

Krsnaa Diagnostics Limited

Revenues picking up but full momentum yet to kick in – restate LONG

CMP
Rs 483

Rating
LONG

Target Price
Rs 1,214
Mar 2024

Upside
151% (↑)

- KRSNAA's 2QFY23 revenues at Rs 1.23bn (+14% yoy/+9% qoq) came in line with EE. However, EBITDA missed EE due to lower gross margins as commercialization of new centres pushed up RM costs and opex.
- New centre contribution is picking up but the full ramp-up is likely in quarters ahead as (a) all Punjab and HP centres are commercialized, and (b) volumes increase from newly established centres. This will be aided by Maharashtra contract commercialization.
- Based on the existing centres and visibility of new contracts, we believe KRSNAA can very well double its revenues and triple its profits over the next 2-3 years, in line with management guidance.
- We restate LONG with a Mar'24 TP of Rs 1,214 at 15x EV/EBITDA. The stock multiple has been suppressed owing to under-deliverance following listing; however, with momentum expected to pick up from 4Q, we expect a re-rating of the stock.

Revenues in line; gross margins hit: Revenues at Rs 1.23bn (+14% yoy/+9% qoq) came in line with EE. However, gross margins were hit by higher RM costs and opex increases due to commercialization of new centres. Resultant, EBITDA at Rs 306mn (-4% yoy/+10% qoq) and EBITDAM at 24.9% (-459bps yoy/+29bps qoq) missed EE by 5% and 126bps respectively. PAT at Rs 153mn (+22% yoy/+8% qoq) was 15% below EE.

Execution of projects on track: Management stated it has completed ~88% of the Punjab contract (20 CT scanners of 25, 18 pathology labs of 30, & 95 collection centres) with the rest to be completed in Q3FY23. Even the Himachal Pradesh (24 pathology centres, 190 collection centres) and Tripura (18 radiology centres) contracts would be completed by FY23-end. We expect KRSNAA to generate a robust 30% revenue CAGR over FY22-FY25E led by all new projects in its pipeline (incl. Maharashtra contract). But growth would be back-ended since FY23E would be marred by execution delays in Punjab.

Returns profile to strengthen: We expect KRSNAA's returns profile to improve led by (a) better utilization of newly deployed centres, (b) placement of a stringent threshold for new tenders and (c) adoption of a paper-use model for new projects (set to reduce upfront capex).

Building a franchise model for entry into B2C: KRSNAA is looking to leverage its existing capacities for building a private business with a franchise model. The company plans to open 1,000 collection centres by leveraging its existing network. It will roll out the project in two phases: phase-I in Maharashtra, Punjab and Himachal Pradesh, and phase-II in Rajasthan and West Bengal. Though competition is intensifying in this segment, we believe KRSNAA remains insulated because of its already existing competitive pricing strategy.

Re-rating on cards: KRSNAA has seen de-rating owing to sector de-rating amid intensifying competition and delays in Punjab execution, which has resulted in estimate cuts. However, we expect a re-rating once contribution from all new contracts starts materializing. Growth momentum has been deferred but not wiped out. We continue to assign 15x EV/EBITDA in anticipation of 2x revenues and 3x profit in next two years.

Financial Summary

YE	Mar	Sales	EBITDA	Recurring PAT	EPS (Rs)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
Rs mn											
FY22A		4,555	1,315	684	21.8	22.2	2.2	12.4	14.9	22.1	28.9
FY23E		5,346	1,443	693	22.1	21.9	2.0	9.7	9.7	13.5	27.0
FY24E		7,775	2,413	1,317	41.9	11.5	1.8	5.6	16.3	21.2	31.0
FY25E		9,976	3,301	1,935	61.6	7.8	1.5	3.7	20.3	28.6	33.1

Source: Company, Equirus Securities

Estimate Revision

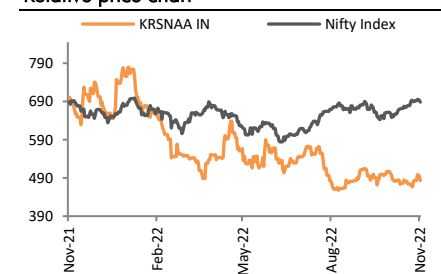
(Rs mn)	Forecasts		% Change	
	FY23E	FY24E	FY23E	FY24E
Sales	5,346	7,775	-6%	0%
EBITDA	1,443	2,413	-18%	0%
PAT	693	1,317	-25%	0%
EPS	22.1	41.9	-25%	0%

