

Expansion of B2G business model and capitalization of newly implemented Projects

CMP: INR 594
Target Price: INR 1,023
Rating: BUY

Stock Info

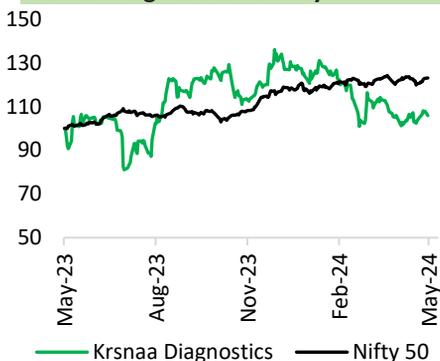
BSE	543328
NSE	KRSNAA
Bloomberg	KRSNAA:IN
Reuters	KRSN.NS
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	23,090
52w H/L (INR)	768 / 353
Avg. Yearly Volume (in 000')	265

Shareholding Pattern %

(As on March, 2024)

Promoters	27.03
DII's	15.37
FII's	3.34
Public	54.27

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% rates lower 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 148 CT/MRI centres, 120 Pathology processing Laboratories and 300+ Doctors (Radiologists and Pathologists) operating across 150+ 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 FY25, 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.

In the state of Maharashtra, the company will be setting up 56 CT/MRI scan units in 20 locations, which will start revenue generation by Q1FY25.

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 most recently in March 2024, and leading to the formation of Government in the state has caused a delay in the implementation of the tender won by Krsnaa Diagnostics for all 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 from the state.

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

The Management believes the current high expenses of the company will start coming down once the newly commissioned centres and Radiology units start generating revenue in FY25. While the Company's revenues grew by only double digits, the high inflation rates were acceptably passed on the high interest rates.

Valuation & Outlook

Krsnaa Diagnostics Ltd. Has started outperforming in the B2G space undergoing capacity expansion across several states including Maharashtra, Assam and Odisha. The expansionary Projects are expected to be completed by the end of this fiscal year, and as the front loading of expenses reduces from Q4FY24, the EBITDA margins for FY25 are expected to be 26% in FY25E and on path to further improvement at 27% in FY27E. We believe the pending High Court case on the implementation of Rajasthan tender will be ruled in favour of the Company and will be yielding up to INR 3 bn of incremental revenue annually. We maintain with a "BUY" rating on the stock with a Target Price of INR 1,023 per share based on FY27E EPS at fwd P/E multiple of 22x with an upside of 71%.

Summary (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	4,871	6,196	8,530	9,834	11,395
EBIDTA	1,223	1,442	2,218	2,704	3,134
Net Profit	621	568	1,028	1,371	1,631
Diluted EPS	19.78	17.60	31.83	42.47	50.52
P/E (x)	33.52	37.67	20.83	15.61	13.12
EV/EBIDTA (x)	9.50	14.76	8.82	6.98	5.70
P/BV (x)	2.82	2.64	2.35	2.04	1.77
ROE (%)	8.41	7.02	11.26	13.07	13.45
Debt/Equity (x)	0.03	0.05	0.04	0.03	0.02

Q4FY24: Financial Snapshot

Krsnaa Diagnostics- P&L (INR mn)	Q4FY24	Q3FY24	% QoQ	Q4FY23	% YoY
Total Revenue	1,663	1,583	5.03%	1,332	24.81%
COGS	430	344	25.12%	257	67.35%
Gross Profit	1,233	1,240	-0.54%	1,075	14.65%
Gross Margin	74.1%	78.3%	-415bps	80.7%	-657bps
Staff Cost	325	297	9.45%	211	53.76%
Other expenses	471	569	-17.19%	519	-9.26%
EBITDA	437	374	16.87%	345	26.73%
EBITDA margin (%)	26.3%	23.6%	266bps	25.9%	40bps
Other Income	43	41	6.38%	59	-26.80%
Finance Cost	73	41	76.57%	22	227.33%
Depreciation	181	212	-14.67%	146	24.12%
PBT	226	161	40.45%	236	-4.13%
Exceptional Items	0	0		0	
Tax	38	31	21.05%	47	-18.94%
Tax Rate (%)	16.7%	19.4%		19.8%	
Minority Interest	0	0		0	
PAT (Reported)	188.27	130	45.11%	189	-0.48%
PAT margin (%)	11.3%	8.2%	313bps	14.2%	-288bps
Diluted EPS (INR)	5.70	3.97	43.58%	5.88	-3.06%
Krsnaa Diagnostics-Cost margins	Q4FY24	Q3FY24	% QoQ	Q4FY23	% YoY
COGS/sales	25.9%	21.7%	415bps	19.3%	657bps
Staff cost/sales	19.5%	18.7%	79bps	15.8%	367bps
Other expenditure/sales	28.3%	35.9%	-760bps	39.0%	-1064bps

