diagnostics Vs Nifty



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Krsnaa Diagnostics maintained its steady growth momentum in Q2FY26 delivering a healthy 11% YoY growth in topline to INR 2.06 bn, while EBITDA growth was higher at 20% YoY to INR 592 mn on the back of EBITDA margin expansion of 220bps YoY to 29% driven by (i)improving operating leverages, in addition to (ii) further ramp up of Retail segment to 8% from 1% in the corresponding quarter last year (6% in Q1FY26). Rajasthan PPP remains the most potent revenue driver in the short to medium term with management aiming to operationalize 10 labs in November and full ramp up from FY27 onwards, while retail sustained increase in retail contribution to 15-20% by FY27end will continue to aid margin expansion.

Retail Scale-Up and Rajasthan PPP Rollout to aid growth visibility and margin expansion

The retail segment delivered standout performance in Q2FY26, scaling ~11x YoY to INR 174 mn (up 47% QoQ) and lifting its revenue share to 8% from 1% in Q2FY25, propelled by a surge in retail touchpoints from 608 to 2,878. This growth was driven by an asset-light, partnership-enabled model focused on home collection and preventive wellness services. The segment is on track to scale to 15-20% of revenues by FY27, with breakeven expected around INR 1 bn revenue by FY26 end, aided by operational efficiencies and cost synergies through integration with Krsnaa's existing PPP infrastructure. Simultaneously, the Rajasthan PPP project is progressing as planned, with management aiming to operationalize 10 labs in November, and further scale up to 25 labs and 500+ collection centers by December. The full Rajasthan network of 7 reference labs, 41 mother labs, 249 satellite labs, and 5,000 collection centers is expected by Q4FY26, delivering significant revenue uplift from FY27.

Lean capex trajectory and improving WC cycle to drive return expansion

Demonstrating a sharp focus on capital discipline and execution, Krsnaa entered Q2FY26 with a clear mandate to optimize working capital and maintain strict financial controls. The company is targeting a reduction in trade receivables from 150 days to nearly 100 days by year-end, supported by the rollout of new government payment systems and improved state-level transitions to RBI-linked mechanisms. Over INR 500 mn has already been collected post quarter-end, indicating a positive trajectory in collections. Borrowings remain tightly managed and are principally deployed towards working capital and capex for ongoing network expansion, with no immediate plans for cap. This financial rigour, coupled with Krsnaa's mission-driven focus on affordable, high-quality diagnostics, provides increased visibility on sustained profitable growth.

Valuation & Outlook

The Rajasthan PPP project exemplifies the company's leadership in public partnerships and provides a scalable platform for further expansion. The retail diagnostics network, growing rapidly in key states, leverages the PPP backbone for cost-efficient logistics, quality assurance, and brand equity. Management remains confident in outpacing industry growth aided by new state tenders, ramp-up of ongoing projects, and deeper penetration in both retail channels. The company also maintains healthy control of receivables with improved collections, supporting working capital efficiency. Going forward, margin trajectory is expected to benefit from continued volume growth, network densification, higher retail mix, and improved operational efficiencies. We have revised our EBITDA estimates by 5-9% in view of the Rajasthan scale up to begin in FY27, coupled with higher margins from growing retail contribution. **Maintain BUY rating on the Company based on 20x 1 yr fwd PE on Dec'FY28E EPS with a revised Target Price of INR 990 per share as we expect the project executions to gain pace from FY26.**

Exhibit-Financial Summary

Summary (INR Mn)	FY25	FY26E	FY27E	FY28E
Net Sales	7,172	8,684	11,546	13,403
EBIDTA	1,901	2,318	3,002	3,579
Net Profit	776	1,043	1,503	1,858
Diluted EPS	24.03	32.29	46.56	57.55
P/E (x)	34.12	25.39	17.61	14.25
EV/EBIDTA (x)	13.81	10.33	7.68	5.84
P/BV (x)	3.00	2.68	2.33	2.00
ROE (%)	8.79	10.56	13.22	14.04
Debt/Equity (x)	0.05	0.04	0.03	0.02