Stock Information

Market Cap (Rs Mn)	15,168
52 Wk H/L (Rs)	800/446
Avg Daily Volume (1yr)	63,264
Avg Daily Value (Rs Mn)	0.4
Equity Cap (Rs Mn)	6,844
Face Value (Rs)	5
Share Outstanding (Mn)	31.4
Bloomberg Code	KRSNAA IN
Ind Benchmark	

Ownership (%)	Recent	3M	12M
Promoters	0.0	0.0	0.0
DII	0.0	0.0	0.0
FII	0.0	0.0	0.0
Public	0.0	0.0	0.0

Relative price chart



Source: Bloomberg

Analysts

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Exhibit 1: Quarterly performance

Particulars	2QFY23	2QFY23E	1QFY23	2QFY22	% Change			Comments
					2QFY23E	1QFY23	2QFY22	
Net Sales	1,229	1,230	1,129	1,083	0%	9%	14%	
COGS	173	135	120	136	28%	45%	28%	
Employee expenses	183	180	161	128	2%	14%	43%	
Other Expenses	354	310	295	225	14%	20%	57%	
Fees to hospitals and others	213	283	275	274	-25%	-23%	-22%	
Total Expenditures	923	908	851	763	2%	9%	21%	
EBITDA	306	322	278	319	-5%	10%	-4%	
Depreciation	129	125	124	103	3%	5%	25%	
EBIT	177	197	154	216	-10%	15%	-18%	
Interest	18	7	14	82	157%	31%	-78%	
Other Income	43	50	46	32	-15%	-8%	32%	
Profit before tax	202	240	187	166	-16%	8%	21%	
Tax Expenses	48	60	45	41	-20%	8%	18%	
Profit After tax	153	180	142	125	-15%	8%	22%	
Minority Interest	0	0	0	0				
Profit/(Loss) from Ass.	0	0	0	0				
Recurring PAT	153	180	142	125	-15%	8%	22%	
Extraordinaires	0	0	0	0				
Reported PAT	153	180	142	125	-15%	8%	22%	
EPS (Rs)	4.9	5.7	4.5	4.0	-15%	8%	22%	
Cost items as % of sales								
RM expenses	14.1%	11.0%	10.6%	12.6%	310 bps	349 bps	155 bps	
Employee expenses	14.9%	14.6%	14.3%	11.8%	26 bps	63 bps	305 bps	
Other expenses	28.8%	25.2%	26.2%	20.8%	359 bps	264 bps	800 bps	
Margin (%)								
Gross Margin	85.9%	89.0%	89.4%	87.4%	-310 bps	-349 bps	-155 bps	
EBITDA Margin	24.9%	26.2%	24.6%	29.5%	-126 bps	29 bps	-459 bps	
PAT Margin	12.5%	14.6%	12.6%	11.6%	-215 bps	-12 bps	90 bps	

Source: Company, Equirus Securities

Earnings Call Takeaways

Revenues & Realizations

- Revenue mix for Q2FY23: Radiology (58%), Pathology (32%), Covid (0%) & Tele-reporting (10%).
- Revenue growth was led by core business which registered a growth of 18.7% yoy while Covid revenues declined 94% yoy.
- As per the management, the revenue potential of the Punjab contract is Rs 1 bn, and from the rest of the projects combined is Rs 1 bn.
- KRSNAA is in-line to achieve 25% revenue growth this year.
- The management's guidance of 2x revenues and 3x profits by the end of FY24 is still intact.

Costs & Margins

- Gross margins were impacted by low volumes in the newly operationalized centres where the cost of consumables is high. As the volumes increase, this cost should come down.
- Manpower costs increased on account of additional costs incurred to onboard the team to manage newly opened centres.
- Reporting charges have been high because of low volumes in the new centres.
- EBITDAM is expected to be around 30%. As new centres start to operationalize, EBITDAM will improve.

Footprint

- Radiology: 120 CT Scan & MRI centres and 1489 Tele-radiology centres.
- Pathology: 72 Processing Labs and 677 Collection Centres.

Implementation of Projects

- Punjab- Almost 88% of the project is complete. The rest of the project will get completed in Q3FY23. 20 CT scanners out of 25, 5 MRI machines out of 6, 18 pathology labs out of 30 inc. 1 referral laboratory and 95 collection centres have been operationalized. About Rs 100mn (vs Rs 40mn in Q1FY23) revenue came from Punjab this quarter. As the centres start maturing, the contribution should ramp up.
- Himachal Pradesh- 100% of the project will be completed in Q3FY23. 10 pathology centres out of 24 and 126 collection centres out of 190 have been operationalized.
- Karnataka- 1 centre has operationalized. The other is under construction.
- MCGM Mumbai- 2 centres have operationalized. The third one will be operational in Q3FY23.
- Somaiya Hospital Mumbai- Became operational in Q2FY23.
- Uttar Pradesh- 4 out of 8 centres will be operational in Q4FY23.
- Tripura- All 18 centres will be operational by the end of Q4FY23.
- Delhi, Chandigarh and Rajasthan centres will be operational by the end of Q4FY23.
- Maharashtra- This tender will get operationalized in FY24.