Q4FY24: Concall Highlights**Guidance:**

- Going forward, the Company would focus on expanding and leveraging its presence in the underserved Tier 2 & 3 cities, tapping into the rising demand for high-calibre diagnostic services in these regions.
- The Management is anticipating that new deployment projects will be directed towards the Radiology unit in FY25, given the recent tender wins.
- They expect to maintain their debt levels at the current level. The Management says the rise in the debt annually was mainly due to the enhanced receivables that would subsequently reduce in the upcoming quarters.
- Going ahead, the Company would expand its Pathology business by capitalizing on the extensive infrastructure of the existing Pathology Diagnostics centers and adding more collection centers.
- They aim to achieve a revenue mix of 60% from radiology and 40% from pathology in their forward looking business strategy over the next two years.

Key Highlights:

- The Management says that the Diagnostic centres which have been operational for more than 3 years are the mature ones which are generating very high EBITDA margins while the centres which have not matured fully, tend to generate negative EBITDA for the initial period as the company has to spend healthy amount of money for the ramping up of the operations due to manpower hiring and equipment's costs which are much higher than the revenue generated by the centre during that time period.
- The Company has successfully operationalized 10 CT scan machines in the state of Maharashtra while the remaining 29 CT scan machines are going to be operationalized soon and the revenue contribution from those would start pouring in from the Q2FY24.
- During Q4FY24, the Company has successfully operationalized 2 new pathology Labs and 350 Collection centres. In FY24, the Company has successfully operationalized 15 New CT & MRI machines, 25 New pathology labs and 805 new Pathology labs.
- The Company has recently entered into agreements for the installation of 17 MRIs and 17 CT scan machines across Maharashtra, 31 CT scan machines in Maharashtra, 5 MRIs in the state of Madhya Pradesh as well as pathology projects in the state of Odisha and Assam. The Company says that they are in various stages of implementation and ramp up, adding to their existing operational Portfolio.
- The Management attributed the growth in Q4FY24 towards winning new projects and better execution of the existing projects, aligning with their strategic growth plans.
- The Company was able to improve margins by 40 bps YoY in Q4FY24, primarily driven by better operational efficiencies and the maturity of its centres.
- The decline in the gross margins for the past 4-5 quarters was mainly attributable to the rising share of the pathology business. Also, the projects deployed towards the same are in the initial stages where the company cannot capitalize these costs, leading to higher consumable costs. However, the Management expects the same to stabilize by the end of Q1FY25 onwards, hovering around 78% post stabilization.
- The Depreciation expenses during the quarter was slightly lower, resulting from a necessary revision and review of the accounting estimates, particularly the useful life and residual value of the assets.
- As of March 2024, the Cash Balance was at INR 240 mn. Receivable days in FY24 was 68 days, increased primarily due to delays in payments from Himachal Pradesh. However, the Company started to receive the payments from the month of April. The ramp up of the projects in Odisha, along with the outlay in Maharashtra city further impacted the EBITDA to cash flow conversion.
- The Company expects to invest INR 1,500 mn as capex in FY25 and FY26 across different units, excluding Rajasthan. However, including Rajasthan, the same is expected to be INR 2,500 mn.
- The Core business continued to deliver robust performance with a revenue growth of 25% in Q4FY24, on account of incremental revenues from the newly launched centres and better operational efficiencies.
- During Q4FY24, Radiology business accounted for ~57% and the pathology business was ~43%. The number of centres across all segments as of 31st March 2024 was: Tele-reporting centres 1,443, Pathology collection centres 1,895, Pathology processing labs 120 and 148 total CT/MRI scans.
- The B2C segment scaled up and gained momentum during Q4FY24. As a part of their continuous efforts, the Company is constantly exploring new testing capabilities to cater to the evolving needs of their patients and customers. The Company is primed to expedite its entry into the B2C market, positioning itself for accelerated expansion.
- The Company received CAP (College of American Pathologists) accreditation for its Pune facility during Q4FY24. The anticipated verdict from the High Court on the Rajasthan tender is pending and is expected to be delivered within the next few days.