Q2FY26: Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q2FY26	Q2FY25	Q1FY26	% YoY	% QoQ
Total Revenue	**2,060**	**1,863**	**1,930**	**10.5%**	**6.7%**
COGS	481	449	474	7.2%	1.5%
Gross Profit	1,578	1,414	1,456	11.6%	8.4%
Gross Margin	76.6%	75.9%	75.4%	73bps	120bps
Staff Cost	354	351	356	1.0%	-0.5%
Other expenses	633	570	586	11.1%	8.0%
EBITDA	**592**	**494**	**514**	**19.7%**	**15.1%**
EBITDA margin (%)	28.7%	26.5%	26.6%	221bps	208bps
Other Income	42	46	40	-9.2%	5.6%
Finance Cost	82	64	63	28.2%	30.0%
Depreciation	236	222	216	6.2%	9.0%
PBT	316	254	274	24.2%	15.1%
Exceptional Items					
Tax	76	58	69	31.1%	10.3%
Tax Rate (%)	24.1%	22.9%	25.2%	5.6%	-4.1%
Minority Interest					
PAT (Reported)	**239**	**196**	**205**	**22.1%**	**16.7%**
PAT margin (%)	11.6%	10.5%	10.6%	110bps	99bps

Krsnaa Diagnostics-Cost margins	Q2FY26	Q2FY25	Q1FY26	% YoY	% QoQ
COGS/sales	23.4%	24.1%	24.6%	-73bps	-120bps
Staff cost/sales	17.2%	18.8%	18.4%	-163bps	-124bps
Other expenditure/sales	30.7%	30.6%	30.4%	15bps	36bps

Change in Estimates

INR Mn	Earlier			Revised			%Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	8,684	11,462	12,858	8,684	11,546	13,403	0%	1%	4%
EBITDA	2,295	2,866	3,292	2,318	3,002	3,579	1%	5%	9%
EBITDA Margins %	26%	25%	26%	27%	26%	27%			
PAT	1,024	1,397	1,635	1,043	1,503	1,858	2%	8%	14%

Source: Company, Arihant Capital Research

Krsnaa Diagnostics Ltd-Q2FY26 Concall KTAs

Financial Performance and Key Metrics
- Revenue for Q2FY26 stood at INR 2,060 mn, up 11% YoY, underpinned by strength in both radiology and pathology segments.
- EBITDA reached INR 602 mn, growing 18% YoY, reflecting a margin of 29%, an expansion of 221 bps YoY driven by operational efficiencies and cost leadership.
- Profit after tax stood at INR 239 mn, up 22% YoY, with a margin of 12%.
- ROCE trending towards 15%, with management reiterating a focus on sustainable margin and ROCE improvement going forward.
- Receivable days at end-Q2FY26 were inflated near 150 with management committed to bringing this down to ~100 days by FY26-end on back of system stabilization post new government payment guidelines.

Operational and Segmental Insights

PPP Business Momentum & Pipeline
- Despite certain PPP contracts achieving maturity (leading to a potential revenue dip in maturing contracts), the business model proved resilient, with replacement wins and expansion resulting in stable overall growth.
- Rajasthan PPP project, the largest in India's diagnostics sector, is on track—targeting 10 labs operational in November, another 25 labs and 500+ collection centers by December, and the balance 152 labs and 1,100+ collection centers by Q4FY26-end.
- Additional projects in the PPP pipeline are expected to add meaningful growth from Q4FY26, with full-year contribution visible in FY27.
- Working capital release from improved collections is expected to fund capex for new PPP rollouts.

Retail (Direct-to-Consumer) Diagnostics
- Retail business (B2C) saw revenue surge 60% QoQ in Q2FY26, now contributing 8% of H1FY26 revenue; management expects retail to reach 8–10% contribution in FY26, rising to 15–20% in FY27.
- Retail expansion leverages an asset-light partnership model, and total network touchpoints now exceed 2,800 pan-India.
- Retail business is not yet margin-accretive but is expected to reach breakeven at around INR 1 bn annualized revenue and turn profitable thereafter.
- Initial retail opex is higher due to investment in brand building and tech, but long-term opex is expected to be substantially lower than core PPP business, leveraging shared infrastructure and scale.
- Focus areas for retail: home collection, preventive/wellness diagnostics, tech-driven patient experience, and local healthcare ecosystem integration (notably in Maharashtra, Punjab, Assam, Odisha).

Guidance
- Guidance for overall revenue growth remains in the high teens ahead, supported by the rollout and ramp-up of PPP projects and retail acceleration.
- Retail revenue contribution seen rising to 40–50% over five years, marking a structural shift in the business mix.
- FY27 to see a major uptick as new Rajasthan assets reach full ramp-up.

Operating Leverage and Efficiency Initiatives
- Enhanced manpower planning and radiology asset utilization (advanced modalities) have resulted in higher center-level productivity and superior capital returns.
- Supply chain transformation and technology-driven automation have reduced installation timelines, minimized facility downtime, and elevated NPS scores.