Rajasthan Tender

- Out of the 4 participants which were initially there, 1 was blacklisted and 2 withdrew their bids. Since, only a single party (KRSNAA) was remaining, the tender had to be cancelled.

- The tender will be up for rebidding. It should get uploaded within 2-3 days and then by 15th Dec, it should get passed.
- This tender involves almost 3000 collection centres.
- This project can generate Rs 1.5-2bn.
- The capital outlay wouldn't be significant as it is just a pathology tender and does not involve radiology.

B2C pathology service

- Through franchisee model, 600 collection centres would be launched across India.
- The project will be rolled out in 2 phases. Phase I in Maharashtra, Punjab & Himachal Pradesh and Phase II in Rajasthan & West Bengal.
- The 20 centres which have been operationalized are generating around Rs 2mn per month.
- 40% EBITDAM is expected from these centres.

Other Key Takeaways

- With regards to receivables, there is a seasonality aspect. Most of it gets cleared in H2.
- The documents requested by the income tax authorities have been provided. There is no update from them yet.

Company Snapshot

How we differ from consensus

Particular (Rs Mn)		Equirus	Consensus	% Diff	Comment
EPS	FY23E	22	28	-20%	
	FY24E	42	39	9%	
Sales	FY23E	5,346	5,486	-3%	
	FY24E	7,775	7,272	7%	
PAT	FY23E	693	865	-20%	
	FY24E	1,317	1,211	9%	

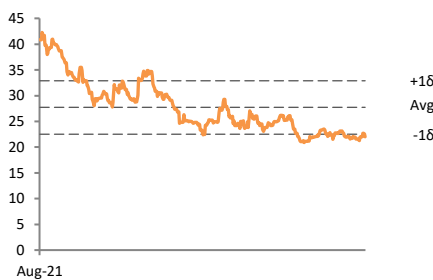
Key Estimates

Key Assumptions	FY22	FY23E	FY24E	FY25E
Radiology Services Revenues	2,488	3,510	4,913	6,041
Pathology Services Revenues	2,067	2,146	2,862	3,935

Comparable valuation

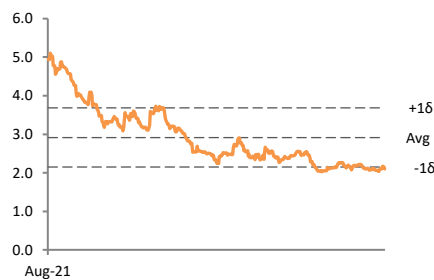
Company	Reco.	CMP	Mkt Cap Rs. Mn.	Price Target	Target Date	P/E			EV/EBITDA			ROE			ROIC			Div Yield
						FY22A	FY23E	FY24E	FY22A	FY23E	FY24E	FY22A	FY23E	FY24E	FY22A	FY23E	FY24E	
Dr Lal Pathlabs	Short	2,359	206	1,803	Sep'23	60.2	82.1	62.4	30.6	42.2	35.5	27%	16%	19%	21%	15%	21%	1%
Krsnaa Diagnostics	Long	483	16	1,214	Mar'24	22.2	21.9	11.5	12.4	9.7	5.6	15%	10%	16%	22%	14%	21%	1%
Metropolis Healthcare	Short	1,615	83	1,265	Mar'24	38.7	59.2	44.8	22.5	32.1	27.5	25%	15%	19%	34%	17%	24%	1%
Thyrocare Technologies	Long	670	35	780	Sep'23	20.1	49.4	31.0	16.2	27.8	18.9	37%	13%	19%	31%	12%	17%	1%