Financials

Profit & Loss Statement (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,871	6,196	8,530	9,834	11,395
% Growth	6.9%	27.2%	37.7%	15.3%	15.9%
Gross Profit	4,129	4,786	6,824	7,916	9,173
Gross Profit Margin %	84.8%	77.2%	80.0%	80.5%	80.5%
Employee Costs	746	1,115	1,279	1,426	1,652
Operating & Other Expenses	2,906	3,343	4,606	5,212	6,039
EBITDA	1,223	1,442	2,218	2,704	3,134
EBITDA Margin %	25.1%	23.3%	26.0%	27.5%	27.5%
Depreciation	538	745	832	881	998
Other Income	194	168	228	245	264
EBIT	685	697	1,386	1,824	2,136
Finance Cost	77	165	279	288	283
Exceptional Items	-	-	-	-	1
PBT	802	700	1,335	1,781	2,119
Income Tax	181	132	307	410	487
PAT	621	568	1,028	1,371	1,631
PAT Margin %	12.8%	9.2%	12.0%	13.9%	14.3%

Source: Company, Aриhant Capital Research

Balance Sheet (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
ASSETS					
Inventories	251	358	493	568	659
Trade Receivables	731	1,763	1,145	1,320	1,530
Cash & Bank Balance	1,088	535	2,217	2,839	3,822
Other Current Assets	188	1,555	1,602	1,629	1,660
Plant, Property & Equipments	4,678	6,447	6,642	7,261	7,763
Other Non-Current Assets	2,163	1,060	1,060	1,060	1,060
Total Assets	9,099	11,719.13	13,159	14,677	16,494
EQUITY AND LIABILITIES					
Equity Share Capital	157	161	161	161	161
Other Equity	7,230	7,937	8,964	10,336	11,967
Net Worth	7,387	8,098	9,126	10,497	12,129
Borrowings	243	419	369	319	269
Other Non-Current Liabilities	477	388	388	388	388
Trade Payables	621	823	1,285	1,482	1,717
Other Current Liabilities	371	1,991	1,991	1,991	1,991
Total Equity & Liabilities	9,099	11,719.13	13,159	14,677	16,494

Source: Company, Aриhant Capital Research

Cash Flow (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	802	700	1,335	1,781	2,119
Operating Profit before WC Changes	1,250	1,399	2,218	2,704	3,135
Operating Profit after WC Changes	894	431	3,116	2,624	3,039
Tax Paid	(131)	(188)	(307)	(410)	(487)
Cash Flow from Operating Activities	763	243	2,809	2,214	2,551
Cash Flow from Investing Activities	(1,089)	(1,289)	(1,272)	(1,255)	(1,236)
Cash Flow from Financing Activities	(331)	842	(329)	(338)	(333)
Net Change in Cash & Cash Equivalents	(657)	(203)	1,208	622	983
Opening Cash & Cash Equivalents	884	227	24	1,232	1,854
Closing Cash & Cash Equivalents	1,088	535	2,217	2,839	3,822

Source: Company, Aриhant Capital Research

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)					
EPS	19.8	17.6	31.8	42.5	50.5
BVPS	235.3	250.8	282.6	325.1	375.6
Valuation (x)					
P/E	33.5	37.7	20.8	15.6	13.1
P/BV	2.8	2.6	2.3	2.0	1.8
EV/EBITDA	16.3	14.8	8.8	7.0	5.7
Return Ratios (%)					
Gross Margin	84.8%	77.2%	80.0%	80.5%	80.5%
EBITDA Margin	9.5%	6.3%	18.4%	21.4%	21.4%
PAT Margin	12.8%	9.2%	12.0%	13.9%	14.3%
NOPAT Margin	10.9%	9.1%	12.5%	14.3%	14.4%
ROE	8.4%	7.0%	11.3%	13.1%	13.4%
ROCE	8.1%	6.7%	10.8%	12.7%	13.2%
Leverage Ratio					
Total D/E	0.03	0.05	0.04	0.03	0.02
Turnover Ratios					
Asset Turnover	0.5	0.6	0.7	0.7	0.7
Receivable Days	55	50	49	49	49
Inventory Days	19	15	10	10	10
Payable Days	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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