Volume and Price Drivers
- Patient volumes grew 4% YoY, though overall test volumes dropped 4%; management attributes divergence to patient needs and expects renewed growth as wellness offerings ramp up.
- Price realization for H1FY26 improved by12.5% on a YoY basis, driven by advanced test offerings and better test mix.
- Management projects continued growth momentum, supported by ramp-up of new centers and broader wellness/retail initiatives.

Balance Sheet and Cash Flow Commentary
- Receivable spikes are linked chiefly to system transitions in government payables, including delays from natural calamities (Punjab, Himachal) and state-level process realignment; collection has since improved, with >INR 500 mn realized post-quarter.

Exhibit 1: Delivered Robust Revenue Contributed by Both Segments.

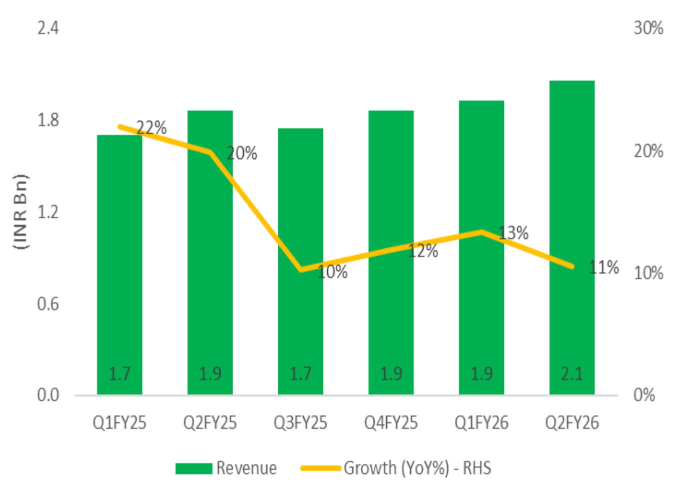


Exhibit 2: Consistent EBITDA Growth in Last Few Quarters.

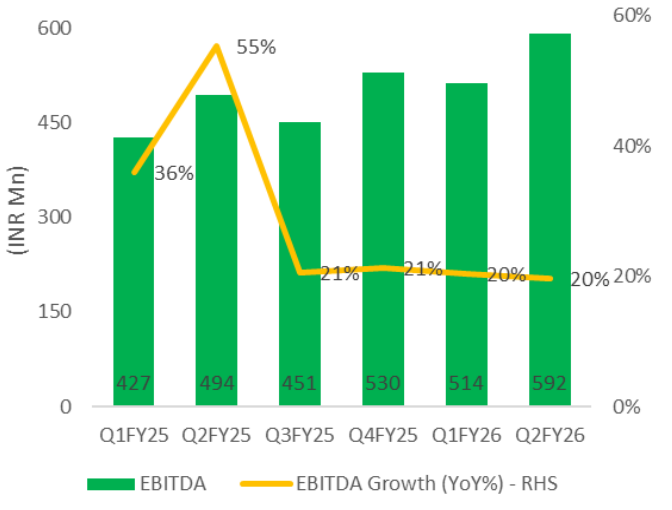


Exhibit 3: Steady Growth in EBITDA with Margin Consistency.

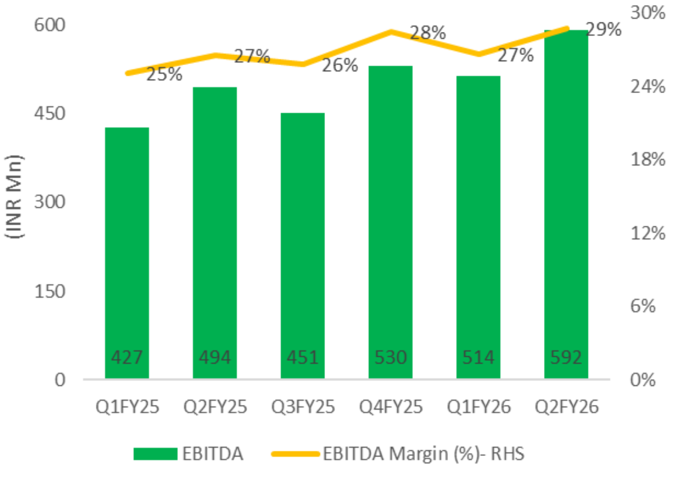


Exhibit 4: Trend Analysis of Gross and EBITDA Margins.