Price to earning chart



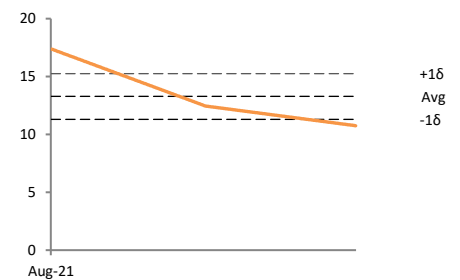
Source: Company, Equirus Research

Price to book chart



Source: Company, Equirus Research

EV-EBITDA chart



Source: Company, Equirus Research

Quarterly performance

Y/E Mar (Rs mn)	1QFY22A	2QFY22A	3QFY22A	4QFY22A	1QFY23A	2QFY23A	3QFY23E	4QFY23E
Revenue	1,325	1,083	1,065	1,082	1,129	1,229	1,494	1,494
COGS	223	136	117	127	120	173	174	174
Employee Cost	124	128	143	153	161	183	200	200
Other Expenses	563	499	505	523	570	567	601	601
EBITDA	415	319	300	280	278	306	518	518
Depreciation	100	103	106	104	124	129	148	148
EBIT	315	216	194	176	154	177	370	370
Interest Exp.	61	82	24	18	14	18	7	7
Other Income	32	32	43	41	46	43	26	26
Profit before Tax	286	166	214	199	187	202	389	389
Tax Expenses	71	41	50	20	45	48	63	97
Profit After Tax	216	125	163	179	142	153	326	291
Minority Interest	0	0	0	0	0	0	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0	0
Recurring PAT	216	125	163	179	142	153	326	291
Exceptional Items	0	0	0	0	0	0	0	0
Reported PAT	216	125	163	179	142	153	326	291
Other comprehensive income.	0	0	0	0	0	0	0	0
PAT after comp. income.	216	125	163	179	142	153	326	291
FDEPS	6.9	4.0	5.2	5.7	4.5	4.9	10.4	9.3
Cost items as % of sales								
RM expenses	16.8	12.6	11.0	11.7	10.6	14.1	11.6	11.6
Employee expenses	9.4	11.8	13.4	14.1	14.3	14.9	13.4	13.4
Other expenses	42.5	46.1	47.4	48.3	50.5	46.1	40.3	40.3
Margin (%)								
Gross Margin	83.2	87.4	89.0	88.3	89.4	85.9	88.4	88.4
EBITDA Margin	31.3	29.5	28.2	25.9	24.6	24.9	34.7	34.7
PAT Margin	16.3	11.6	15.3	16.6	12.6	12.5	21.8	19.5
YoY Growth (%)								
Sales	152.2	(27.9)	8.8	12.9	(14.8)	13.6	40.3	38.0
EBITDA	0.0	(25.3)	60.4	(15.7)	(33.1)	(4.1)	72.8	85.0
EBIT	0.0	(35.3)	116.6	(25.1)	(51.1)	(18.1)	91.0	110.5
PAT	35.6	(44.6)	309.0	0.0	(34.2)	22.4	99.6	62.5

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,092	2,584	3,965	4,555	5,346	7,775	9,976
COGS	173	277	837	603	695	852	1,088
Employee Cost	183	231	296	547	802	1,088	1,397
Other Expenses	1,157	1,448	1,893	2,089	2,406	3,421	4,190
EBITDA	579	627	938	1,315	1,443	2,413	3,301
Depreciation	256	324	374	414	594	748	886
EBIT	322	303	564	901	850	1,665	2,415
Interest Exp.	196	247	259	185	28	28	28
Other Income	51	130	122	149	102	120	193
Profit before Tax	177	186	427	865	924	1,756	2,580
Tax Expenses	384	52	111	181	231	439	645
Profit After Tax	(206)	134	315	684	693	1,317	1,935
Minority Interest	0	0	0	0	0	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0
Recurring PAT	(206)	134	315	684	693	1,317	1,935
Exceptional Items	0	0	0	0	0	0	0
Reported PAT	(206)	134	315	684	693	1,317	1,935
Other comprehensive income.	0	0	0	0	0	0	0
PAT after comp. income.	(206)	134	315	684	693	1,317	1,935
FDEPS	(20.0)	13.0	24.3	21.8	22.1	41.9	61.6
DPS	0	0	0	2	2	4	6
BVPS	(82)	(191)	179	218	238	276	331

YoY Growth (%)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	94.5	23.5	53.4	14.9	17.4	45.4	28.3
EBITDA	107.7	8.4	49.5	40.1	9.8	67.2	36.8
EBIT	210.9	(5.9)	85.9	59.8	(5.7)	95.9	45.1
PAT	(32.9)	0.0	134.6	116.8	1.3	90.0	46.9

Key Ratios

Profitability (%)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Gross Margin	91.7	89.3	78.9	86.8	87.0	89.0	89.1
EBITDA Margin	27.7	24.3	23.7	28.9	27.0	31.0	33.1
PAT Margin	(9.9)	5.2	8.0	15.0	13.0	16.9	19.4
ROE	38.3	(9.5)	13.6	14.9	9.7	16.3	20.3
ROIC	(14.3)	6.6	10.2	14.0	9.3	15.5	19.2
Core ROIC	3,617.0	(39.1)	58.8	22.1	13.5	21.2	28.6
Dividend Payout	0.0	0.0	0.0	8.0	10.0	10.0	10.0