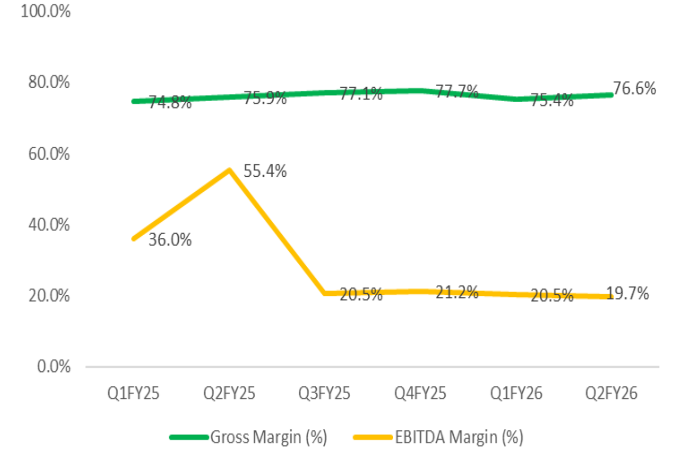
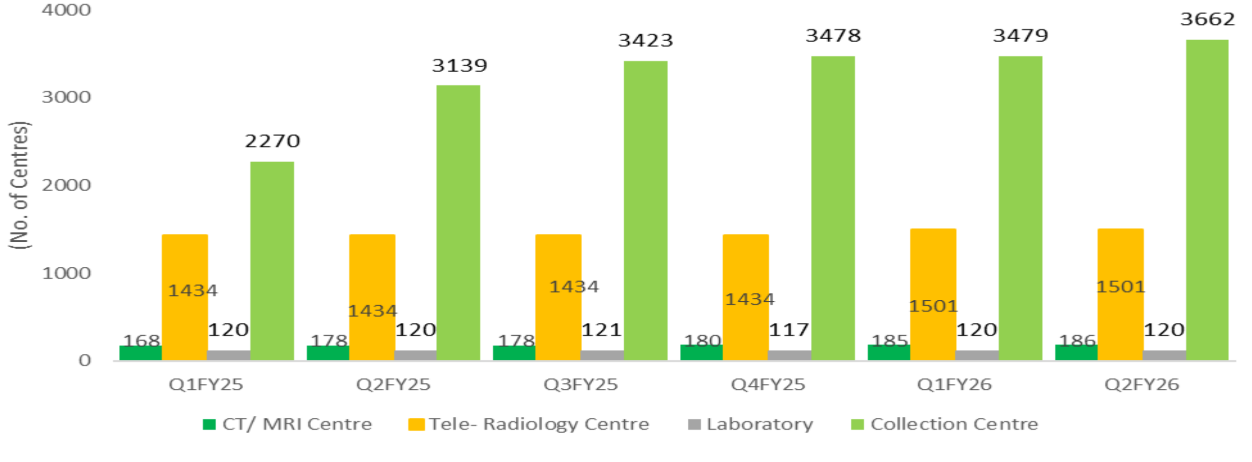


Exhibit 5: Consistent Expansion Across Network with Strong Addition in Collection Centres.



Story in Charts

Exhibit 6: Delivered Strong Revenue in FY25 with 16% YoY Growth.

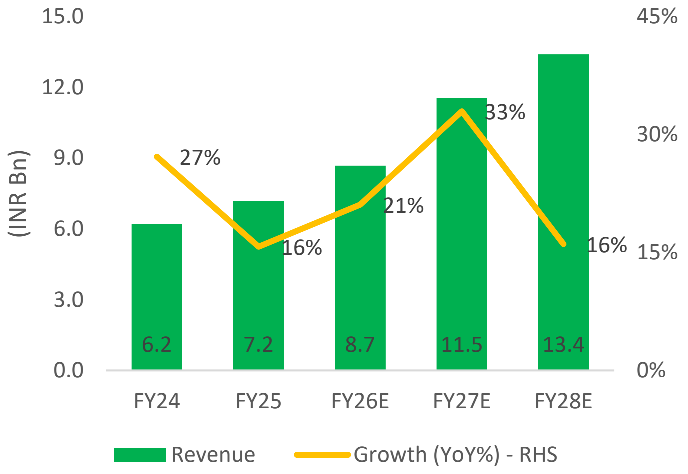


Exhibit 7: Consistent EBITDA Growth Driven by Operational Efficiency.

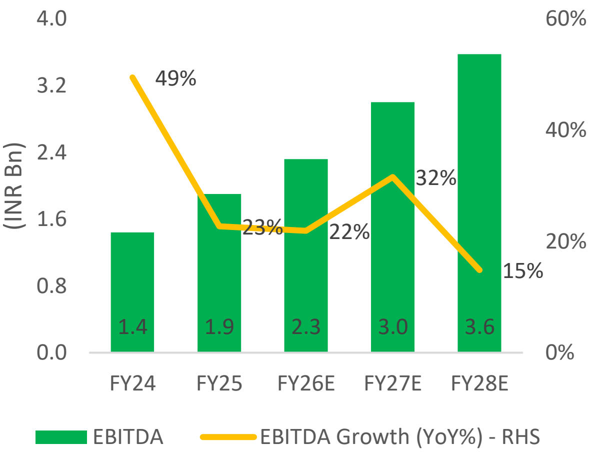


Exhibit 8: Steady Growth in EBITDA with Margin Recovery in FY25.

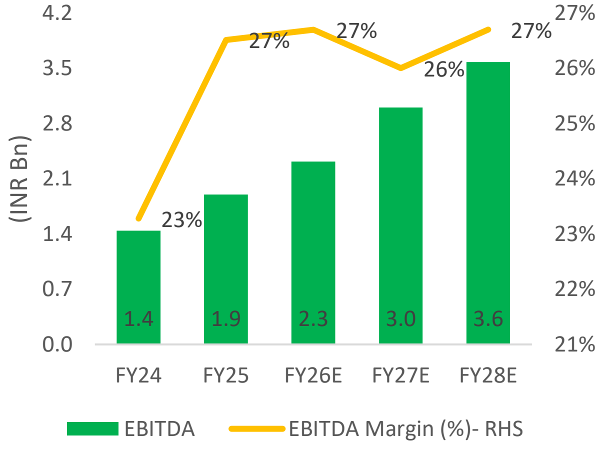


Exhibit 9: Healthy Operating Cash Flows Aligned with EBITDA Growth.

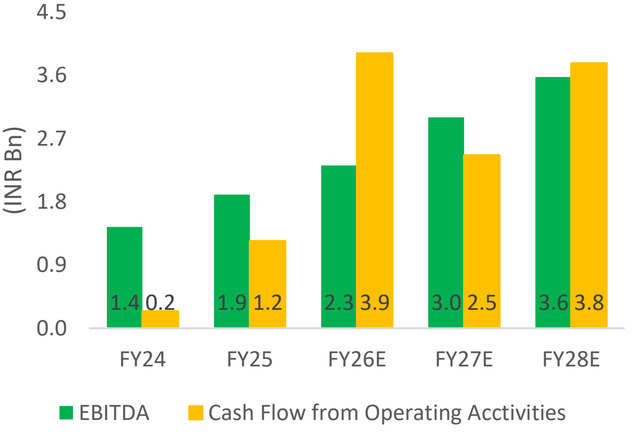
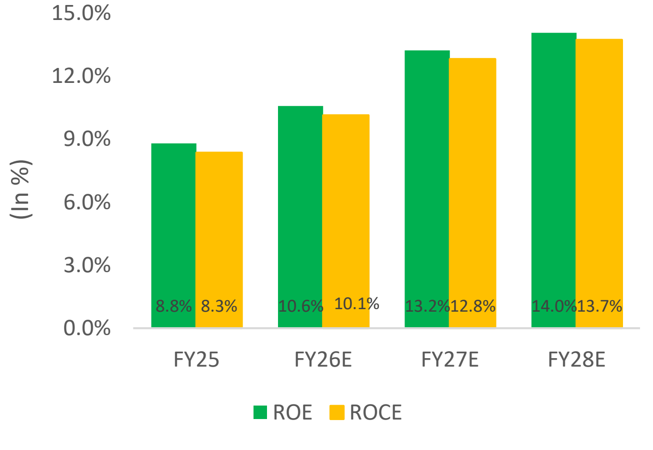


Exhibit 10: ROE and ROCE Recover in FY25 After Period of Softness.