CAGR (%)	1 year	2 years	3 years	5 years	7 years	10 years
Revenue	14.9	32.8	29.6	45.2	0.0	0.0
EBITDA	40.1	44.8	31.5	43.2	0.0	0.0
PAT	116.8	125.5	(249.1)	86.3	0.0	0.0

Valuation (x)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	0.0	37.1	19.9	22.2	21.9	11.5	7.8
P/B	0.0	0.0	2.7	2.2	2.0	1.8	1.5
P/FCFF	(7.8)	(23.6)	8.8	41.9	(9.6)	13.5	3.0
EV/EBITDA	32.6	30.9	20.3	12.4	9.7	5.6	3.7
EV/Sales	9.0	7.5	4.8	3.6	2.6	1.8	1.2
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.5	0.9	1.3

Balance Sheet

Y/E Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Equity Capital	52	52	65	157	157	157	157
Reserves	(901)	(2,021)	2,255	6,687	7,311	8,496	10,238
Net Worth	(849)	(1,970)	2,320	6,844	7,468	8,653	10,395
Total Debt	1,460	2,150	2,027	256	256	256	256
Other long term liabilities	3,485	5,235	209	233	267	389	453
Minority Interest	0	0	0	0	0	0	0
Account Payables	417	381	786	773	1,025	1,491	1,913
Other Current Liabilities	777	504	705	655	655	655	655
Total Liabilities	5,290	6,300	6,047	8,762	9,672	11,444	13,673
Gross Fixed Assets	2,644	3,488	3,765	4,271	6,053	7,553	8,553
Acc. Depreciation	413	737	680	414	1,008	1,756	2,642
Net Fixed Assets	2,231	2,751	3,085	3,857	5,046	5,797	5,912
Capital WIP	418	91	37	283	0	0	0
long term investments	3	3	3	3	3	3	3
Others	752	1,318	440	1,278	1,278	1,278	1,278
Inventory	42	51	72	92	103	149	191
Receivables	562	614	725	579	1,274	1,853	2,378
Loans and advances	0	0	90	0	0	0	0
Other current assets	165	198	65	252	124	181	232
Cash & Cash Equivalents.	1,116	1,273	1,529	2,419	1,844	2,183	3,679
Total Assets	5,290	6,300	6,047	8,762	9,672	11,444	13,673
Non-Cash WC	(424)	(22)	(538)	(505)	(179)	37	233
Cash Conv. Cycle	(469.9)	(381.3)	(165.8)	(369.9)	(358.0)	(411.5)	(436.3)
WC Turnover	(4.9)	(119.1)	(7.4)	(9.0)	(29.9)	209.4	42.8
Gross Asset Turnover	0.8	0.7	1.1	1.1	0.9	1.0	1.2
Net Asset Turnover	0.8	0.9	1.3	1.1	1.1	1.3	1.7
Net D/E	(0.4)	(0.4)	0.2	(0.3)	(0.2)	(0.2)	(0.3)

Days (x)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Receivable Days	74	83	62	52	63	73	77
Inventory Days	65	61	27	50	51	54	57
Payable Days	609	525	254	472	472	539	571
Non-cash WC days	(74)	(3)	(50)	(40)	(12)	2	9

Cash Flow

Y/E Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Profit Before Tax	177	186	427	865	924	1,756	2,580
Depreciation	256	324	374	414	594	748	886
Others	533	(80)	336	186	0	0	0
Tax paid	(384)	(52)	(111)	(181)	(231)	(439)	(645)
Change in WC	0	0	0	0	(326)	(216)	(196)
Operating Cashflow	583	378	1,026	1,284	961	1,849	2,625
Capex	(998)	(767)	(648)	(1,311)	(1,500)	(1,500)	(1,000)
Change in Invest.	(995)	1	37	(1,265)	0	0	0
Others	0	0	0	170	0	0	0
Investing Cashflow	(1,993)	(766)	(611)	(2,406)	(1,500)	(1,500)	(1,000)
Change in Debt	662	690	(123)	(1,771)	0	0	0
Change in Equity	0	0	13	92	0	0	0
Others	544	(635)	413	3,361	(106)	(38)	(157)
Financing Cashflow	1,205	55	303	1,682	(106)	(38)	(157)
Net Change in Cash	(204)	(333)	717	560	(645)	311	1,468

Source: Company, Equirus Research

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Analyst Certification

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