Financials

Profit & Loss Statement (INR, Mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenues	**6,196**	**7,172**	**8,684**	**11,546**	**13,403**
% Growth	*27.2%*	*15.7%*	*21.1%*	*33.0%*	*16.1%*
Gross Profit	4,786	5,479	6,634	8,775	10,186
Gross Profit Margin %	*77.2%*	*76.4%*	*76.4%*	*76.0%*	*76.0%*
Employee Costs	1,115	1,368	1,667	2,194	2,520
Operating & Other Expenses	3,343	3,578	4,316	5,773	6,607
EBITDA	**1,442**	**1,901**	**2,318**	**3,002**	**3,579**
EBITDA Margin %	***23.3%***	***26.5%***	***26.7%***	***26.0%***	***26.7%***
Depreciation	745	883	881	998	1,072
Other Income	168	255	245	264	285
EBIT	**697**	**1,018**	**1,438**	**2,004**	**2,507**
Finance Cost	165	247	346	341	409
Exceptional Items	-	-	-	-	-
PBT	700	1,027	1,337	1,927	2,382
Income Tax	132	251	294	424	524
PAT	**568**	**776**	**1,043**	**1,503**	**1,858**
PAT Margin %	***9.2%***	***10.8%***	***12.0%***	***13.0%***	***13.9%***

Source: Company, Arihant Capital Research

Balance Sheet (INR, Mn)	FY24	FY25	FY26E	FY27E	FY28E
ASSETS					
Inventories	358	295	357	475	551
Trade Receivables	1,763	2,777	1,166	1,550	1,799
Cash & Bank Balance	535	684	2,949	3,788	5,887
Other Current Assets	1,555	388	410	452	480
Plant, Property & Equipments	6,447	6,674	7,261	7,763	8,191
Other Non-Current Assets	1,060	1,997	1,997	1,997	1,997
Total Assets	**11,719**	**12,816**	**14,140**	**16,025**	**18,905**
EQUITY AND LIABILITIES					
Equity Share Capital	161	161	161	161	161
Other Equity	7,937	8,666	9,709	11,212	13,070
Net Worth	**8,098**	**8,828**	**9,870**	**11,374**	**13,232**
Borrowings	419	472	422	372	322
Other Non-Current Liabilities	388	463	463	463	463
Trade Payables	823	971	1,308	1,740	2,020
Other Current Liabilities	1,991	2,083	2,083	2,083	2,083
Total Equity & Liabilities	**11,719**	**12,816**	**14,146**	**16,030**	**18,118**

Source: Company, Arihant Capital Research

Cash Flow (INR, Mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT	700	1,027	1,337	**1,927**	**2,382**
Operating Profit before WC Changes	**1,399**	**1,929**	**2,318**	**3,002**	**3,579**
Operating Profit after WC Changes	431	1,317	4,183	**2,889**	**3,507**
Tax Paid	(188)	(74)	(266)	**(424)**	**264**
Cash Flow from Operating Acctivities	**243**	**1,243**	**3,916**	**2,465**	**3,771**
Cash Flow from Investing Activities	**(1,289)**	**(1,272)**	**(1,255)**	**(1,236)**	**(1,215)**
Cash Flow from Financing Activities	**842**	**(297)**	**(396)**	**(391)**	**(458)**
Net Change in Cash & Cash Equivalents	(203)	(325)	2,266	838	2,098
Opening Cash & Cash Equivalents	227	24	(301)	1,964	2,803
Closing Cash & Cash Equivalents	**535**	**684**	**2,949**	**3,788**	**5,887**

Source: Company, Arihant Capital Research

Key Ratios	FY24	FY25	FY26E	FY27E	FY28E
Per Share (INR)					
EPS	17.6	24.0	32.3	46.6	57.5
BVPS	250.8	273.4	305.7	352.2	409.8
Valuation (x)					
P/E	46.6	34.1	25.4	17.6	14.2
P/BV	3.3	3.0	2.7	2.3	2.0
EV/EBITDA	18.3	13.8	10.3	7.7	5.8
Return Ratios (%)					
Gross Margin	77.2%	76.4%	76.4%	76.0%	76.0%
EBITDA Margin	6.3%	18.4%	21.4%	21.4%	121.4%
PAT Margin	9.2%	10.8%	12.0%	13.0%	13.9%
NOPAT Margin	9.1%	10.7%	12.9%	13.5%	14.6%
ROE	7.0%	8.8%	10.6%	13.2%	14.0%
ROCE	6.7%	8.3%	10.1%	12.8%	13.7%
Leverage Ratio					
Total D/E	0.05	0.05	0.04	0.03	0.02
Turnover Ratios					
Asset Turnover	0.6	0.6	0.6	0.8	0.8
Receivable Days	50	49	49	49	49
Inventory Days	15	10	10	10	10
Payable Days	50	55	55	55	55

Source: Company, Arihant 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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